EXECUTIVE SESSION

- - -

THURSDAY, OCTOBER 4, 1979

- - -

U.S. Senate,

Committee on Finance

Washington, D. C.

The committee met, pursuant to call, at 3:30 p.m., in room 2221, Dirksen Senate Office Building, Senator Russell Long, (chairman of the committee) presiding.

Present: Senators Long, Byrd, Gravel, Moynihan, Baucus, Boren, Bradley, Dole, Packwood, Danforth and Durenberger.

The Chairman: Senator Gravel is recognized.

Senator Gravel: I think that we can go ahead and start.

With this series of slides, I just want to give an orientation for the people to get a feeling of what the problems are in Alaska, and then move to some charts, and develop what I hope will be some interesting arguments.

The first slide demonstrates the weather on the North Slope, and gives some appreciation of the temperatures that we have. We are talking about working in 60 below zero weathers and, of course, winds at 40 miles an hour.

The next slides is to try to demonstrate the remoteness of Alaska. This is materials and equipment for which the employees have to make a trip to pick up. We are talking about these kinds of barges coming out of Seattle, or out of the Gulf Coast, which have to travel 3,500 miles to get to Alaska.

The next slides shows the way the barges are brought in. The break-up on the North Slope only has a window of two months a year, if that much, and so everything is staged to come in at a certain point in time, assuming Mother Nature cooperates, and the barges then are off-loaded.

The next slides shows the facilities for that purpose, where you have to build ramps out, and build these docks. There literally was nothing there. The large quantities of gravel that are used are hauled into the various building sites themselves.

The next slide shows the transportation. In most part of the United States, particularly in your state, and other states, the transportation system is already there. This is a place where you have to start totally from scratch. We are not talking about just a road. We are talking about the entire transportation infrastructure of the area that has to be built on these gravel pads which are a lot more difficult to build than the normal roads because of the permafrost that you have.

The highway that goes from the Yukon River to Dead Horse is almost 400 miles. It is just the highway to get to the site, not to speak of all the roads that are part of the infrastructure system, or to building pads to drill on and to build the gathering facilities.

The roads only work in the winter time, if the weather permits. The next slide shows what has been the mainstay for activity on the North Slope, and that is the Hercules aircraft travelling through the North Slope. These Hercs, incidentally, have hauled more freight through the North Slope by several factors than was hauled in the Berlin Airlift, merely to accommodate the construction program.

So you see that everything is brought up there by truck, when it is permissible, and by and large by Herc, or on barges that come in at specific times of the year.

The next slide shows the buildings that have been created. You will notice that they are not on normal foundations. They are built like boats. There is as much insulation underneath the building as possible as on top.

You have piers, and the piers are frozen into the permafrost to give stability.

The next slide shows the power station to supply electricity.

The next slide shows a sewer system that had to be completed.

The next slide is the communication system.

The hospital facilities,

The recreational facilities.

The next one gives you an idea of how cold it is. We are used to seeing people work in a normal fashion. That is not the case up here.

I think, Mr. Chairman, while you have that glove on, maybe you would like to pick up a pencil, and that will give you an idea of the problem.

You have to keep in mind that if you have got to do any writing, you have to take the glove off, which means that you are not going to take the glove off outside. It means that if you are going to do any writing, you have go back into the cab of the vehicle, take the glove off, and write. This will give you some impact of what it does in terms of the efficiency of the individual.

I, myself, once in my life worked in 60 below zero weather. As a young person, I had a trailer development, and I was trapped into a situation where I had to put a family in, and hook up merely on a mobile home the water, the sewer, and the electricity.

That is not a very big project. You can do that in less than an hour in a normal day. It took eight hours to do that just because of having to fight the elements.

So you can imagine a worker who has to go out and check on some materials, and has to fill out a log, has to go and check, walk back to the cab of the vehicle which is kept running all the time.

Another phenomenon that people don't have an appreciation of is that if you went to a motel in a rural part of Alaska in the winter time, and that motel did not have any plug-in facilities for your automobile, and you had temperatures of 50 or 60 below zero, you would have to leave the car running all night.

I think that it is an unusual phenomenon for people to realize that you would check into your motel, the vehicle would be on, and you would let the vehicle run all night because what you would probably use is about two-thirds of a tank of gasoline as opposed to a $25 to $30 bill that you would have to pay to get your car started by having a wrecker come and start it, because it would freeze up so badly that you would not be able to handle it.

Mike, just hold that glove up. Mr. Chairman, you have the other glove?

To give you an idea, those gloves cost over $60. Obviously, the workman is not going to pay for that. The company has to pay for that.

You will notice that there is a little red band on the front of the glove. Now, that is not to spot people in very bad weather like that. It is an interesting little band. What it is is a particular woven orlon piece that is placed on the glove. Obviously when it is cold, you cannot take your glove off and reach into your pocket and grab a handkerchief.

Certainly, when it is cold like that, your nose is prone to run.

So what you do, you take the glove and you wipe it across your nose like that, and then whatever mucus is deposited on the orlon instantly freezes, so as you walk by a metal frame or something, you knock it and it falls right off your glove. So you don't have to take your handkerchief home to wash, and there is a slight saving in this regard on the laundry bill.

(Laughter.)

Senator Gravel: To give you some of the anomalies that we face up there in the normal course of the situation, the next slide will give you an idea.

This is what we call temperate weather. There is no way that a person would go to work like this on a slope if the weather was not very good.

The next slide. You are used to seeing rigs that are open. These rigs are all closed in and are heated. The only part that is left open to the element is the part of the shaft, and they blow heat on that while they are working. I want to tell you that it has got to be one of the toughest activities, and of course they pay very well as a result of that.

Here again are the facilities. These are gathering lines that service the head of the main pipeline.

The one slide that would have shown the difference of the tough weather is where you have to wear a face mask, and I think we have seen those at other times.

Why don't we forego the balance of the slides.

This was to just give you some feel as to what we are talking about in terms of costs, because I think we think in terms of costs in the abstract, it is costly up there, and we don't know why. As I indicated, just the gloves that the company has to pay for were $58 three years ago, and now they are in excess of $60.

To clothe a man to go to work costs in excess of $800, the various items, mittens, hats, gloves, parkas, special shoes, and all of that. Eight hundred dollars just for the clothing, whereas a person in your area would go to work with Levis and a T-shirt, a good pair of boots, a good pair of gloves, and a hardhat. You can appreciate how the costs get into that area.

Would you put up that first chart?

The first chart that I am showing you shows the cost which is 15 times more to drill in Alaska than in the South 48. You are talking for the average well about $3,500,000 per well, as opposed to a well in the Lower 48 of $250,000. The $3,500,000 is an average. We have wells that go considerably above that.

The next chart. As indicated, with regard to the production workers, and some of you saw the chart and said:

"I would like to make the $40." I think that it was Senator Talmadge who mentioned that to me at noon. The $40 is not what is paid to the workers. The $40 is the cost of putting the worker on site. That, of course, involves the housing that has to be provided, the food, the clothing, and these costs amount to about $150,000 per day.

Now, we all talk in terms of commuting. There is nobody that lives on the North Slope, except the people who live in Barrow. They live there, it is their home. But those who are not Eskimos, who are not indigenous to the area, they work there, but they don't live there. So a part of the worker's costs to the company in question is the 25 trips to Anchorage, which is in the contract price, that have to take place.

So you are talking about a cost in the South 48 of $9.00 per hour for the workmen, and in Alaska a cost of $41 to $42.

The next chart is the one that is as crippling as anything that can happen.

Pull the other chart down, I don't think that we can see the Lower 48, it is so far down there compared to our costs.

This is primarily the cost of transportation. The tariff is a little over $6.00, and that is a constant. If you are shipping the oil to the West Coast, where we have a capacity of almost 900,000 barrels --

The Chairman: What is the TAPS?

Senator Gravel: That is the tariff for the Alaska Oil

Pipeline from Prudhoe Bay to Valdez.

The Chairman: What does the TAPS stand for?

Senator Gravel: The Trans-Alaska Pipeline System.

So you can see, if you find some oil in Montana, or in Louisiana, or Colorado, it costs 50 cents a barrel on the average to get it to market. In our case, it can cost from $7.50 to almost in excess of $10.00 to get that oil to market. This, incidentally, is part of the case that I wish to make, the economic discipline, so to speak, so that there is no windfall profits. This is the chart that demonstrates that.

Regardless of what happens, in comparison to anybody else, our costs are so horrendous, not only in the discovery process, but primarily in the transportation system to get it to market, there is just no way that they would enjoy any windfall, either in terms of the revenue or in terms of profit, for that matter.

This amount goes to the companies that own the line. There are nine companies that came together to build the pipeline. As you know, it cost $8 billion to construct. The State of Alaska, with the Federal government, in a position that I have been opposed to of the State of Alaska, tried to fight to lower the tariff.

I had the Attorney General of the State of Alaska in New York once, and we were in front of one of the Bond Councils of the State, and we were the tariff, and using the example of

British Petroleum, which is one of the owners. We were looking at the tariff and analyzing what was going on.

He was making his case, and all of a sudden the case just popped out on him that if the Federal government is successful in lowering the tariff, they will not even recover their costs, when you include inflation.

So you can see the pressures that exist in actions by the Congress compounded by changing the rules on them in what they can get as a normal return in the normal pipeline systems of the nation.

In your state and in other states where they have pipelines, they have a return. They get it and there is no big deal about. In this particular case, again because of the visibility of the project, everybody looks upon it as the golden goose that we can wring a little more out of.

That is another problem that is tracking over here, which will obviously have an effect on what will be the future transportation systems relative to new discoveries in Alaska.

I will come to another problem, in addition to the one that we were dealing with here in regard to windfall profits.

Senator Dole: But they must get a pretty good return.

Senator Gravel: No. They get a regulated return. It is a common carrier. There is no big deal on that.

You see, you certainly cannot evaluate their return by the cost of it. There is no other $8 billion pipeline in the

United States or anywhere else in the world today. This is the only one. So, if at that tariff they can make a reasonable return, and if you lower that tariff they cannot even make a recovery after inflation, then it is going to be a cold day in hell before anybody else goes and builds a pipeline, whether it is in my state or not, because obviously this will set a precedent in changing the rules with respect to the return that people can expect on pipelines.

The Chairman: Thanks to our Environmental Protection Agency friends, who ran up the costs to $900 million.

Senator Gravel: I can recall sitting in conference on that subject when we were fighting to chop off about $2 million of what those of us familiar with the project thought of as excessive engineering.

It was an interesting phenomenon that the people in the room who were fighting to increase the costs were the people who represented the constituencies that are now going to have to pay this excess cost.

You are talking in terms of this transportation compared to the South 48 of 20 times. Just to fix it in your mind, we are talking about, for just the drilling and discovery aspect of it, 15 times more, and transportation is 20 times more than what it is in the South 48.

Just as an aside as to where the oil goes under this system. About 900,000 barrels a day are absorbed on the West

Coast and that can vary slightly. The Gulf Coast picks up about 200,000, and the Caribbeans for refining and the East Coast pick up about 100,000, and sometimes 275,000, depending upon the demand.

The next chart.

In this one here, we are talking in terms of what can happen to a company. This is obviously SOHIO. They have about half of the oil up there. This is a company that essentially rolled the dice in this situation, and literally risked its entire net worth on this one project, and it came about. I will give you some figures a little later which will show how preciously close they came to having that not come about.

The red represents what they have to invest. In 1978, you can see from the return of last year that they did not even get close to that.

When you talk in terms of the profits that they are getting, they are going to be coming out with their third quarter profits shortly, and it is going to show a growth from last year of considerable proportion. I am sure that the media will focus on that growth figure just as it did with Exxon, Amoco, and others for the second quarter earnings.

The growth factor is very deceptive because they were down in the middle five to six percent return, which of course is just terrible. You could not make investments and stay in business making that kind of return.

Now as they approach average manufacturing, and they are still below average manufacturing, people are not focusing on the fact that they are still not making the average of what other companies are making in the United States. They are still below it.

What they do, they focus on the fact that they went from a very bad situation to almost a moderate situation. But, of course, it adds to the misunderstanding that exists in the nation as to what the products really are with respect to the oil companies.

You can see by the red there, how much money has to be spent in order to get out the oil that we anticipate. We are talking in terms of a reservoir of 10 billion barrels. How much they will be able to spend in those lines from 1981 on out is going to depend on what is committed in the green part of the line.

I will deal more closely with that in some quotes from a gentleman who testified before the committee from Exxon.

The future estimates -- this is just for one company -- for the entire field are somewhere between $14 and $19 billion more that have to be spent. We have only spent in the field thus far $3.5 billion. What we are getting now, and that is the reason why in 1978, 1979, and 1980, you don't see the large capital expenditures that you do in 1973 or in 1975, for the very simple reason that it is little bit like a bottle of tonic water, once you shake it and you take the cap off, it flushes out, and it is cheap. But then all of a sudden it goes flat, and then you have to begin to inject water to push the oil out, and it is the capital investment that now has to be made in order to get the oil out.

So, those who think that we can walk away and go ahead and see something that we can axe right now, all we will be doing is setting the economics so that it will not make any sense to go ahead and make the expenditures to bring the oil out, oil that we know is there.

Would you show the next chart.

This chart gives you a comparison. Would you study it for a moment.

It gives you a comparison of the potential that we have in Alaska with the potential in other parts of the United States. You will notice that the orange is in billions of barrels. It is very conservative, the 30 billion. It is between 30 and 50 billion. If you took 40 billion, it would probably be equal to what every other state has all combined.

When you see that the price they have been getting in Alaska up until recently is $7.50, and then you see what they get out of Texas, out of California, out of New Mexico and out of Wyoming, and the other places, it just does not make any sense for people to go to that high risk area if you are going to again control that price, which is not even in the same ballpark as the other states.

The question becomes very simple in terms of economics. Do you want to bring out the oil that is there, or do you want to leave it there. Those are the choices that we must make from the nation's point of view. So, you can see, on a comparative basis, what our situation is in Alaska.

The next chart.

This is a chart that I would have hoped Senator Packwood would be here to see. We will show it again when he does get here.

We heard a lot yesterday from the Treasury telling us that their figures are very precise as to what the net is going to be, and how much we are going to lose in payroll taxes if we don't tax the windfall profits.

This is the only chart that I have seen where you actually can make a comparison of what it is going to cost for a unit of energy in the Gulf area, the Louisiana-Texas area, the on-shore area in the Rocky Mountains, and in the Deep Water Gulf, Prudhoe Bay, the Northern Field of Alaska, and then for the synthetics, for which we are prepared now to take money from all of those other areas and put it into the synthetics.

This is the way the calculations are done. The sum of all the investments to be made in the prospect is divided by the maximum daily output of the project, to come out with an investment per daily barrel of output.

So it is not hard in macro terms. You can just take all the various proposals that are put forward, and then take the projections that they tell you that they are going to bring in terms of oil, and then just take that investment and make this very simple computation, and this is what you come out with.

By taking the money away from industry, we can turn around and guarantee that we will lock this country in that red column, where we will be paying $40,000 per unit that will be coming about -- that is the synfuels.

The credits should be measured in that kind of a choice so that we look intelligently and say: "Where do we get the best bank for the buck." Obviously, we get the best bank for the buck in anything to the left of what would be the synfuels chart in that regard.

I just would like to quote from a statement of a gentleman who testified before the full committee. This was not the subcommittee where we had the testimony. This is Mr. Slick of Exxon Corporation. He had what I thought was very good testimony, and I would just like to go over it, because I think it recapitulates to a degree where we are at.

The recovery that is anticipated with the $3.7 billion that has been committed and spent so far is about 5 billion barrels. As I stated, the entire Sadlerochit field is 10 billion. In order to go and get the other 5 billion, we have to make an investment of somewhere in excess of $12 billion. This is not computed anywhere in this tax proposal.

So to give you a sense of comparison, a reduction in the ultimate recovery of only one half of one percent of the Sadlerochit Reservoir will reduce the nation's supply of crude reserves by 100 million barrels. That is just a difference of one-half of one percent.

So what we do in the Congress has an effect within the corporate boardrooms. Just as a matter of good economic policy, we should not be compelled to make decisions that could just lower our reserves drastically.

I would like to quote this one paragraph from the testimony, because the most important thing of all, not only for Alaskan oil, but for the nation, I think, there is a principle at stake for the nation.

You see here what we have done, we have singled out one reservoir, and we are going to tax that one reservoir because it has a measure of success.

I would quote from Mr. Slick's statement: "Simply put, it is the impact on the willingness of investors to undertake high risk ventures in the energy field if government policy is to selectively tax the successful ventures after the risk is taken."

In point of fact, there is no program that is advance to go ahead and guarantee a rate of return to the companies when they sink dry holes. So if we set in motion this principle here for Alaska, I can assure you that it will not take long before people will say, "We have a good find here in Kansas," or "We have a good find here. Let's just pull out that reservoir, and only tax the good stuff, and forget the bad stuff."

The bad stuff will not be made because it takes the money from the successful finds to go ahead and pay for the unsuccessful finds. You need but examine the monies that were spent by the same companies there in Alaska that spent monies in the Gulf of Mexico, you are familiar with that, on the east side of it, of $1.5 billion, all dry. So far, in the Gulf of Alaska, $700 million, all dry holes. Baltimore Canyon, so far nothing significant, $1.4 billion.

What we will be doing will be to make sure that there will be nobody, whether independent or major, that will go out and make the expenditures, because they will have no guarantee that if they have a loss, it will be protected, because when they find it, the government is quick to take that over.

In summary, let me just say that our costs of production are 15 times what they are in the South 48. Our labor is four times what it is in the South 48. Our transportation is 20 times what it is in the South 48.

If we could bring in that other chart?

This is a chart that was done by the Independent Oil Producers of the United States, and it involves the sedimentary basins that exist in the United States. This is the most important chart we have because it shows that in all of the efforts made to find oil and gas in the United States, we have only touched two percent of what we have.

This is why it is so tragic when we start on the premise that there just no more oil and gas to be found. We have only touched two percent.

This shaded area here is sedimentary basins. The green areas are where there is a likelihood of finding oil. The area that we are talking about here in Prudhoe Bay, the Sadlerochit Reservoir, is 190,000 acres of land.

When the President of the United States signed the order to withdraw the great monuments in Alaska, he withdrew 56 million acres of land. He withdrew it in areas here, here, and right across the face of this (indicating) except leaving one little path, which is where the Alaskan Oil Pipeline was.

He impacted 14 million acres of sedimentary basins.

I am not going to take the committee's time to debate the Alaskan Lands bill, which is so controversial, and which I have mentioned so prominantly. It passed the House by three to one. The Alaskan Lands bill pulls out of inventory 100 million acres of sedimentary basis. You couple that with what is happening.

I can show you the area where it would come in. It is a very large sedimentary basin. People don't want to go and look for it, because you would have to come in on a refuge, and obtain permission to go and explore the refuge.

USGS has told us, and the industry has told us that if they only had one well to drill in the United States, the last place to look for oil, the place in the northern hemisphere where they would sink that last well is right up here in the Arctic gateway.

Now, it is being treated as a wilderness to protect the caribou herds that go back and forth. They only come here six weeks out of the year. They don't show up every year. This is the place where the government and the industry have said is the last place where they would sink a well.

It is very uncharacteristic of mountain area. It is open plain area. If I put a blindfold on you, and took you out of Prudhoe Bay, moved you, and took the blindfold off, you could not tell where you are. You could not tell the difference.

What is happening to the industry in Alaska is that they are being assaulted in an effort to take away the sedimentary basins, so they would not have to look and build it. This is being done by both the Congress and the Executive.

Then, you take the area that you have with the costs, and the risks involved. All of a sudden they find the greatest find in the history of the United States, and its projected return, at best, is going to be 15 percent when the whole field is played out. Between 11 and 17 percent is what the return is going to be. If they are lucky, they will hit average manufacture, after this colossal investment.

Then they are assaulted additionally with what we are going to do here by bringing them into the regulatory process, when the sheer economics regulate their noncompetitive situation.

If you wanted to, you could take the single computation, and just think back to the price that oil was selling for in 1972, somewhere a little less than $5.00 a barrel.

The decision to build the Alaskan oil pipeline was made in Senate in July of 1973. It was signed into law in the fall of 1973. The boycott occurred, which set in motion the quadrupling price of oil in that period. So, it means that had the quadrupling price of oil not taken place in 1974, the nation would have been launched on a construction program which would have cost $8 billion, merely in the construction of the pipeline, with a tariff of $6.23, when a barrel of oil was selling in the marketplace for less than $5.00.

Had that quadrupling price not taken place, which we had no control over, incidentally, what would have happened to this construction? I would venture to say that many of the companies, as a result of the actions of government, companies as large as Exxon, ARCO, SOHIO, could have been brought to the brink of bankruptcy as a result of the capriciousness of what the government did.

Now that they have got a company like SOHIO that has put literally all its eggs in one basket, and you have one third of all the oil reserves in the United States in one place, and by an action of government, we can legislate the diminution of that reserve on the order of hundreds of millions of barrels that could potentially come out of the ground.

When we have these kinds of costs, I obviously feel that this warrants an exception. It has been characterized as the Alaska exemption. We want to make the record very clear. As far as I am concerned Alaska got its exemption with Wyoming, and with Louisiana, and with Texas, when we addressed ourselves to the tax in the revenue side of this. That is the Alaska exemption.

This is the American exemption that I am talking about, because when you look at the chart, and recognize how much oil we have, we can make a calculated decision to take off the table, take it out of inventory, and say: "We will wait for future generations to do it."

If the Congress wants to do that, if the Congress wants to do that, sobeit. I just think that it would be a great tragedy for the nation. Obviously, I would abide by that judgment, and so would the companies involved. It will hurt the Alaska people. It will slow down activities in this, and we may have to wait a generation before we wake up to the fact that Alaska has an unusual potential.

So all I am saying, gentlemen, is that these costs are so horrendous up there that that in itself is the economic discipline. If those costs alter, and you see profits come on line later on, then fine, tax them.

Certainly, those profits have not been there. These companies are strung out. Now to change the rules of the game, I think will have horrendous effects on what will happen.

We are not talking about the fact that you are going to have to wait a long time for this. Right now our efforts to go ahead and expand capacity an additional 200,000 barrels a day, that capacity expansion is going to have to be fed by wells that are going to have to be outreached.

There is considerable oil in the western part of this 25-mile span, and the costs in the outreaches of this are considerably more expensive, so they will just have to make decisions that they can't do it. It is nothing malicious. It is nothing in terms of shutting in.

It is just simply that it does not make any economic sense to go ahead and pour more money into that. These companies would be subject to suits from their own shareholders if they were to do that.

I just make an appeal to the figures here that demonstrate these unusual costs, which are not questioned by anybody. The House put on the amendment. It was never offered by the Administration.

The Administration was in the embarrassing position of not making intelligent comment on it when the House took this action. Then later on the Administration came in, and said: "Well, it is okay. Let's just put them at tier-two, and they will get along with everybody else.

The Chairman: Let me ask you a question. You know as far as most of us on this committee are concerned, and I know as far as the chairman of this committee is concerned, we all agree with you that to lock up all the Alaskan oil in the wilderness area is silly.

It seems to me that the least they could do is to go where they can fine some oil, and they could dress the oil field workers in polar bear costumes, and the animals would not know the difference as to whether they were a human being or a polar bear.

We have a story down our part of the country about a Frenchman, who wanted to go hunting and shoot ducks. He and his friend dressed up in a cowhide. They sneaked up close on those ducks. About that time, the woman in the rear was beating the one in the front, and she said: "Quit beating on me, and get your guns. Do you not see those ducks so close?" He said: "Forget about those ducks. Here comes the bull."

So, if it worked for a Frenchman, it ought to work for Alaskans.

They ought to let them drill in those wilderness areas. Just give them a few locations to drill, I think you are right about that.

We voted here, you voted, and so did all the rest of us vote to deregulate all new production. So I feel that you have our support for producing all the new oil that you can find up there, and you must have enormous amounts of it up there.

The Administration is recommending, and the committee would probably support you as far as the Administration is willing to go, give all the Alaskan oil upper-tier treatment. You have good wells up there. I understand the wells produce 1,000 to 2,000 barrels a day, which is one hundred times the average lower-tier well.

In the spirit of trying to do what we can do for you, what is wrong with upper-tier treatment for the old oil that you have in Alaska, and we have already voted to exempt all this new oil, and you must have enormous amounts of it up there.

Mr. Gravel: Two points. One, when you speak of new oil, I really want to stress that in my judgment, there is no question that everybody feels that new oil is important. I think even the consuming states recognize the simple situation that if you don't release new oil, we are going to be in trouble.

I want to tell you that if you do tax this like any other situation, what you have done, you have changed the rules of the game. When the Congress goes on record, and where an area was implicitly deregulated, and they went out and did things. Now they are coming under regulations, because they have had a profitable find, what you are telling the investment groups that are going to go out and do things in oil is, if they do well in finding new oil, the Congress is going to come in and relegislate on them. I think you have eroded the benefit that will accrue from new oil itself.

Secondly, if you really want to do it in those terms, then you take this chart -- If you want to treat everything the same, then what you want to do is to offset the high cost area for Alaska, and treat them all the same. You can do that and feel that you are controlling it. It would be wiser in its impact, but that would be the effect.

But if you turn around and say that for a barrel of oil in Texas, California or New Mexico, that is fine. You can get that upper-tier for new discovery. But you have to go up here and spend 20 times more to bring it to market, and then four times more for your labor, and 15 times more for your drilling, then you are not going to look for it on a comparative basis.

It will just not make any sense because you have a high cost area.

I can recall myself in Alaska, as a State Legislator, when they were talking about going to Prudhoe Bay. I thought that it was funnier than a crutch. If they went up there, and even if they found it, they would never get it out. It could have been one billion barrels of oil, two billion barrels of oil, they would not have gotten it out. But when it was the largest find in the history, of course, the economics were there to get it out.

So if you don't keep those economics even, you will not get the effort. Again, here is where the sedimentary basin is, and this is where the potential is, if you want to take this potential out of inventory, sobeit. There is nothing that we can do about it. But this is a judgment that we make as a nation.

To make that economic judgment is no different than the economic judgment that was made by the House that we want to pull out of inventory 100 million acres. We think that it is important for the caribou and the bears to have first priority over human beings. You can do the same thing frontally under one argument, you can do it through the economics, the way you structure the situation.

The way it is structured in the bill, it would be my judgment -- the companies have not said that, and their statements obviously are very cautious. They operate differently than we do. But I would venture to say that if the House bill were to pass as is, the great reserve of Alaska of 10 billion barrels would become five million barrels just like that.

If we do something in here in order to keep it in order with something else, that great reserve may be capriciously six billion, seven billion, eight billion, but it is not 10 billion, because those costs are too marginal.

We can take our choice. We can set up the economic structure so that it will not work, or we can exempt it, or we can just say that we are making it equal. But we are not making it equal to the rest of the nation, because this is what we face here in terms of capability, and this is the type of returns that we get. It would still be out of whack if you kept it at the same amount as tier-two.

So if you are thinking in those terms, obviously the only answer is to go and make it comparable, at least.

The Chairman: You are talking about the Prudhoe Bay wells producing 1,000 or better, are you not?

Senator Gravel: Some of them.

The Chairman: What does the average well produce on Prudhoe Bay?

Senator Gravel: I would have to dig around and find the figures.

It is 10,000 barrels a day will be the average well.

The Chairman: You are talking about the average well producing 10,000 barrels a day.

Senator Dole: You are outdoing Kansas all the way.

Senator Gravel: The depth is generally 9,000 feet.

The Chairman: The cost works out at about $3.5 million.

Down in my part of the country, if somebody finds a 100,000-barrel a day well, he thinks that he has got a good well. If a man spends $350,000 and finds himself a 100-barrel a day well, he thinks he is rich. So if you don't do that calculation, you make that 10 to 1 adjustment.

We are sympathetic. We are all from producing states. I see the Senator from Oklahoma is smiling. In Oklahoma, if you get a 10,000-barrel a day well, somebody thinks that he is doing very well, indeed.

You have already got it, and you know that it is there. If you can go down 9,000 feet, and get 10,000 barrels even at those Alaskan costs, I think that you would have a great deal.

We have voted to exempt all the new oil, so that Alaska would get that. We are talking about whether there should be any control at all in Alaska, and that has to do with the oil that you have already got, and generally speaking we are talking about Prudhoe Bay, which is the best oil field in North America.

What is the Treasury's position?

Senator Gravel: Could I talk to one point you made, Mr. Chairman. When you talk about those comparative costs, you are not adding in -- The $3.5 million is the average cost of the well. Your average cost is $250,000. That is the cost. That is the cost that you see there. But the cost of transportation is 20 times greater. You pay 50 cents to get your oil to market. We have to pay somewhere between $7.50 to $11.00 to get our oil to market. That is the regulator.

The Chairman: That is right. We want to do the right thing by Alaska.

To look at this whole thing, we need to be the devil's advocate.

If you will show an oilman in Louisiana where he can find himself a 10,000-barrel a day well, he will put on those gloves, and he will put on a polar bear costume, and he will get out there in that 60 below zero weather to get that oil. He will risk losing his nose, his hand, his leg, and whatever, if you can show him a 10,000-barrel a day well.

(Laughter.)

Senator Gravel: Mr. Chairman, we do have oilmen from Louisiana.

The Chairman: In fact, quite a few of them have.

Senator Gravel: That is right, they have gotten dry holes. They have taken the gloves off, and they have gone right back to th swampy country with you.

The Chairman: My guess is that you have a bunch of "coon-asses" from Louisiana looking for that 10,000-barrel a day well right now.

Senator Gravel: They have left. The coon part of it got a little cold.

(Laughter.)

Mr. Lubick: Mr. Chaiman, it is our position that what we are talking about is simply the already producing wells in the Sadlerochit Reservoir. You are not going to have any additional supply response as far as these are concerned. We would suggest, by moving them to the upper-tier, we think, that is appropriate.

The Chairman: Where are they now? What is their situation now?

Mr. Lubick: In the House bill, they are at an artificial price of $7.50.

The Chairman: What price are they getting now up there in Alaska?

Mr. Lubick: They are getting about $13.00, because you have to subtract from the price at the refinery the cost of transportation for getting it there.

The Chairman: What is the Administration's recommendation for those wells?

Mr. Lubick: Our recommendation is to move them to the upper-tier, which starts at $13.00 adjusted for inflation.

They are just about at the break point at the present time when you add the transportation.

The Chairman: Am I to conclude, then, that what the Administration is recommending for Alaska is about the same as they are getting right now?

Mr. Lubick: Under the House bill, there would be a tax.

The Chairman: I am not talking about the House bill. What is the situation right now? As of now, what would be the difference?

Mr. McGregor: The wellhead price being received after up the transportation cost is approximately $13.00 right now. I would have to go back to some reporting service to see how close that is.

The Chairman: Is that what they are getting before the President's decontrol order?

Mr. McGregor: Yes, sir, that is what they are receiving today at the wellhead.

The Chairman: In dollars and cents, on a per barrel basis, how much difference would there be between that and what they would get under the Administration's recommendation?

Mr. McGregor: As I understand what we are talking about, it is not the effective wellhead price, which would still be a netback computation for Alaskan crude certainly after 1981. I don't know what will happen in the interim.

The Chairman: I am talking about net to the producer, to the guy who has got the well, that drilled the well, net to him, whether it be a company or an individual. How much more or less would he get if we took the Administration recommendation, and what those same people are doing up there right now?

Mr. McGregor: Today, it would be zero, but as the world price increases, and I assume the Joint Committee Staff and the Treasury have computed in the one percent real price growth, that is the number that is shown in the papers that are before the committee in terms of revenue streams. I assume that it is the number. I defer to the revenue experts on that.

Mr. Shapiro: Let me show you one thing that may be helpful to you. In the materials that the staff prepared, the sheet that has on it "Tier-One Oil," the September 25th date, look at number 5, which is headed "North Slope Alaskan Oil."

There are revenue tables which show you what the revenue effect is if you were to exempt Alaskan oil, and then the revenue effect if the Alaskan oil was in tier-two, as the Administration proposed.

I think if you look at the difference, you can see the effect between an exemption, and what the Administration proposal is.

The Chairman: It estimates that an exemption would start out at $743 million a year, and it would build up and from

1980 to 1990 to $12,218,000,000. Is that right?

Mr. Shapiro: That is right.

The Chairman: Is this the Administration recommendation?

Mr. Shapiro: Yes.

The Chairman: The tax in tier-two.

Mr. Lubick: That is correct.

The Chairman: That would indicate that it would be worth about half of that. It would start out with $783 million, and from 1980 to 1990 that would be $6,969,000,000. Is that right?

Mr. Shapiro: As you can see, it starts out very small. The difference is only $40 million in the first year. But as it is expected for the price to increase over time, then you will find that the difference gets much larger in the out years.

Because of the fact that the price is approximately $13.00 now, and the world price is at that level, it is expected to have a very small effect in the early years. But it will start building up as the price will increase under the assumption we are using of inflation plus one percent.

The Chairman: That is the Administration's recommendation?

Mr. Shapiro: The tax in tier-two is the Administration's recommendation.

Senator Gravel has proposed to exempt the Alaskan oil completely, so the top line is the Gravel proposal, and the second one is the Administration proposal.

Senator Gravel: Mr. Chairman, the statement made by Mr. Lubick that there will be no additional supply response is very much in error. We have had testimony, and I don't think we can assume that these companies are lying, that what they have spent so far just in the field, I am not talking about the transportation systems, is $3.7 billion. Now they have got to spend another $12 to $18 billion.

So when they say that that price is fine, that price is fine for what is flushing out of the reservoir. But apparently, the Administration does not want the rest of the oil. Where is the return going to come to go ahead and get those other five billion barrels of oil?

Where is the $12 billion going to come from if, right now in the flush period, they are not even making average manufacturing in return?

Mr. Lubick: Senator, we are talking about supply response in moving it to tier-two. However, keeping it at $7.50 is another story.

Senator Gravel: I am not talking about tier-two. I am talking about these figures right here, the $12 billion which is supposedly what we would deny the government, or we would leave with the companies, if it is totally exempt. They will need between $12 and $18 billion just to get the stuff out.

This is the investment that they have not made yet.

Mr. Lubick: It is our understanding that they were anticipating prices not in excess of $13.00 per barrel, and that these expenses were projected to induce profitable production at those prices.

Senator Gravel: Mr. Lubick, when the House passed this, the Administration sitting there, as you are sitting there, did not even know they had to spend more money. They did not even know that they had to spend more money. This is as informed as the Administration was when that took place.

Mr. Lubick: I don't think that this is correct, Senator.

Senator Gravel: I will be happy to get the record and send it to you. They said that this is no problem. You can go ahead and tax it. Then the Administration came back with great embarrassment, and changed its position, and now is for treating like other areas but, of course, you cannot.

My question is, where is the $12 to $18 billion going to come from to go ahead and pump another five billion barrels of our U.S. reserve out of the ground, so that we can get it and utilize the existing transportation systems that have been built?

Where is that money going to come from, if right now at the best scenario, they are making less than what you make in average manufacturing? Where is that money going to come from?

Mr. Lubick: Our conversations, Senator, with the SOHIO led us to believe that as far as the existing wells are concerned, they would come in at a substantial profit on the basis of the then prices, and going to tier-two would clearly make that so.

What they were concerned about primarily was the psychology of discouraging future ventures if they knew they were not going to be able to get the world price for the newly discovered part of it. That was the chief argument that was raised with us.

Senator Gravel: I don't wish to denigrate Mr. Lubick, but I don't think that this is the truth. There are SOHIO people in the room, and it would be very simple to ask them if they think he has such a good idea.

I think, if we want, we can pull their returns and see what they are making, if we have any suspicions of that. Certainly, Mr. Lubick can see that.

The Chairman: With these open committee session, letting everybody sit in and hear what is going on, sometimes it serves a purpose, if somebody is here, to let them say their piece.

We have heard witnesses from SOHIO testifying, but it is a little vague in my memory right now what they did testify.

Is there anybody here from the SOHIO Company?

Mr. Roundtree: William Roundtree, Director of Federal

Government Affairs.

The Chairman: Do you know anything about what we are talking about here?

Mr. Roundtree: We had an expectation of the world price.

The Chairman: For the new oil, or the old oil?

Mr. Roundtree: The old oil.

The Chairman: When did you have the expectation?

Mr. Roundtree: For the existing reservoir.

The Chairman: Since when have you had that expectation?

Mr. Roundtree: Since during the planning stage of the construction of the pipeline.

Senator Gravel: What that expectation was at the beginning was $5.00 a barrel. As I have pointed out to you, if they had got $5.00 a barrel, we would have had the biggest financial debacle in the history of the United States, because of the cost of the pipeline turned out to be $6.23 cents in order to transport a $5.00 barrel. So obviously, they would have been $1.23 short.

When world price changed, it made the Alaska oil pipeline and that reservoir economically viable. Now we are going to make it unviable.

The Chairman: Let's hear from the DOE witness, if he wants to say something.

Mr. Lubick: The inference I draw is that in their planning stage, yes, they were planning on a world price. But the world price at that time was a one-digit price per barrel.

Senator Gravel: It was $5.00 per barrel when they started.

Mr. Lubick: They, indeed, told us that they were planning on that price escalating with it, and it was on that basis that we came in with our $13 recommendation because they had indicated to us to that in the period following the current year, following 1979-1980, they had planned that the world price might have gotten up to where they would be getting the $13.00 a barrel, or so.

On that basis, we accepted that, and made the recommendation that they should be put in the upper-tier.

I don't believe, and I guess you can ask Mr. Roundtree, that they expected in their planning to get a price of $23.00 per barrel, or that controls, in effect, would be removed. They were well below the controlled price of $13.00 for the upper-tier.

Senator Gravel: They were locked in. They had made a deal, and circumstance has made it a reasonable deal of benefit to the country. Had that not happened, there would have been a great detriment.

The Chairman: Senator Dole.

Senator Dole: The Administration, as I understand, now supports the tier-two treatment of Alaskan oil.

Mr. Lubick: Yes, sir.

Senator Dole: Since we have not agreed on what rate we would tax tier-two oil, there might be a way to work that out, where we could make an exception in the case of Alaska, and independence at a 50 percent rate, and all others would pay 60, which seems to me to be reasonable.

It would give them the same tax rate that they have in the House bill, but it would put them in tier-two, and we could go in with the Alaskan production and the Lower 48 production of independence, and keep the 60 percent rate in the House bill for all others. It would not have much additional impact revenue-wise.

Mr. Lubick: First of all, yesterday you allowed a severance tax deduction which is not under the House bill allowed in any 50 percent category. It does not seem to us that it is right. The 60 percent, we think, is the appropriate rate for tier-two, because you are dealing with ---

Senator Dole: Would you oppose anything other than 60 percent for tier-two?

Mr. Lubick: Do you mean like 65, or 70?

(Laughter.)

Senator Dole: Fifty-five or 50?

Mr. Lubick: I think on the average we ought to stick with the 60.

Senator Dole: Are you really firm on that?

Mr. Lubick: I think at this stage of the proceeding, given the existing circumstances, that 60 percent is a pretty good spot to stick at.

The Chairman: Would you mind putting a pencil to that figure you have used a couple of times, Mr. Lubick, and we will all try to understand that.

Did the Administration's 50 percent permit a severance tax deduction?

Mr. Lubick: No, it did not.

The Chairman: Until the House came up with the 60 percent, but they did allow the deduction of the severance tax. Is that right?

Mr. Lubick: That is correct.

The Chairman: Now, just put your pencil to it, and just figure with the 12.5 percent -- Alaska has 12.5, and Louisiana has 12.5. Figure a 12.5 percent severance tax, and deduct that, and tell us how it works out with $100 worth of oil. What is the difference.

Mr. Sunley: If I understand what you said, Mr. Chairman, if you are excluding 12.5 percent of the windfall because of the severance tax.

The Chairman: That is right.

Mr. Sunley: That makes the nominal rate of 60 percent equivalent to a 52.5 percent rate on the $100. In effect, you are moving from a 50 percent rate to 52.5 percent rate.

The Chairman: I see, so you move from 50 to 52.5. The 60 percent tax, after allowing for the deduction of the severance tax, works out to be 52.5 percent.

Mr. Sunley: The House, with respect to a state which has a 12.5 percent severance tax, could have raised the same revenue by imposing a 52.5 percent tax with no severance tax adjustment.

Mr. Gravel: We hope that you realize, and I think that all of you who are from production states realize, the precedent that you are setting of taxing only the reserve that is funded.

You are setting in motion a precedent where you are going to give them a special tax if they find oil. If they don't find oil, that is just off. That is the precedent that we are setting, because there is no place in this legislation where we are going after one pool of oil alone.

We are trying to establish uniformity across the country. Fine, I am with you on that. But this is not what you are doing here. You are going after one pool of oil. You are not going after the company's expenditures that were made in other parts of Alaska on dry holes. You go after the one pool of oil that they found.

When you set that precedent, these same people will be back here a year from now, reporting to the American people, saying that there is a real good area in Louisiana, and we ought to focus on that. We think that there will be excess profits there.

They found oil there, so the government policy has got to go after the oil that is found, and not after the operations of the company. When you do that, you structure the economic situation in such a fashion that nobody is going to go and look, because you have no way to cover your losses.

What you are doing here is setting a precedent.

The Chairman. What we are trying to do is gradually to move out from under these controls. In moving out from under them, we are trying to give consideration to the very high cost problems. We are also trying wherever we can get the best supply response to exempt. That is why we exempted new oil.

Now, you have to have a huge amount of new oil up in Alaska, and that is exempt. So you are in the clear on that.

Senator Gravel. But no, we are not, Mr. Chairman.

The Chairman. I would like to get out from under this thing, too, here. It is kind of hard for me to go back and tell my people that I am sorry I could not get those folks out from under all these darn taxes, but thank God we did save Alaska. They will probably say that it is too bad they don't have that guy from Alaska representing them in the Senate as Senator from Louisiana.

(General laughter.)

The Chairman. We have to look at the balance of this. Those of us who would like to help you have to think in terms of in the last analysis, we would be glad to do for you the same type thing we can persuade our colleagues to do for the other producing areas. But you actually have the oil, and those are magnificent wells. They are the best wells in North America. It is hard to make a case that those 10,000 barrel-a-day wells should not pay a tax when there are a lot of wells in Louisiana which are high cost wells, too, which are paying the tax.

Senator Gravel. Mr. Chairman, the difference is this. I'll go back to Alaska and tell the people that we made a mistake in this Committee, that we taxed the oil in Louisiana when we should not have. But we did do that. We fixed it so that we are going to put Alaska on ice for a while -- and that is not too bad. Like I say, the important amendment for Alaska we passed. That's fine, and we can live with that. But apparently you do not want the energy industry to go in and look for oil in those reserves because you are telling yourself that you are providing equal treatment. But you are not providing equal treatment. Just look at that chart.

You can draw a $13 a barrel line right by the other line that I was drawing. Please draw a line at $13 a barrel (indicating). That is the treatment that you are offering.

Now we can pass that. Maybe there is not the will to do more than that. Maybe Mr. Lubick is very persuasive.

There, that is the line (indicating). Does that look equal to what is potentially available to the American people?

The Chairman. How many more locations do you have to build in Prudhoe Bay?

Senator Gravel. There are 191 wells, and there are 550 to go.

That is just to get the oil oil. We know it is there. It is going to cost $12 billion to $18 billion to get it out, and that is not counting the growth of inflation and the costs that are going to increase, which will probably match as the world price of oil rises.

So, we can make a decision here to freeze it on the wisdom of these gentlemen, and immediately, with that decision, we will just throw off the table a billion, two billion, or three billion. I don't know what it is. Nobody knows what it is. But we know we are just throwing off the table those kinds of reserves.

The Chairman. Let me ask this question of the Administration representative.

Surely it is worth it to this Administration and to this Government to make whatever allowance needed to get that Alaskan oil to the market.

Now I would think, if these figures are right, you have 191 wells up there, and you have locations for a total of 550.

Senator Gravel. The locations are not there. They have to be built. You have to put in the pads, the wells have to be sunk, things like that have to be done.

The Chairman. I am not talking about platforms in place. I am talking are drilling 550 more wells.

Senator Gravel. No, that's not it.

The Chairman. I am saying you will have a total of 550 wells, with the appropriate spacing that we now have. We will drill at all of the locations that will be appropriate under the circumstances.

I would think that the Alaskan Pipeline would not be adequate to move all of that oil. So, you probably would have to loop that pipeline.

Senator Gravel. No, Mr. Chairman. That pipeline is adequate. The capacity that they are now going to have is going to be 1.4 mijlion barrels because of some new technological improvements that have been made. That will be used.

The total capacity of the line, with additional investment, can be 2 million barrels a day. They have to add pump stations to do that. I think they have to spend around $3 billion more just for the transportation system. But that will only come if there are other finds up there.

We are now talking about the Sadlerochit Reserve. But there are others. There are the Lisburne and the Kuparuk Reserves.

If we alter the economics on this and make it more difficult for those two other reserves, what is the point of their spending money on that?

Mr. Lubick. But those other reserves are exempt, Mr. Chairman.

Senator Gravel. They are exempt right now. But we are demonstrating a track record for Alaska at world market, and all of a sudden we are changing the name of the game on them. Then you will come in next year and change the game again.

The Chairman. We all agree that everything that is not producing now is exempt, right?

Mr. Lubick. Correct. That is our recommendation.

The Chairman. Well, we voted that way. We voted to exempt everything in Alaska off all those new reserves.

Frankly, if I were operating up in Alaska, I would take the rigs that I had in Prudhoe and put them in the exempt area, too.

(General laughter.)

Senator Gravel. Mr. Chairman, you cannot do that now. What you are saying is that we have exempted new oil to be discovered, but the 5 billion or 3 billion barrels that we know are there we will fix it so that economically they are not produced.

Is that what you are saying?

The Chairman. Mr. Lubick, tell us what you were going to say.

Mr. Lubick. I was going to say that last April, the Alaskan oil that was being produced at Sadlerochit was selling at $5.40 a barrel, and now it is at $13 a barrel.

Senator Gravel. In the quarter that is involved, did they demonstrate a windfall? What are they making? You are throwing out gross figures.

Mr. Lubick. It is my understanding that they were profitable at the lower figure.

Senator Gravel. Do you consider a 5.8 percent return on equity profitable?

Mr. Lubick. It is my understanding that they are going to show very substantial profits.

Senator Gravel. In the last quarter, the second quarter of this year, are the big figures about which you are talking. But this is as compared to what? They are still making below the average for manufacturing, and that is at the flush stage.

Would you want to regulate them so that they are going to continually make less than a 10 percent return? If you do that, who is going to make the $12 billion investment? Where are they going to borrow the money for that kind of return?

You are right, we will have new oil to go look for, and we will make a decision here that we don't want to go get the oil that we know is there. So, we will just leave it there and we will buy Arab oil. Well, that's fine. We can buy Arab oil at $23 or $40 a barrel, at whatever they sell it. But we know that we have it right there -- it is discovered.

Mr. Lubick. Nobody is suggesting taxing any of the other reservoirs than the Sadlerochit.

Senator Gravel. That is not the point I just made. My point was that at the flush stage, which is the best part -- and I think my colleague from Louisiana knows this -- when you get a well that is at the flush stage, you are doing really well. If they are not making excess profits at the flush stage, then how can you feel that they are going to make excess profits when they have yet to invest another $12 billion to $18 billion? That is what we want to do. We want to fix it so that they cannot make that investment.

I would be very clear--monitor them every year; put it before the Committee; and the minute you see excess profits, take them.

But please, do not deny the American people the 5 billion or more or less reserves that are there, as are the transportation systems, so that it can be brought to market.

The only thing that is missing to bring it to market are the step-out wells, the production wells, and the gathering lines. That is what the $12 billion to $18 billion is going to be used for.

So you are going to fix it so that they cannot get the money to do that and so they cannot get out that marginal oil.

From 5 billion on, it is marginal oil in a sense. It is a lot like your stripper -- you have to force it. Only this is the biggest stripper in the world that you have to force. You are going to make it the biggest stripper in the world, but you are not going to give it the proper exemptions to let it survive.

Senator Boren. Mr. Chairman, I wonder if staff could give us the cost figures for Tier 2. Since we have already changed the severance, Tier 2 is listed at 6.9 on the chart. What does that figure become?

Mr. Shapiro. That includes the severance tax.

Senator Boren. Since we have already done that, what is the incremental change here?

Mr. Shapiro. The severance tax is approximately $1.5 billion. So that gets it down to approximately 5.5 percent.

Senator Boren. What is the cost of Senator Dole's proposal, in addition to that, if you change the tax rate to 50 percent? What does that amount to in terms of Alaska production and independent production?

Mr. Shapiro. The estimate on that is that it is approximately a $1 billion reduction on Alaskan -- in other words, at 50 percent on Alaskan, rather than 60 percent.

Senator Boren. If you change from 60 percent to 50 percent, that costs another $1 billion on Alaskan?

Mr. Shapiro. Yes, on Alaskan.

With regard to Tier 2, it is approximately $2.3 billion, and that is for the independents.

Senator Boren. For the independents it is $2.3 billion on a change from 60 percent to 50 percent?

Mr. Shapiro. Right.

Senator Boren. Is that independents and Alaskan as $2.3 billion, or just independents?

Mr. Shapiro. It is $2.3 billion for the independents; $1 billion for Alaskan. The total is approximately $3.3 billion.

Senator Boren. When I was asking for the figures on your proposal, they said it cost $2.3 billion to change from 60 percent to 50 percent for independents on Tier 2 and $1 billion on Alaskan.

The Chairman. Is it that much?

Would somebody do those figures now, please? Calculate them, please.

Senator Gravel. In this chart (indicating), what is the rate?

Mr. Shapiro. The rate on that chart is a 60 percent rate with a severance tax (reduction.)

Senator Gravel. What you are doing is treating them like everybody else. I think in the rest of the nation we are leaving oil in the ground with the oil that we are passing. Well, fine, we can do that. But here I think it is more graphic. You can see how much you are leaving in the ground. Coincidentally it is the same amount of money that they worked up that we are taking with the total exemption -- it is $12 billion, the amount they need to go ahead and make the investment on. Tier 2 is $6 billion, almost $7 billion.

If you take Tier 2, at 50 percent, what would that amount to moneywise?

Mr. Shapiro. If you took 50 percent across the board?

Senator Gravel. If you took the 60 percent and made it 50 percent, there would be a 10 percent differential, wouldn't there?

Mr. Shapiro. All right, it is approximately an additional $1 billion. So, it would be very close to $8 billion. From $6.9 billion, it would go to approximately $8 billion.

Senator Gravel. But it would be worse.

Mr. Shapiro. But you are reducing the price --

Senator Gravel. Oh, I see.

So, from a capital point of view, all you can do is make a judgment.

If the damage you are doing here is 100 percent, as it probably is, then this is 0.5 percent damage. So, what I am saying is judgmentally you are going to forcibly leave in the ground somewhere around 2 billion to 2.5 billion barrels of oil.

That is a judgment, now. We have left all of that in the ground in the rest of the states, and that may be what this Committee wants to do, leave all that oil in the ground.

The Chairman. If the people from Alaska have the good judgment of retaining Mike Gravel to look after their interests, I don't have any doubt but by the time those wells play down, Mike Gravel will have persuaded the Congress to give them better treatment on those wells as they deplete. So, I don't think the oil will be left in the ground.

I admit that the way it stands now, there is some disincentive in this program. But we are trying to settle this the best we can in the circumstances. I would be willing to vote for a 50 percent rate for Alaska, but you should understand that that is about the best we can do for you for the time being. Now later on, we might be able to do better for you.

Senator Gravel. Mr. Chairman, let me address one point that was made earlier by the Treasury in its wisdom. It said that the companies did not expect to get $22 a barrel. Well, in 1971 or 1969, when this came on line as a possibility, nobody ever expected that the price would be $22 a barrel. Likewise, nobody realized the degree of inflation we would have. Nobody realized, when they made the estimates that the pipeline would cost $800 million or $900 million, that there would be $8 billion occasioned by the Government.

So, I think that argument is fallacious in its approach.

I think you judge it in two ways. You judge it by what the companies are making. If they are making an excess profit, then deal with it.

You see, we have trapped ourselves in our own rhetoric. We keep talking about profit. If there are excess profits, take these away from the companies. But if it is a question of taking revenue, taking money, through a severance tax, away from production of oil to use in other regard -- and that is what the Committee is looking for, money, to either cut taxes or to give something to the poor -- well, I'll tell you, the poor would rather have some oil than they would rather have a government check. But we are going to give them a government check and we are going to tell them that we are going to leave oil in the ground in Louisiana, we are going to leave oil in the ground in California, and we are going to leave oil in the ground in Alaska.

If that is the judgment of the Committee, I will abide by it. We can vote tomorrow or whenever you want to vote, Mr. Chairman, assuming we get a reasonable quorum to vote on something like this.

The Chairman. I would suggest that we set a definite time.

I can understand how the Senator feels about the matter. If I were sitting where he is, representing Alaska, I would certainly want everybody to fully understand my position. But at the same time, we have to vote and get on to the next issue.

Why don't we agree to meet tomorrow. We will allow the Senator about ten minutes to explain his position and those of us who might not be able to vote with him or go all the way with him on this matter will also be allowed ten minutes. Then we can vote.

Is that all right with the Senator?

Senator Gravel. Fine.

The Chairman. I would just as soon that we do that tomorrow rather than today because of the number of Senators not here now.

Senator, I have no objection if you would wish to call some of our Senators between now and tomorrow and talk with them about this.

Senator Gravel. I think I have already done that.

(General laughter.)

Senator Danforth. Mr. Chairman, what are your plans with respect to tomorrow and further meetings on the windfall tax?

The Chairman. I would hope that we would finish this bill this week. We have to do the reconciliation, and there is nothing to keep us from doing it.

What was the suggested schedule that you are working on, Mr. Stern?

Mr. Stern. Mr. Chairman, you had scheduled disability insurance hearings on Tuesday and Wednesday mornings. So at this point I would think you would need Tuesday and Wednesday afternoons and then Thursday and Friday mornings to complete action on the bill.

The Chairman. I wonder if we could move those hearings to the afternoon. As of now, I would think that these Executive meetings ought to take precedents over the hearings. Witnesses will be in town and we could simply ask them to testify in the afternoon. That would give us time in the morning to meet.

Mr. Stern. So, then, you would be meeting in the mornings on Tuesday through Friday?

Senator Danforth. Tuesday through Friday on the windfall tax?

Mr. Stern. Yes, sir, with the hope of completing action by the end of next week.

Senator Danforth. And then tomorrow morning also?

Mr. Stern. Yes, tomorrow morning also.

Senator Danforth. What about tomorrow afternoon?

Mr. Stern. It was not scheduled for tomorrow afternoon.

The Chairman. Very well. I think it is settled.

We will stand in recess until 10:00 o'clock tomorrow.

(Whereupon, at 5:00 p.m., the Committee adjourned, to reconvene at 10:00 a.m. on Friday, October 5, 1979.)

- - -