

Introduced: 4/6/78
Referred: The Special Committee
on the Sale of Royalty Oil & Gas

BY THE RULES COMMITTEE BY REQUEST
(for the Special Committee on the
Sale of Royalty Oil and Gas)

1 IN THE HOUSE

2 HOUSE JOINT RESOLUTION NO. 68

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Relating to North Slope natural gas pipe-
6 line financing.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS the earliest feasible construction and completion of the North-
9 west Alaska Pipeline system to transport Alaska North Slope natural gas to
10 markets in the rest of the United States is a matter of vital concern to the
11 nation's energy future; and

12 WHEREAS successful completion of this project may result in important
13 financial and economic benefits to the people of the State of Alaska; and

14 WHEREAS, given the enormous magnitude of the pipeline project, there
15 exists some doubt that it can be financed from traditional, non-public
16 sources; and

17 WHEREAS the people and the State of Alaska wish to extend every reason-
18 able assistance to the project, in recognition both of their potential bene-
19 fits from it and the great national need which exists for Alaska's gas;

20 BE IT RESOLVED that the Alaska State Legislature agrees in principle,
21 subject to the conditions contained in this resolution, to pledge the state's
22 royalty interest in the natural gas contained in the Prudhoe Bay reservoir
23 for the purpose of borrowing the amount of \$1.4 billion, which money will be
24 used to assist in financing the Northwest Alaska Pipeline as approved by the
25 Congress of the United States in Senate Joint Resolution 82; and be it

26 FURTHER RESOLVED that this agreement is subject to the satisfaction by
27 the government of the United States, the federal and provincial governments
28 of Canada, and the owners and investors in the Northwest Alaska Pipeline
29 project of the following conditions:

1 (1) The proposed financing assistance to the pipeline project must
2 be obtainable in accordance with the arrangements suggested by the staff
3 members of the Federal Energy Regulatory Commission and the management of
4 Northwest Alaska Pipeline in their appearances before committees of the
5 legislature on February 15 and 16, 1978; and further, the provision of such
6 financing, if obtainable by the state, must create no claim upon the general
7 revenues of the state other than the claim against the revenues derived from
8 production of royalty natural gas from the Prudhoe Bay reservoir.

9 (2) While financial assistance from the State of Alaska will mea-
10 surably increase the chances of project success, such assistance will not
11 guarantee success. Thus, appropriate assurances of completion of the pipe-
12 line project, including the sections not in Alaska, must be obtained, either
13 through guarantees of the national governments involved, or financing commit-
14 ments from other parties sufficient, in the judgment of the state, to meet
15 possible cost overruns.

16 (3) All parties must agree that neither this resolution or any
17 subsequent commitment of funds by the state implies any waiver of valid state
18 laws or regulations concerning protection of the environment or resident
19 hire, any waiver of state authority with respect to the state's responsibil-
20 ity to assure maximum recovery of oil and natural gas from the Prudhoe Bay
21 reservoir, or the waiver of any other valid state law or regulation.

22 (4) In addition to the project completion guarantees enumerated
23 above, this agreement is contingent upon appropriate federal regulatory
24 actions designed to protect Alaska's proprietary and sovereign interests in
25 the North Slope natural gas. In general, the state considers that its
26 sovereign and proprietary interests in the gas will be maintained by estab-
27 lishment of a wellhead price for tax and royalty purposes which is equivalent
28 in terms of BTU's to that which is received for Alaska North Slope oil pro-
29 duction. To this end, the federal government, and where necessary the

1 Canadian national and provincial governments, must establish regulatory
2 policies in terms of wellhead pricing treatment, conditioning and gathering
3 charges, pipeline tariffs, and city gate sales prices in the Lower 48, which
4 will ensure that the state's sovereign and proprietary interests described
5 above are protected.

6 (5) The agreement in principle contained in this resolution is
7 dependent upon agreement by all parties that Alaska shall be entitled to
8 remove its natural gas from the Northwest Alaska Pipeline at any point in
9 Alaska in accordance with the provisions of the Alaska Natural Gas Transpor-
10 tation Act (P.L. 94-586) as it exists on this date, and that the tariff for
11 moving natural gas to such point shall be determined on an Mcf per mile
12 basis, to be calculated by multiplying the number of Mcf moved times the
13 distance in miles between the LACT meter at Prudhoe Bay and the point of
14 offtake, times the average cost of moving one Mcf of natural gas one mile
15 over the entire length of the pipeline system.

16 (6) All parties shall agree that a design objective of the pro-
17 posed Northwest Pipeline system shall be the capability to transport natural
18 gas liquids, including but not limited to propane, butane, and ethane frac-
19 tions of the produced natural gas, within that section of the pipeline lying
20 within the State of Alaska, and to permit removal of these liquid fractions
21 from the pipeline at a point in the interior of Alaska.

22 (7) All parties shall agree that the state's interest in assuring
23 the opportunity for in-state transportation and utilization of natural gas
24 liquids via the proposed pipeline represents the state's primary non-proprie-
25 tary and non-sovereign benefit to be derived from pipeline construction.
26 Thus, while state financial assistance is not directly contingent upon such
27 in-state transportation and use capability, all parties agree that state
28 financing is contingent on the greatest possible efforts by all parties
29 concerned to ensure that such capability is achieved.

1 (8) This agreement in principle is contingent upon the recognition
2 and agreement of all parties that Alaska's financial participation in the
3 project shall entitle it to every prerogative and advantage available to
4 other participants in the project. Such prerogatives and advantages include
5 but are not necessarily limited to full access to all engineering and finan-
6 cial data pertaining to the project.

7 (9) The state's agreement in principle to assist in financing the
8 pipeline project does not commit the state to any particular form or type of
9 financing. Thus, the state reserves the right to provide the agreed upon
10 financial assistance in the form of debt guarantees, long-term debt, pre-
11 ferred or other equity interest, or such other forms or combinations of forms
12 of assistance as may be determined to best promote and protect all state in-
13 terests in the pipeline project while simultaneously providing the greatest
14 possible assistance in ensuring eventual pipeline completion.

15 (10) State financial assistance to the project is contingent upon
16 receipt of at least two independent analyses of the effects of such financial
17 assistance on the state's short- and long-term bond capacity requirements as
18 well as the potential effects on the state's bond rating. While financing
19 assistance is not contingent on the results of these analyses, all parties
20 must agree that the state's overriding obligation is to the overall best
21 interests of its citizens and that financing assistance is contingent on
22 reasonable state determinations that project participation will not damage
23 other and non-related interests of the state's citizens.

24 (11) This agreement in principle is contingent upon receipt from
25 the Northwest Pipeline Company of a "procurement plan" that satisfactorily
26 ensures that the citizens of Alaska will have a fair opportunity to partici-
27 pate in the provision of supplies and services for construction of the pipe-
28 line and in the construction of the pipeline itself.

29 COPIES of this resolution shall be sent to each member of the Federal

1 Energy Regulatory Commission; the Honorable James R. Schlesinger, Secretary
2 of the Department of Energy, and the Chief Executive Officer of Northwest
3 Alaska Pipeline Company, John McMillian.

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