

SCOMM

#15:9

W. J. LEVY CONSULTANTS CORP. LEGISLATIVE AFFAIRS AGENCY
30 ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

Reference Library
POUCH Y--STATE CAPITOL
JUNEAU, ALASKA 99801

Room 3232

TEL. 212-586-5253-4
CABLE "WALTLEVY"

August 30, 1974

Robert Hartig, Esq.
717 K Street
Anchorage, Alaska 99502

Dear Bob:

I've put together for your and your committee's convenience a quick summary of what we had discussed prior to and in the course of the Hearing, dealing with "Alaska's Interest in Natural Gas and a Gas Pipeline." I thought it would be useful for you to have this recap of our preliminary thoughts for the record. As requested, there is appended also a list of questions that your committee may want to pursue.

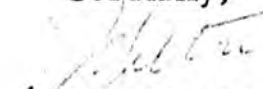
We have begun to get some information from the Oil and Gas Division of Natural Resources as to NGL. Obviously a lot more work has to be done on this aspect of the problem. In any case, your committee should have available to it, in the course of the Fall, the filings of Alaska Gas Arctic and El Paso, hopefully with a broader range of information than has thus far been put on public record.

I don't know how far you plan to go with possible interrogation of the competing pipeline sponsors. But I would hope that the appended questions, together with and supplementing the ones I discussed with your committee earlier in the month, may be of help. It is not that I am confident that you will get direct answers to any of these, but your asking the questions may provoke more careful consideration on their part as to the various matters with which Alaska will be most concerned.

The enclosed copies would be for possible distribution by you to your committee members. In addition, one copy is going to John Elliott in Juneau for the Legislative files.

With best regards, I am,

Cordially,


Milton Lipton

RECEIVED
SEP 3 1974

ML:iw
enc. 6
cc: Mr. John Elliott ✓
enc. 1

LEGISLATIVE AFFAIRS
AGENCY

ALASKA'S INTEREST
IN NATURAL GAS AND A GAS PIPELINE

1. It is our purpose in this brief Note to summarize the main points set out in discussion with the Joint Interim Committee on Natural Gas Pipelines on August 8 and 9, prior to and in course of its Hearing in Anchorage. We also append a list of questions which we feel have not been really answered as yet in any of the pipeline companies' submissions, although further information will obviously be forthcoming this fall when Alaska Gas Arctic makes its additional filings with the FPC and NEB and El Paso makes its initial submission to the FPC.

Availability of Gas

2. Alaska has a strong and continuing interest in the availability of energy for household and industrial consumption within the State at reasonable prices. The State's established oil and gas reserves are obviously more than ample. But the State can directly affect the disposition of its energy resources only through its control over royalty oil and gas.

3. Internal gas consumption can be expected to increase rapidly in Alaska, reflecting both population growth and industrial expansion. Cook Inlet reserves are relatively modest. However, the prospects for additional discoveries in the Inlet and in course, as exploration progressively opens up, in other areas of South Alaska are considered good.

4. The potential use of North Slope gas to supply future needs in the South has therefore to be weighed against the prospect of future gas reserves to be proved up at locations closer to southern population and industrial centers. Further, the unquestioned availability of oil means that the State would not be energy-short, however the gas picture should develop.

5. The prospects for direct gas consumption elsewhere in the State, outside of the Kenai-Anchorage area that's now being served, would depend on the interrelation between (i) population density and hence the economics of distribution and (ii) the availability and cost of alternative fuels (i. e., oil). Fairbanks, for example, might benefit from availability of natural gas. But so far as smaller towns and villages are concerned, it is more likely that oil or bottled gas would be more efficient fuels than piped gas.

6. One further observation about Fairbanks. Alyeska will apparently power its first four pumping stations with gas, piped from the North Slope to the foothills of the Brooks Range. Subsequent pumping stations will be able to operate on gas, but are not planned to initially. It will be recalled that Alaska Arctic Gas expressed its willingness to construct a separate line to Fairbanks if demand made it economically feasible. The possibility could thus be explored of combining Alyeska gas requirements along the half of its route to Fairbanks with other potential gas demand to support a relatively small diameter gas line beyond Pump Station #3 and on to Fairbanks.

7. On balance, it would not appear that the State's own gas requirements, given overall oil/gas availability and prospects, would in itself be a decisive consideration in favor of the El Paso as against the Alaska Gas Arctic project.

Petrochemical Feedstocks

8. Oil and gas derivatives -- naphtha from crude and ethane/propane from NG -- could provide a powerful stimulus to development of a substantial petrochemical industry in Alaska. Uncertain feedstock availability (even more so than feedstock cost) has retarded expansion of petrochemical capacity world-wide. And increasingly, petrochemical investment is moving toward oil/gas producing areas where feedstock availability can be assured (e. g., the Province of Alberta).

9. Alaska could have various interests in a petrochemical industry -- investment and income, relatively high-paying if modest employment, and possible effect on the prices Alaska has to pay for chemical intermediates and even various products. If feedstocks are exported to petrochemical centers in the Lower 48 and processed material imported back into Alaska, the State's consumers would be paying transportation costs twice. This is not to say that petrochemical facilities in Alaska would necessarily mean lower prices; a great deal would depend on the terms and conditions under which feedstocks were made available in support of petrochemical investment. Thus, the net advantages of a petrochemical industry are not entirely clear-cut, although the potential benefits have certainly to be considered.

10. To the extent that private companies determine the disposition of potential gas-based petrochemical feedstocks, export to the Lower 48 is more likely than their retention for use in Alaska. The State may be in a position to control the disposition of a significant volume of NGL through its royalty gas.* The precise volumes are still elusive, but it would appear that something on the order of 35,000 barrels per day would be consistent with associated gas when crude production is at the rate of 1.2 million barrels daily.

* Propane would not only be valuable as a potential petrochemical feedstock but for use as bottled gas in areas of low population density.

11. Normally, there would be minimal stripping of NGL at the North Slope, no more than would be technically necessary for pumping the gas. The extracted NGL could then be commingled with crude in the oil pipeline. If the State opts to take both royalty oil and gas in kind, it would be in a position also to obtain and transport that volume of NGL that is stripped on the North Slope. The routing of a natural gas pipeline would not affect the State's interest in the NGL that would be extracted on the Slope.

12. If the Alaska Gas Arctic line is approved, the remaining liquids would be exported via Canada to the Lower 48. Gas Arctic has indicated that it would be willing to use its good offices to try to arrange possible swaps so as to make NGL available on the south coast in return for the royalty gas that would be transported through its line. It is not clear what Gas Arctic could really do in this respect.

13. If its line is approved, El Paso has indicated its willingness to transport royalty gas for the State as a contract carrier, even though it proposes to buy the rest of the gas for transshipment to the West Coast by LNG tankers. The State could then, to the extent desired, strip additional NGL from its gas on the south coast. How deep a cut would depend on a range of technical and economic considerations.

14. A second set of uncertainties revolves around FPC regulatory practice. Would the State's royalty gas carried under contract be deemed to be commingled with gas that El Paso owns? If so, would State gas be subject to FPC jurisdiction? Could, or would, the FPC extend its possible jurisdiction over the end-use of royalty gas? It is these and related questions that Alaska must pursue as intervenor for the record and in future Hearings, so that FPC consideration of the El Paso application also comes to grips with Alaska's concerns.

Economic Interest in
Value of North Slope Gas

15. Alaska has a very considerable economic interest in the value of North Slope gas -- through royalty and severance tax. If the wellhead value of the gas were independent of destination, then pipeline routing would not be a concern in this respect at least. But that is not at all assured.

16. Current FPC practice provides few guidelines to how it will handle the pricing of North Slope gas. It is most unlikely to blanket North Slope gas under its new nation-wide price; nor is there a basis in experience for cost-related pricing. Realistically, the value of North Slope gas will be related to gas values in the Lower 48. Administratively, the FPC would probably have at least to take account, directly or indirectly, of gas values in the alternative markets to which Alaskan gas might move and respective transportation costs.

17. Furthermore, North Slope gas will be produced from around 1980 to the end of the century, so that current FPC practice (and even the concept of gas price regulation separate and apart from other energy costs/prices) may not be relevant to Alaska's economic interest in the long-term value of North Slope gas reserves.

18. For Alaska, the combination of lowest pipeline costs and highest destination price would make for optimum value of its gas resources. Given the range of uncertainties about both, State policy could hardly revolve around minor differences. But this is not to say that Alaska should not be keenly interested in the pipeline cost projections that will be placed in evidence, as well as all relevant material about respective regional gas balances and values. If significant differences should begin to emerge, then the State has to be ready to consider and set out its position.

Investment and Employment

19. Alaska has various interests in the matter of natural gas pipeline construction per se. One has to do with the investment, income, and employment involved in the construction and operation of the respective proposed pipelines. If a natural gas pipeline were to be constructed in staggered timing with Alyeska, the continuity of employment, multiple use of infrastructure, etc. could add to the advantages the State might expect, and spread over a longer time the cost of offsetting disadvantages (such as mobilization and demobilization costs that communities have to suffer).

Environmental Impacts

20. A second has to do with the environmental effects of the proposed pipelines -- including impact on both physical and human environments, and on the plus/minus for government with respect to such impacts.

21. So far as the pipeline route itself is concerned, El Paso would have access to the same corridor as Alyeska -- as specifically anticipated in State legislation. Gas Arctic, for its primary route, would look for right-of-way over a relatively short span of State land, but access to the Federal Wildlife Refuge could be a stumbling block.

22. On the other hand, the liquefaction/terminal infrastructure and shipping density in the Valdez area could add further to the anticipated problems that Alyeska will be bringing.

23. None of the above is intended to add up to a definitive answer as to where Alaska's final interest lies.* The purpose of these early comments was to try to provide a check list of pivotal considerations that will have to

* Nor do we consider here the broader issues of policy and administrative decision that will confront the U. S. and Canadian Administrations, the FPC and National Energy Board.

be weighed in the balance. Meanwhile, the Department of Natural Resources has been cooperating in putting together available material on the NGL content of North Slope gas. And projected filings with the FPC this fall should provide more careful and comprehensive data than has thus far been placed on the record. In sum, the picture should be rather clearer by the next legislative session than at present; and the Interim Committee may be able to expedite the development of relevant facts over the months ahead.

W. J. Levy Consultants Corp.
August 29, 1974

Some Relevant Questions*

NGL Availability

1. What volumes of NGL's would be stripped on the North Slope per MMCFD of associated gas for pipeline transmission? (El Paso; Alaska Gas Arctic, transmission and/or producing companies that will be shippers)
2. Are there technical limitations on the NGL volumes that the State could strip from its royalty gas if the methane were to be tendered for pipeline transmission? (Gas Arctic) What limitations would there be on the volume of NGL's that could be commingled on the North Slope with State royalty oil for movement to the south coast? (Alyeska)
3. Are there technical limitations on the NGL volumes that the State could strip from its royalty gas if the methane were to be tendered for LNG export? (El Paso)

Natural Gas Availability

4. Could the pipeline contract to buy royalty gas subject to the State's option to withdraw such gas for either internal consumption or petrochemical processing? FPC policy? Liquefaction/LNG economics? (El Paso)

* These are selected questions, relevant to the interests of Alaska as set out in the preceding Note, looking toward information that may not be developed in the pipeline companies' FPC and NEB filings.

5. What would be the estimated cost of moving 25-50 MMCFD of North Slope gas to Fairbanks, taking account of Alyeska's intention to supply gas up to Pump Station #4 via an 8-10 inch line? (Gas Arctic)

Transmission Costs

6. If Alaskan and Canadian gas were both to move through the same pipeline within Canada, how would costs be allocated? E. g., fixed costs apportioned on basis of capacities and operating costs charged on basis of throughput; average total costs assessed on basis of throughput; etc.? This could be particularly relevant if the pipeline is designed with excess capacity to accommodate potential expansion of Canadian gas production. (Gas Arctic)