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APPENDIX D

Public Law 94-586
94th Congress

An Act

To expedite a decision on the delivery of Alaska natural gas to United States markets, and for other purposes.

Oct. 22, 1976
[S. 3521]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Alaska Natural Gas Transportation Act of 1976.

SHORT TITLE

SECTION 1. This Act may be cited as the "Alaska Natural Gas Transportation Act of 1976". 15 USC 719 note.

CONGRESSIONAL FINDINGS

SEC. 2. The Congress finds and declares that— 15 USC 719.

(1) a natural gas supply shortage exists in the contiguous States of the United States;

(2) large reserves of natural gas in the State of Alaska could help significantly to alleviate this supply shortage;

(3) the expeditious construction of a viable natural gas transportation system for delivery of Alaska natural gas to United States markets is in the national interest; and

(4) the determinations whether to authorize a transportation system for delivery of Alaska natural gas to the contiguous States and, if so, which system to select, involve questions of the utmost importance respecting national energy policy, international relations, national security, and economic and environmental impact, and therefore should appropriately be addressed by the Congress and the President in addition to those Federal officers and agencies assigned functions under law pertaining to the selection, construction, and initial operation of such a system.

STATEMENT OF PURPOSE

SEC. 3. The purpose of this Act is to provide the means for making a sound decision as to the selection of a transportation system for delivery of Alaska natural gas to the contiguous States for construction and initial operation by providing for the participation of the President and the Congress in the selection process, and, if such a system is approved under this Act, to expedite its construction and initial operation by (1) limiting the jurisdiction of the courts to review the actions of Federal officers or agencies taken pursuant to the direction and authority of this Act, and (2) permitting the limitation of administrative procedures and effecting the limitation of judicial procedures related to such actions. To accomplish this purpose it is the intent of the Congress to exercise its constitutional powers to the fullest extent in the authorizations and directions herein made, and particularly with respect to the limitation of judicial review of actions of Federal officers or agencies taken pursuant thereto. 15 USC 719a.

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DEFINITIONS

15 USC 719b.

SEC. 4. As used in this Act:

(1) the term "Alaska natural gas" means natural gas derived from the area of the State of Alaska generally known as the North Slope of Alaska, including the Continental Shelf thereof;

(2) the term "Commission" means the Federal Power Commission;

(3) the term "Secretary" means the Secretary of the Interior;

(4) the term "provision of law" means any provision of a Federal statute or rule, regulation, or order issued thereunder; and

(5) the term "approved transportation system" means the system for the transportation of Alaska natural gas designated by the President pursuant to section 7(a) or 8(b) and approved by joint resolution of the Congress pursuant to section 8.

FEDERAL POWER COMMISSION REVIEWS AND REPORTS

Proceedings, suspension. 15 USC 719c. 15 USC 717w.

SEC. 5. (a)(1) Notwithstanding any provision of the Natural Gas Act or any other provision of law, the Commission shall suspend all proceedings pending before the Commission on the date of enactment of this Act relating to a system for the transportation of Alaska natural gas as soon as the Commission determines to be practicable after such date, and the Commission may refuse to act on any application, amendment thereto, or other requests for action under the Natural Gas Act relating to a system for the transportation of Alaska natural gas until such time as (A) a decision of the President designating such a system for approval takes effect pursuant to section 8, (B) no such decision takes effect pursuant to section 8, or (C) the President decides not to designate such a system for approval under section 8 and so advises the Congress pursuant to section 7.

(2) In the event a decision of the President designating such a system takes effect pursuant to this Act, the Commission shall forthwith vacate proceedings suspended under paragraph (1) and, pursuant to section 9 and in accordance with the President's decision, issue a certificate of public convenience and necessity respecting such system.

(3) In the event such a decision of the President does not take effect pursuant to this Act or the President decides not to designate such a system and so advises the Congress pursuant to section 7, the suspension provided for in paragraph (1) of this subsection shall be removed.

Recommendation, submittal to President.

(b)(1) The Commission shall review all applications for the issuance of a certificate of public convenience and necessity relating to the transportation of Alaska natural gas pending on the date of enactment of this Act, and any amendments thereto which are timely made, and after consideration of any alternative transportation system which the Commission determines to be reasonable, submit to the President not later than May 1, 1977, a recommendation concerning the selection of such a transportation system. Such recommendation may be in the form of a proposed certificate of public convenience and necessity, or in such other form as the Commission determines to be appropriate, or may recommend that no decision respecting the selection of such a transportation system be made at this time or pursuant to this Act. Any recommendation that the President approve a particular transportation system shall (A) include a description of the nature and route of the system, (B) designate

AGO 532955

APPENDIX C

SUMMARY OF TECHNICAL REPORT ON PRODUCERS' PROPOSED PLAN OF OPERATION OF THE PRUDHOE BAY FIELD

On August 18, 1976, a draft of the proposed Prudhoe Bay Unit Agreement was presented by the producers to the Alaska Department of Natural Resources. The draft included a summary of the producers' recommended plan of operations for the Prudhoe Bay Field. Subsequently, the producers prepared and submitted to the Alaskan authorities a technical report on the recommended operating plan. The report (Exhibit ALA-33) sets forth the results of the comprehensive technical studies conducted independently over the past several years by the major producers to develop long range operating plans for the Field. The following is a summary of that report.

According to the report, oil production is planned to commence in mid-1977 at a rate of 600,000 B/D, increasing to about 1,200,000 B/D by the end of 1977. Completion in 1978 or 1979 of field facilities necessary for the purpose will permit a further planned production increase to about 1,500,000 B/D when pipeline capacity is available. Such rate of oil production can be maintained for about 8 years by additional development drilling.

Until a gas pipeline and gas conditioning plant are approved and constructed, currently estimated to be 4½ to 5 years after the start of oil production, produced gas in excess of fuel requirements (1.8 to 2.0 Bcfd) will be injected into the gas cap without adversely affecting ultimate oil recovery. The gas conditioning plant will be needed to bring the gas to pipeline quality including CO_2 removal, extraction of gas liquids for hydrocarbon dew point control, dehydration, and compression and cooling to pipeline pressure and temperature. Preliminary estimates made several years ago indicate that the plant will require 4 to 6 years to design, fabricate and construct, and will cost about $1 billion (197[illegible] costs).

Once the necessary pipeline and conditioning plant are in place, gas pipeline deliveries of at least 2.0 Bcf/D will commence. Delivery at this level will require gas production of 2.7 to 2.8 Bcf/D to allow for fuel requirements, shrinkage and CO_2 removal. The 2.0 Bcf/D planned rate is a conservative volume which can clearly be supported by the reservoir, and initial gas pipeline deliveries of up to 2.5 Bcf/D may be justified, without affecting ultimate oil recovery.

Planned pipeline deliveries will substantially increase domestic energy supplies. For instance, through year 2,000, pipeline deliveries of 2.0 Bcf/D, beginning 5 years after the start of oil production, add the energy equivalent of 2 billion barrels of oil to the nation's energy supply. In addition, such gas deliveries reduce fuel consumption, eliminate unnecessary costs for compression, injection, and "double production" of gas, and provide a measure of correlative rights protection for the Oil Rim and Gas Cap participating area owners.

In the Main Area Sadlerochit reservoir, the natural recovery mechanism of the field will permit oil recovery predicted in the range of from 32% to 35% of the original oil in place. The current operating plan calls for the injection of produced water into the Sadlerochit when volumes become significant, increasing recovery to 33% to 36%. Studies indicate further potential for increasing ultimate oil recovery to a level of 39% to 40% of original oil in place by implementing a properly designed source water injection program within about 5 to 9 years after the start of oil production. Two or more years of production performance history and testing data will be necessary to confirm the additional recovery potential before the final decision is made to commit approximately $1 billion for source water injection facilities. It is estimated that oil recovery will be achieved over a period of 25 to 30 years. Ultimate gas recovery, expected to be in the range of 75% to 80% of total gas-in-place, will be recovered over a period of about 35 years.

It is expected that significant volumes of gas cap gas will be produced through oil wells. If this gas is not delivered to a pipeline, it will be necessary to reinject an estimated 15 to 20 Tcf of gas into the gas cap. Although the return of such gas is not detrimental to reservoir performance, compression and injection of this volume would require about 600 to 800 Bcf of fuel gas, or the energy equivalent of more than 100 million barrels of oil. Moreover, the extraction of liquids required to condition the gas for pipeline delivery will provide for an additional 10 million barrels per year of gas liquids. All liquids extracted will be used without waste; either to displace fuel gas or be transported through the oil pipeline with the crude oil and condensate. 1/

1/ A gas cap gas condensate yield of about 35 barrels per MMcf of separator outlet gas is expected initially from the separator facilities.

XVII

SUMMARY

The extensive discussions above give some of the flavor of the public debate now underway as to which pipeline applicant should be certificated and what degree of consumer or taxpayer involvement is warranted. The full measure of interest and controversy also was displayed in the plethora of Wrap-up Briefs and Position Briefs filed by all the applicants (including affiliates), intervening states, natural gas transmission companies, distribution companies, Conservation Intervenors and Staff.

As has been stated supra, Staff, charged directly with representing the public interest, supports the Arctic Gas project (without the western leg) as vastly superior. The Conservation Intervenors support Alcan, on environmental grounds. Of those states which support a particular project in their Final Briefs, the majority choose Arctic Gas. New York, Wisconsin and California voice support for the Arctic Gas system. 1/ It is significant, in fact, that the most populous states in the east and west, and one of the largest in the midwest all see their interests best served by the Arctic Gas project, if any Alaskan gas delivery system is built. California's preference is predicated in part not on the economics of these proposals, which it finds marginal, but on the ability of Arctic Gas to move the additional supplies it expects to come from the far north. Alaska is the only state which supports El Paso, based on the perceived environmental, socio-economic and reliability benefits. Interestingly, Washington and Oregon do not state a preference for any project, but, like California, state their support for Arctic Gas with a western leg (if Arctic Gas is certificated). Utah supports an overland route with a western leg. Arizona, while not preferring any system, wants assurances that it will have direct access to, and an equitable share of, Alaskan gas. This argument seeking to allocate gas supplies is premature in that no producer sales contracts have been entered.

Of those gas transmission and distribution companies which support a particular project, the majority choose Arctic Gas. Algonquin Gas Transmission Company (New England), Michigan Consolidated Gas Company (Michigan), Wisconsin Gas Company (Wisconsin) and

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1/ The State of Wisconsin petitioned to intervene in January, 1977, and the Commission approved intervention by order dated January 25, 1977.

the New York Gas Group (New York) favor Arctic Gas. Intermountain Gas Company (Idaho) supports Alcan, on the basis of environment and reliability. Tennessee Gas Pipeline Company and Southern Natural Gas Co. prefer El Paso, but their views can be given little weight. As is conceded in the briefs, these companies have signed agreements with Alaska to purchase royalty gas, and thus were contractually bound by Alaska to support El Paso. Cascade Natural Gas Corporation (Washington and Oregon) and Washington Water Power Company (Washington) only voice their support for a western leg and, of course, all of the many major transmission and distribution companies sponsoring Arctic Gas support their project.

In a sense, there is a consensus on the part of the Commission Staff, the most popular consuming states taking an active interest, and an array of pipelines and distributors serving huge sections of the country that if any pipeline applicant must be chosen now, their best interests would be served by choosing Arctic Gas. The evidence in this record clearly supports that conclusion. There is no need to summarize here the findings made in the individual sections above. The Arctic Gas application is superior in almost every significant aspect when compared to El Paso. Certification of its proposal, subject to appropriate conditions, will bring more energy to market cheaper and more reliably than El Paso and will do so in an environmentally acceptable manner. It is found that Arctic Gas' prime route should be certificated, including both western and eastern legs.

El Paso, too, has a viable plan which technically can be built in an environmentally sound manner and which can deliver natural gas to all U.S. markets. While its certification is less desirable because of the reasons discussed above, nonetheless, it could be certificated if it were not for the clearly superior Arctic Gas application. Thus, if Arctic Gas is unable to accept a certificate, this record supports findings that El Paso's proposal, as required to be modified by the findings above, would also meet the present and future public convenience and necessity.

No finding from this record supports even the possibility that a grant of authority to Alcan can be made. No grant could include Westcoast, but its sponsors state that exclusion of Westcoast would render Alcan's financial plan inoperative. The allocation procedures supported in the record by AGTL are now inoperative according to AGTL, and this means no meaningful costing of facilities can be made from this record. Furthermore, Alcan's present design is clearly neither efficient nor economic since the pipeline is undersized. The suggested three years construction schedule to be completed by 1981, which Alcan argues is one of its

prime strengths, cannot occur. Moreover, its arguments as to how it can be financed in separate time frames from Maple Leaf, also critical to its proposal, requires intricate timing that is totally unsupported by hard evidence. As presently proposed, even with Alcan's willingness to build anything anyone wants (as long as it does not oust Westcoast and AGTL from their Maple Leaf project), there is not enough left of its original proposal to serve as a basis for granting its application.

Nahum Litt

Nahum Litt
Presiding Administrative Law Judge

XVI

PROPOSED LEGISLATION

A. Section 13 of the Alaska Natural Gas Act of 1976

The State of Alaska has entered into contracts for the interstate sale of its royalty gas which include provisions permitting the State to subsequently withdraw the gas from the interstate market for use within the State. These withdrawal provisions are sanctioned by Section 13(b) of the Alaska Natural Gas Act of 1976.

However, as discussed in the Jurisdiction and Financing sections of this Initial Decision, substantial difficulties arise from the State's asserted right to commit its gas to interstate use with one hand and take it back with the other. The mere prospect of withdrawal imperils the financeability of an Alaskan gas project; actual withdrawal would idle downstream facilities and in turn produce adverse cost impacts.

Moreover, when the Section 13(b) withdrawal provision is coupled with the Act's "equal access" provision, 1/ it becomes readily apparent that the statute in its present form could operate to confer a substantial indirect subsidy to the State. Assuming that the project could be financed and completed, that Alaska's interstate customers (El Paso Natural, Tenneco Alaskan, and Southern) participated in the equity financing with consumer guarantees, and that Alaska thereafter found an intrastate use for its royalty gas, the consumers of the three customer companies would have risked their dollars to help finance the project, only to see consumers in Alaska reap the reward.

For the reasons stated herein, the Presiding Judge respectfully suggests that the Commission, in its recommendation to the President, give consideration to the desirability of amending the Alaska Natural Gas Act of 1976 to delete therefrom Sections 13(a) and 13(b). Absent deletions of these two provisions, direct and total U.S. government guarantees would appear to be the only feasible method of financing.

1/ Section 13(a) of the 1976 Alaska Natural Gas Act would deny the Commission the power to limit access to the transportation system to shippers participating fairly in its equity financing. It is questionable whether the proposal to finance an Alaskan project with consumer guarantees is possible in the face of this statutory provision.

B. Other

Unlike the preceding extended discussion respecting Section 13 of the Alaska Natural Gas Transportation Act of 1976, the need for the following legislative recommendations has been adequately addressed in the Financing and Potpourri sections, supra:

1. LNG Ships

To insure effective regulatory control of rates and operations of the El Paso tanker fleet, explicit statutory jurisdiction should be conferred on the Commission.

2. Tracking

Full and timely recovery from ultimate consumers of all appropriate costs in connection with an Alaskan transportation project, during both the construction and operations periods, requires implementation by Federal legislation. The Commission should not have the power to suspend such flow through of costs, but the right to review all such costs at all times, with the power to order refunds where appropriate, should be preserved.

3. Federal Financial Participation

The Treasury Department should be granted statutory authority necessary and appropriate to accomplish whatever Federal participation in the Alaska gas project financing is ultimately determined to be required in the public interest.

Army personnel.

The crew was identified as: Capt. Donald W. Deeter, 29, pilot, of Fillmore, Calif.; CWO Ralph G. Battle, 38, copilot, Miami, and Spec. 4 Paul E. Jones, crew chief, St. Cloud, Fla.

Passengers, all stationed at Ft. Richardson, were identified as: Lt. Col. William I. Barrett Jr., Beckley, W. Va., commander of the 1st Battalion, 43rd Air Defense Artillery; Lt. Col. John S. Edge, 42, assistant post commander, Americus, Ga.; Maj. James W. Nelson, 38, operations officer of the 1st Battalion, Greenville, Ala. and Major Melvin J. Swiney, Tacoma, Wash.

confirmed that the strike had ended, but declined to discuss details of the settlement.

The strike, which began Feb. 2, cost Sea-Land an estimated $1.38 million. While some company services were disrupted, supervisory personnel performed many delivery functions. At one point Teamster pickets followed Sea-Land trucks around to picket unloading operations.

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measure authored by Sen. Chancy Croft, D-Anchorage, establishing another commission to conduct more studies, this round to be completed by January of 1978.

Lethin's plan was met with solid support by Matanuska Valley residents who testified in Palmer Friday night. But response from the 26 Anchorage residents who testified Saturday and Sunday was mixed.

Hearings will move to Fairbanks next weekend.

AS EXPECTED, however, testimony took a 180-degree turn from that heard in Juneau last week, where most of those who testified sidestepped the bills under consideration and relied upon emotional appeals to keep the capital in Juneau.

Among those testifying Sunday was Anchorage attorney Gale McCarrey, who suggested that capital design should be submitted to international bid.

"I'm sure lots of architects would like their names ascribed to the new Alaska capital," McCarrey testified.

McCARREY ALSO said he didn't think the new capital would cost "too much money."

"IT PROBABLY WILL BE more intriguing to hear the comments in Fairbanks," said Bradley, who will chair the hearings there.

Bradley said he was disappointed there wasn't a "higher incidence of man-of-the-street comment in Anchorage."

"I would have liked to have seen 200 people and only 20 architects or planners," he said.

MEANWHILE, A study was released estimating that it would cost about $214,000 a month to set up temporary government offices near Willow. The study, prepared for Lethin, did not take into consideration the cost of housing.

Several Anchorage engineering, architectural and modular construction firms were involved in the preparation of the study. It was based upon creating office space for the governor, lieutenant governor, and the legislature.

A total of 80,000 square feet of office space would be provided.

State at odds with gas plans

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — Oil industry proposals for the earliest possible delivery of massive amounts of Prudhoe Bay natural gas to the lower 48 states have been quietly but firmly squashed by the State of Alaska.

The dispute, which may place Alaska interests in direct conflict with national energy demands, centers on major differences between state and oil industry officials over how best to manage the North Slope reservoir's 19.5 billion barrels of oil and 26.5 trillion cubic feet of natural gas.

Oil industry officials say their plan "provides for expeditious and economic development of the total energy resources at Prudhoe Bay consistent with good oil and gas conservation practices."

In challenging the proposal, however, state officials say the operators' plan may be motivated more by a "disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

At the center of the intense but unpublicized debate are two conflicting documents obtained by The Associated Press—the industry's "operating plan" for exploiting Prudhoe Bay reserves and a sophisticated state-financed computer "prediction of reservoir fluid recovery" from the field.

In its proposed operating plan, the industry has asked the state to guarantee the delivery of at least two billion cubic feet a day of gas by mid-1982, about five years after this summer's planned start-up of the trans-Alaska oil pipeline and the earliest possible date projected by the oilmen for completion of a natural gas pipeline and conditioning plant.

But state officials, who have been involved in confidential negotiations with the Prudhoe Bay producers over the operating plan for more than three months, have steadfastly rejected the industry management scheme on the premise that it violates Alaska's tough conservation statute for the maximum production of both oil and gas.

In it's computer projection, the state contends that the delivery of two billion cubic feet a day of natural gas under the industry plan could cause the loss of as much as 1.6 billion barrels of oil, a significant figure in light of the acknowledgement by both sides that under the best of circumstances ultimate oil recovery from the field will total a maximum of only 40 per cent of the oil in place.

In an effort at compromise, the state says it could allow the gas delivery rate proposed by the oilmen if they will commit themselves to a massive water injection plan at the North Slope field.

All-Alaska gas line risks

Page 2

While acknowledging that the injection of water from the Arctic Ocean could help offset the loss of field pressure from early, large-volume production of gas, industry officials say they cannot and will not commit themselves to the $1 billion-plus cost of a source water injection project without several years of field history.

In contrast, the industry plan says field history is not needed for the state to guarantee early, massive gas offtake rates, an inconsistency noted by the state in rejecting the operating proposal.

The operating plan submitted by majority owners of North Slope reserves, British Petroleum, Atlantic Richfield, Exxon and Sohio, repeatedly emphasizes that "state approval of the gas offtake plan is needed now to insure that FPC (Federal Power Commision) certification, final design, financing and construction of the pipeline can proceed on schedule."

It defends the proposed offtake rates on the grounds that they would "immediately increase current epergy to the consumers and current income to the owners."

State Natural Resources Commissioner Guy Martin says that considering the massive investment the oil industry has in Prudhoe Bay, including $7 billion in trans-Alaska oil pipeline costs alone, he was not surprised that the industry has balked at financing a massive water injection project or may be willing to sacrifice long term oil production for early gas profits.

"They would love it if the state would give them a guarantee, but we won't," Martin says. "It may be they have a disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now.

"But I think they know that in order to get the levels of gas production they are talking about under our conservaton statute, it is going to be necessary for them to have to have a water injection plan."

Without a commitment for massive water injection, Martin says the state probably will not set an initial gas offtake rate of more than about 1.6 billion cubic feet a day, a figure that is below the threshhold of feasibility for two of three competing gas pipeline projects.

And even with water injection, Martin says the state won't give the industry any absolute guarantees in advance for the estimated 20-year life of the field.

AGO 532963

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

TESTIMONY FOR ROYALTY GAS SALES CONTRACTS

Jefferson B. Barry, Anchorage, Alaska,
representing Teamsters 959
February 19, 1977

Senator Kay Poland, Chairman, Resource Committee,

Senator John Sackett, Chairman, Finance Committee:

The instant issues before the legislature are the royalty surplus gas sales contracts, but they are admittedly only a stimulus for the larger issue of an all-Alaska gas line with access of our own gas for our own uses. Since this is the only legislative forum available our testimony will include the entire matter.

On the instant issues of the royalty surplus gas sales contracts we support the legislative concurrence, provided certain modifications are incorporated:

1. (a) In the Tenneco Alaska, Inc. contract substitute the words of 40% instead of 50%.

(b) In the El Paso Natural Gas Company and the Southern Natural Gas Company contracts, substitute the words of 20% instead of 25% for both of such contracts.

It is vital and necessary that Alaska demonstrate there is an immediate intrastate use for domestic, residential, and power use of a portion of our gas. Certainly the ability to ship LNG to communities within our state must be present and the current application requests of Fairbanks honored.

I point out the most dynamic and stable growth area in the state has been Cook Inlet. The great denominator comes with natural gas for power, industry, and domestic, residential use. The rest of our state is surely entitled to those same opportunities. With an assured supply other communities can plan to realize those advantages.

As for Anchorage, Thomas Stahr, Manager of M.L.& P., testified before the Joint Committee that gas committed to the Anchorage area will run out in the mid-1980's and the

state must assure that Prudhoe Bay royalty gas is available for in-state use.

It is equally important the Federal Power Commission have this contract understanding. Judge Litt, on page 20 of his initial decision, addresses the question of the state contracts and he states, "...given the contract terms, such support is entitled to little weight. The purpose of such reservation is to insure that the amount of royalty gas exported from the State is 'surplus'--whatever that means--to the State's intrastate domestic and industrial needs--whatever that means." And, in a footnote, "Upon reflection, Alaska decided not to seek a reopening of the record for the appearance of a state witness with respect to the contracts."

Upon the evidence presented to Judge Litt he had no knowledge that the vast majority of Alaskans have never had the energy benefits of natural gas or that the small area that has may soon be blacked out.

You should modify the contract to show that Alaska reserves the use immediately for 2.5% of its own gas within the state. Only in that fashion can the FPC make an evidentiary judgment of the need and meanings of our contracts.

2. The section of the contract 11.4 should be modified to clearly illustrate the State's interest is solely the El Paso Company docket #CP75-96 and the conditions apply to none other than the El Paso proposal.

There are ample time limits incorporated in Public Law 94-586 The bell tolls for thee and me as follows:.

Sec. 5(b). The Federal Power Commission shall submit to the President not later than May 1, 1977, a recommendation--

Sec. 7(a) As soon as practicable after July 1, 1977, but not later than September 1, 1977, the President shall issue a decision--

Sec. 7(2) The President, for a period of up to 90 additional calendar days after September 1, 1977 may delay

the issuance of his decision and transmittal thereof--"

Sec.8(a) Any decision--shall take effect upon enactment of a joint resolution within the first period of 60 calendar days of continuous session of Congress--"

Thus, it is clear the governor of Alaska has all of the necessary time by Federal statute to obtain the statutory requirements of approval by Legislative concurrence to "switch" any route assignment other than El Paso.

We believe the inclusion of 11.4 in the contract is destructive to the proclaimed intent of total support for the El Paso pipeline and a studied attempt to thwart legislative concurrence.

It is interesting to note the Federal Law 94-586 authorizing the Presidential decision requires Congressional affirmation. So do Alaska's laws. But this contract would abrogate that decision process by granting the Governor the power to "switch" without Legislative concurrence.

It would be a bad precedent to establish. We are totally opposed to 11.4 and suggest it be eliminated from the contract.

This concludes our testimony upon the minimal modifications required to approve the royalty gas sale contracts.

We now address the larger, most salient issue of the all-Alaska Gas Line and approval thereof according to the Alaska Natural Gas Transportation Act of 1976.

Congress has mandated certain actions, and many without judicial review. These are going to occur and the only course we may pursue is to adapt to them.

ACT AND INTIAL DECISION

The best place to begin is with Public Law 94-586, the Alaska Natural Gas Transportation Act, pointing out several emphatic statements:

> Sec. 2.(3) "--delivery of Alaska natural gas to United States markets is in the national interest;-
>
> Sec. 3 "--To accomplish this purpose it is the intent of the Congress to exercise its constitutional powers to the fullest extent in the authorizations and directions herein made,--"
>
> Sec. 4(1) the term "Alaska natural gas" means natural gas derived from the area of the State of Alaska generally known as the North Slope of Alaska, including the Continental Shelf thereof;

That's the heart of the matter. Congress has enacted a law in the national interest and will exercise its constitutional power to the fullest extent, and Alaska natural gas means ALL OF THE GAS NORTH OF THE BROOKS RANGE OUT INTO THE CONTINENTAL SHELF.

The implications are horrendous. From the largest gas reserve on the North American continent, from its own land, Alaska may not get one cubic foot of its own gas from Prudhoe Bay, from undiscovered sources in the Beaufort-Chuckchi Seas, nor may gas discovered on Native Lands in that area be available for other Alaskans and communities.

If the Canadian Arctic route is approved the result is an expropriation of Alaska's property and energy. Most Alaskans want access to their gas, and certainly want the national interest of the lower 48 served with the vast amount of reserves on the North Slope.

Prior to the enactment of PL94-586 and concurrent since, the Federal Power Commission hearing process commenced on May 5, 1975, and essentially has continued almost uniterrupted since that time.

The record closed on November 12, 1976. It consists of 253 volumes of transcript, embracing almost 45,000 pages, about 1,000 exhibits (some, such as the environmental impact statements being almost 1,000 pages each), and innumerable items by reference.

Roughly, half the States, most of the U. S. natural gas pipelines, and a plethora of prospective purchasers and other interested parties intervened.

On February 1, 1977, the Federal Power Commission issued Order No. 558B:

> The parties that have participated as adversaries during the long course of hearings have had more than adequate opportunity to place on the record their positions regarding the completing projects and the "data, views and arguments" in support of their positions. The quality of information available to the Commission would not be enhanced through mere repetition of that discourse. Furthermore, an unqualified departure from the principles of the ex parte rule would create a potential for unequal access by the competing parties to the decision process without contributing reliability to the result. Therefore, the Commission or delegates should not communicate in relation to substantive matters with the applicants or affiliates thereof or parties, counsel, or witnesses (including Commission staff witnesses) that have advocated on the record the approval or rejection of any of the competing projects.

For more than 2 weeks we have been analyzing Judge Nahum Litt's 430 page Initial decision.

It provides a shocking indictment of the State Administration concept of the Federal Power Commission hearings and the consequences of the enactment of the Alaska Natural Gas Transportation Act. The Administration has been remiss and derelict in its obligations to Alaska's citizens.

The record is replete with the evidence that the State Administration had no clear purpose nor pursued a determinative goal compatible with extraordinary Federal legislation and regulations. It is no wonder that Judge Litt perceived the State so poorly, and I intend to place that performance in the record.

The State was dilatory and uncooperative.

AGO 532968

Page 12.

Upon the commencement of the hearings in May 1975, a running dialogue was instituted with the State of Alaska and producers seeking, inter alia, to ease them to a position where they might perceive that their best interests coincided with the national interest to have contracts for sale submitted at the earliest time during the pending hearings. This effort was singularly unsuccessful insofar as sales agreements were concerned, although some progress was made in at least getting the Producer to discuss these matters on the record. Only on the last day of hearing, November 12, 1976, did the State announce sales of its royalty gas to El Paso Natural Gas Company, Southern Natural Gas Company, and Tenneco Alaskan, Inc. But even these contracts for the royalty gas are not effective until ratification by the State legislature, which is not in session.

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of course which has burdened this record. Thus, while stating their concern for the national interest and the requirements of this country for energy at an early date, their prime consideration for early sale turns on other more parochial interests. The only conclusion possible from their actions is that the national interest to ARCO, Exxon, Sohio, etc. lies somewhere below their own

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economic interest, or at least, the national interest of the U.S. appears to them as negotiable in their bid to obtain certain concessions from the Commission or the Congress in return for their cooperation in bringing this gas to market. 1/ Admittedly, the uncertainty of regulation is not as bankable as the 3/4 billion dollars ARCO, for example, had negotiated as advance payments by prospective Alaskan gas purchasers before the Commission found such payments against the public interest. But it shows that the producers, like G.B. Shaw's dinnertime companion, have a price at which they would sell their "service," and all of their protestations to the contrary cannot hide that they are mainly dickering over price. The record, unfortunately, now stands with no firm commitment on the part of any producers to sell natural gas, or even that they will agree to sell it immediately upon tentative certification of a successful applicant.

The State of Alaska's role as a royalty owner, taxing agent, and conservator of its resources is also at issue. The State of Alaska embarked early on upon a course designed to maximize the economic benefits flowing to Alaska from its hydrocarbon resources. This laudable goal for Alaskans, unfortunately, is not always consistent with the general public interest of all of the people of the United States. It may portend, again unfortunately, a confrontation on the merits of an indirect transfer of payments from other parts of the country to Alaska through excessive payments for Alaskan hydrocarbons. These are not easy questions: the State's demands were not crudely put nor outrageous on their face. The difficulty is that they are also not always obvious, and it is not easy to gain a clear picture of the State's demands or whether those who deal with the State privately are in a position to bargain effectively for the public interest. Any Prudhoe Bay field operating plan must be sanctioned by the State, and the producers may, for example, agree to conditions in the field production arrangements which could be quite detrimental to long-term consistent sales of interstate gas.

In addition to the lack of sales agreements, there is still no approved production agreement for oil or gas from the Prudhoe Bay Field. A draft agreement was presented to the parties for the first time on August 18, 1976, some 7 or 8 months after it was first suggested it might be filed.

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The producers state that once the necessary pipeline and conditioning plant are in place, gas deliveries of at least 2.0 Bcf/d will commence. No one at this time questions the producers' statement that there is a 4-6 year lead for constructing the gas conditioning plant. The volume itself is termed as conservative, and they state that initial gas deliveries of up to 2.5 Bcf/d may be justified without affecting ultimate oil recovery. Produced water will be reinjected into the field, and the producers cite studies

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indicating further potential for increasing oil recovery by implementing a source-water injection program. However, at least two years of testing are said to be necessary after the field goes into oil production before the final decision is made to construct source-water injection facilities. In approving the plan, an issue may exist between the producers and the State as to the need for, and timing of, source-water injection.

The vast weight of the evidence is that between 2.0 Bcf/d - 2.5 Bcf/d of gas will be available initially from the Prudhoe Bay Field.

What has occurred this past week? Commissioner Guy Martin received front page coverage by stating that "without a commitment for massive water injection the State probably will not set an initial gas offtake rate of more than 1.6BCFD, a figure that is below the threshold of feasibility for two of three competing gas pipeline projects."

Incidentally, one of those not feasible is El Paso.

It is simply incredible confusion. Early in the hearings the State exhibited the Van Poollen report which confirmed the 2 BCFD and even higher recovery rates by further water injection. No place in the record is there the hint of a 1.6 BCFD recovery rate. It is fully understood that for the yeras between oil production and gas line completion that the gas will be reinjected in the gas cap, approximately 4-5 years.

Now, at this late date, Commissioner Martin is compounding the confusion for those who must make timely decisions.

This threat, by unilateral decision, to restrict recovery rate below feasibility of El Paso and Arctic proposals cannot improve our "parochial image of self-interest."

It is one thing to argue with the producers and protect the conservation of our oil and gas. However, it is entirely a different matter when Alaska fails to enter into the records a clear position of policy whenever any relevant facts are known.

The acute shortage of natural gas in the lower 48, our possession of 10% of the nation's supply, should have

mandated the Administration to take a leadership role in the choice of the route selection.

But examine the record:

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(Alaska Initial Socio-Economic Brief, 12):

> The El Paso project would create far more employment within the State, would increase population along the southern coast of Alaska to the extent that that portion of the State at least would have a private economy of reasonable size, and would provide far greater State and municipal revenues in order that the governmental units can cope with the socio-economic costs that are certain to result from any of the projects. When the benefits of the El Paso project so far outweigh any of its costs, and when its net socio-economic benefits would so far exceed those of the Arctic Gas Projects the State cannot conceive of refusing to grant the El Paso project a preference on socio-economic grounds....

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D. Intrastate Use of Royalty Gas

Alaska argues that, in addition to favorable impacts on employment, population, gross state product and net government revenues, the El Paso project will allow and in fact encourage industrial development in central Alaska. The State, eager to shed its dependence on the lower 48 states and its unstable, boom-or-bust economy, envisions the development of mineral reduction, fertilizer, cement, and petrochemical industries that can use the royalty share of the Prudhoe gas. 1/ Langhorne Motley, Commissioner or Commerce and Economic Development for the State, testified to the importance of this development and the potential for enticing industry into the State once the gas pipeline is completed. However, no cost-benefit analysis was performed concerning the intrastate vs. interstate use of royalty gas. On the whole, moreover, he was unable to detail concrete examples of discussions with prospective industrial users, and the State's use of Alaskan gas remains speculative, at best. The fact is that Cook Inlet gas supplies did not spur any substantial development, although Alaska argues that development of Cook Inlet gas involves piecemeal discoveries at a time when there were sufficient supplies of low-cost gas in the lower 48 states.

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1/ Guy Martin, Commissioner of Natural Resources for Alaska, indicated that the State would also benefit from a gas liquids removal plant built in Alaska, if El Paso was certificated.

1/ Governor Hammond testified that an oil refinery is planned for the Fairbanks area. Thus, there will be energy supplies available to central Alaska, even absent a trans-Alaska pipeline (96/14,675). Moreover, it should be noted that the use of gas for residential purposes in a cold climate such as Alaska's might be economically impractical, given the necessarily high fixed costs involved and the poor load factor.

In sum, there are so many uncertainties involved in intrastate use of royalty gas that no findings that it will occur are warranted at this time.

This is an unbelievable record for Alaskans to accept. Why was no cost-benefit analysis made? Why were not communities consulted for the use of natural gas, LNG, or LPG? Why were not the requests for Fairbanks users not part of the record? (downtown Fairbanks has had piped propane for business uses for about 20 years). Why were there no concrete examples of prospective industrial users--when Dow Chemical, for one, had made a proposal to the previous administration; that Dupont, Celanese, Rexall, to name some prospects, have indicated interest?

There aren't so many petro-chemical companies that the State Administration would have been burdened to have sent letters of inquiry over possible interest.

The lack of such attention to Alaska's intra-state use is magnified by the sales contracts to be shared by Tenneco 50%, Southern 25%, and El Paso 25%. When the FPC staff and Judge Litt examined the evidence of the record they properly found no consumers nor identifiable prospective users.

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The major benefits the State derives from the El Paso proposal are the jobs and tax base of a multibillion dollar, 800-mile pipeline and LNG facilities, the liquid removal plant which would be built by the producers in Alaska (probably at Gravina Point), the additional industry which would settle in the State to utilize cheap energy, and the multiplier effect upon the State's economy by all of the above. But the result of giving disproportionate weight to these considerations and choosing an all-Alaskan route even if more expensive, rather than basing the decision on an analysis of costs and benefits which redound to all consumers, is no different than that already rejected by the Commission and the courts.

The Administration did not make a case for Alaska.

Next, let's look at the greedy image protrayed by the State's evidence:

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One of the prime reasons for these high projected prices for delivered gas, of course, is evident from the makeup of the project. Rather than the usual business compromises arranged both to make a marketable product and to split the benefits among those who will gain the financial advantages from a successful venture, all of the prospective beneficiaries are looking for the top dollar. The producers and State of Alaska want a high wellhead gas price even though (1) their overall profit from their North Slope investment is already assured by the sale of the Prudhoe Bay oil under FEA regulations, (2) the product is at the end of an expensive transportation system, and (3) the market is no longer assured. Governor Jay S. Hammond of Alaska, for example, sought and will probably seek again Alaskan legislative approval to raise the severance tax on hydrocarbons from 4% to 10%. Access without equity contribution, 3/ withdrawal, underlifting and a host of other proposals put Alaska in the forefront of seeking special treatment at the consumer's expense. As discussed in the rate-of-return section, the pipeline shippers want consumer guarantees to repay their equity investment but still seek 15% to 17% after tax return in what could be a low-risk situation. The financial community in general also wants a high rate of return regardless of how the risk might be reduced by consumer or taxpayer guarantees. In the common vernacular, "everyone has his hand out."

According to the record it appears Alaska has both hands out --- high well-head prices, high taxes, and no risk.

It is also interesting to note then El Paso raises the specter of Canada or the provinces imposing heavy taxes but is the Governor of Alaska who is in the record for a 150% increase.

There is no evidence the State of Alaska, the beneficiary of billions by the marketing of Prudhoe gas, has offered any incentives or economic inducements toward the resolution of the route, the facilities, or field systems.

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The field prices to be paid by shippers to producers for gas volumes delivered into the transportation system will reflect more than just the purchase of the commodity itself. Between the well-head and the delivery point, there must be constructed an extensive gas gathering system and conditioning plant at a total capital cost, excluding interest during construction, estimated by the producers to be $1.8 billion. This cost, the producers aver, must be borne by the shippers. It is readily apparent that these facilities will not "cost out" at the few cents per MMBtu familiar from past area and nationwide rate proceedings. Producers

have presented short-hand calculations, based upon the Arctic Gas project costs, suggesting that the unit cost of gathering and conditioning to be borne by the shippers will approximate one-half the unit cost of the transportation system (213/36,931 et seq.). 1/ One need not rely on these unsupported and untested calculations to realize that, given the magnitude of the capital investment, the unit cost will be high. All of these high transportation and field facilities costs are bad news for consumers--and for the producers and the State of Alaska.

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Nor, according to Governor Jay S. Hammond of Alaska, has the State seriously considered offering any of the applicants financial assistance (96/14,688).

The State has gotten itself into a legal hassle, over jurisdiction of interstate sales and its proposed royalty sales.

How serious Judge Litt viewed the legal question is confirmed by his proposed legislation to delete Section 13(A) and (B) from the Act.

To begin with, respecting wellhead sales in Alaska, jurisdiction is unquestioned only as to interstate sales by the corporate producers. The State of Alaska resolutely denies federal jurisdiction over its interstate sales.

The State of Alaska's position, in the Presiding Judge's view, is contrary to the law and to effective or equitable regulatory control. The sole basis for its denial of jurisdiction is the claim that a State is not a "person" within the meaning of Section 2 of the Act. 1/ Thus, activities which, by their nature, Congress intended to place under regulation are said to be exempt when performed by a State. There is no such gap in the law, and one should not be created. The producing and energy-rich States of the nation, by virtue of their royalty interest where production is from state land and their increasing propensity to reserve the right to take that interest in kind, will have the ever-growing ability to dispose by sale of larger and larger volumes of gas and will expand such a gap to permit larger and larger volumes to escape regulatory control. In this proceeding alone, Alaska has recently entered into contracts to sell in interstate commerce up to 2.6 Tcf of its royalty gas.

Alaska's jurisdictional argument, moreover, is hardly compatible with the Act's purpose to afford consumers an effective bond of protection against excessive rates 1/ or the intention of Congress "to give the Commission jurisdiction over the rates of all wholesales of natural gas in interstate commerce ..." (emphasis added). 2/ Furthermore, Alaska's essential premise is undercut by the holding in F.P.C. v. Corporation Comm'n of Oklahoma, 362 F. Supp. 522; aff'd 415 U.S. 961 (1974), that a state agency is a "person" within the meaning of Section 2 of the Act and thus the U.S. District Courts have jurisdiction under Section 20(a) to enjoin its actions violative of the Act or

regulations thereunder. The question of jurisdiction over Alaska's proposed sales is not squarely at issue in this proceeding, and the parties have not provided legal argument on the question only because sales contracts were not filed earlier. The need for the Commission to give prompt attention to and definitively resolve the matter is apparent, since any attempt to finance these projects must be predicated on knowledge of the transactions that are jurisdictional. 3/

XVI

PROPOSED LEGISLATION

A. Section 13 of the Alaska Natural Gas Act of 1976

The State of Alaska has entered into contracts for the interstate sale of its royalty gas which include provisions permitting the State to subsequently withdraw the gas from the interstate market for use within the State. These withdrawal provisions are sanctioned by Section 13(b) of the Alaska Natural Gas Act of 1976.

However, as discussed in the Jurisdiction and Financing sections of this Initial Decision, substantial difficulties arise from the State's asserted right to commit its gas to interstate use with one hand and take it back with the other. The mere prospect of withdrawal imperils the financeability of an Alaskan gas project; actual withdrawal would idle downstream facilities and in turn produce adverse cost impacts.

Moreover, when the Section 13(b) withdrawal provision is coupled with the Act's "equal access" provision, 1/ it becomes readily apparent that the statute in its present form could operate to confer a substantial indirect subsidy to the State. Assuming that the project could be financed and completed, that Alaska's interstate customers (El Paso Natural, Tenneco Alaskan, and Southern) participated in the equity financing with consumer guarantees, and that Alaska thereafter found an intrastate use for its royalty gas, the consumers of the three customer companies would have risked their dollars to help finance the project, only to see consumers in Alaska reap the reward.

For the reasons stated herein, the Presiding Judge respectfully suggests that the Commission, in its recommendation to the President, give consideration to the desirability of amending the Alaska Natural Gas Act of 1976 to delete therefrom Sections 13(a) and 13(b). Absent deletions of these two provisions, direct and total U.S. government guarantees would appear to be the only feasible method of financing.

1/ Section 13(a) of the 1976 Alaska Natural Gas Act would deny the Commission the power to limit access to the transportation system to shippers participating fairly in its equity financing. It is questionable whether the proposal to finance an Alaskan project with consumer guarantees is possible in the face of this statutory provision.

I don't question the wisdom of the State seeking a confrontation with the FPC over jurisdictional matters but the timing and circumstance could hardly have been worse.

The avowed intention of the State to gain a trans Alaska route with access to its own gas has not been pursued with a vigorous policy, nor has there been a determined exploration of ways and means to gain those goals. We do not believe the Administration has demonstrated the ability to comprehend the multitude of problems remaining nor the will to take affirmative action in the short time left before a final decision is made.

Our hopes rest with this Legislature to provide the leadership so lacking in the hearings up to now.

Of the twenty-four (24) states which intervened, Alaska is the only state which supports El Paso. Only two gas line companies support El Paso; Tenneco and Southern. Intermountain Gas (Idaho) alone supports Alacan. The large majority of States, gas transmission and distribution companies support Arctic Gas. The FPC staff report and Judge Litt's initial decision recommend Arctic.

Perhaps the Governor may be correct that the political lobbying of Tenneco and Southern will tip the decision by the President and Congress in favor of El Paso over the immense weight of Arctic Gas support.

But we aren't willing to rest with those odds, nor do we think the people of Alaska are.

We know there are ways that the State can take effective action, that there are ways to demonstrate our concern for the National interest, and a cost-and-benefit plan which rebounds to all consumers.

Judge Litt pointed the way a number of times in his decision and, in one instance, hung out the beacon of two lights in the old North Church, if by sea.

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On pages 361 - 362 "It immediately became apparent that the only traditional credit-worthy parties involved in this proceeding whose added credit could permit conventional financing were the two direct financial beneficiaries of Alaskan natural gas sales -- the producers and the State of Alaska. Despite the billions each will reep from the sale of Prudhoe Bay hydrocarbons, neither has shown any particular interest in investing in a transportation system to market gas or otherwise assist in its financing."

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As far as the State of Alaska is concerned, there is no record evidence that other states have participated in financing this type of gas pipeline project. It is not that financing utility and industrial projects through municipal bonds, direct ownership of generating facilities (e.g., New York), or forgoing certain taxes is unknown to states seeking to ensure an expanding economic base. Given the avowed intentions of the State to invest its revenues and the high rate of return suggested here for either equity or debt, the State may see this as a better investment than it can receive elsewhere. 2/ If, in addition, tariffs require the ultimate consumers to shoulder full debt service responsibility and the bonds issued achieve debt ratings satisfactory to the New York State Insurance Commission, they would probably also satisfy the State of Alaska's investment trust fiduciary. 1/ Nevertheless, such investments are voluntary, and the State of Alaska has not volunteered.

2/ While it might be unkind to suggest, there is a likelihood that the State might be willing to aid El Paso if it appeared that such offer might tip the choice towards the State's first love. The State's excellent presentation, through a range of perceptive and knowledgeable witnesses, does not permit ignoring that such an obvious suggestion may be made at a propitious time in the decisionmaking process.

This is the "Open Sesame" for Alaska. Either equity or debt participation, or both may tip the decision.

Because the State and producers have not come forward as a creditworthy party to assist, Judge Litt

proposed Federal Financial Participation legislation:

> "The Treasury Department should be granted statutory authority necessary and appropriate to accomplish whatever Federal participation in the Alaska gas project financing is ultimately determined to be required in the public interest."

Replete through the decision, especially in the section of Economics, Socio-Economics, Cost Allocation, and Financing and Tariffs are statements that Federal guarantees will be required, that ultimate costs will be borne by the consumers with taxpayer backing in order to offset the risks so that money can be raised in the financial community.

We propose the establishment of an Alaskan Gas Authority for ownership of the gas pipeline, production, and terminal facilities.

Precedents to such an Authority are everywhere. To mention a few, Tacoma and Seattle generate power for the lowest electrical rates in the nation, the Public Utility Districts along the Columbia River furnish power throughout the Northwest and sell 17 billion kilowatts to California annually, the Seattle Port Authority operates the seaport of the city as well as Sea-Tac Airport. States have built dams, gas, coal, and oil generation and transmission systems; they have constructed bridges, toll highways, airports, and marine transportation systems. In our own state we operate three international airports and a ferry system. Nationally, the T.V.A., dams, etc.

Whenever the needs for energy and transportation have been perceived and an opportunity is available to meet those needs, government--local, municipal, county and state--have responded by guaranteeing the means to meet those needs.

In our hour of greatest energy need that is what Alaska must do.

If we are to gain our own energy independence we must act resolutely to prove we have the will and determination to manage our own destiny.

The magnitude of this proposal is immense, but not at all insurmountable. A number of financial experts representing major bond firms and banking institutions have stated it would be a joy to participate in the underwriting of tax exempt revenue bonds.

As an illustration, let us incorporate for $6,000,000,000.00 in tax revenue bonds and use 6% as the effective rate of interest. (Incidentally, the City of Valdez sold the first $262 million bond offering on Feb. 7 at a 5.94% rate)

At 6% the maturity payback will be:

$11,658,000,000.

$ 5,658,000,000. interest

At 10% (page 269 "The applicants' financial witnesses estimate a debt cost of approximately 10%, based on a Baa bond rating, and the applicants seek 15% to 17% as an after-tax return on equity.")

$16,432,800,000. maturity pay back

$10,432,800,000. interest.

Thus, the first savings on this huge debt would approximate $4,774,800,000. which will be reflected in a lower tariff paid by our fellow consumers in the lower 48.

But there is even a greater ancilliary savings to be achieved for another lowering of tariffs. All of the applicants are seeking 15-17% profit as an after-tax return on equity.

The combined U.S. and Alaskan income tax rate of 52.89% requires pre-tax revenues of $212. to provide $100. in after tax income. Combined taxes in Canada would require $221. of revenue.

Taken together these are very substantial cost-benefits to the American consumer.

Another major savings will occur in State ownership and construction of the gas conditioning plant at Prudhoe Bay. Page 1, Appendix C --- " Preliminary estimates made several years ago indicate the plant will require 4 - 6 years to design, fabricate, and construct, and will cost about $ 1 billion (1975 costs)"; with the financing assured (not having to wait until the entire transmission system has been funded) work could proceed expeditiously, assuring quicker delivery and saving whatever the annual inflation rates would be.

There are other beneficial reasons including State responsibility of maintaining the integrity of construction and operation of the gas pipeline. The State also has the greatest interest in the maximum utilization of oil and gas from the Prudhoe field as well as the undiscovered reserves in the Beaufort-Chuckchi Seas.

How may we expect the Federal Power Commission to consider such a proposal?

Judge Litt will have found his credit-worthy party capable of providing the financing to guarantee the feasibility of the project. There will be no need to seek legislation for Federal guarantees. An updated cost-benefit analysis will reveal that the all-Alaska pipeline will rebound to all consumers. Because of the State's active participation, the remainder of the financing will be made measurably easier. Thus, it may be the "offer to tip the choice toward the State's first love."

We believe that President Carter, the Congress and our fellow Americans will regard Alaska with new respect as a full partner in the Union, not the new kid about to inherit great wealth but unwilling to share in the National interest. We believe that President Carter and Congress will understand our concerns and desires to become more self-sufficient and better able to provide for our people. We

believe President Carter and the Congress will look kindly upon us when it comes time to make the final decision.