

HJR

38

ANALYSIS OF HOUSE JOINT RESOLUTION NO. 38

"Supporting alternatives for the
marketing of North Slope Gas."

This resolution is a signal of strong support for a transportation system to be constructed for Alaskan North Slope Gas. It supports and encourages sales of Alaskan gas to all probable markets at home and abroad, and calls for all state, federal, and Congressional agencies to give equal support and assistance to any system that will carry our gas to market.



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

RECEIVED MAR 14 1983

MAR 7 1983

Honorable John J. Cowdery
State Representative
State Capitol
Juneau, Alaska 99801

Dear Mr. Cowdery:

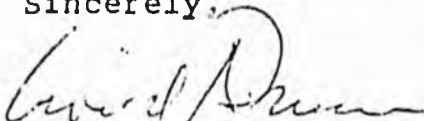
Thank you for your cable to President Reagan regarding Alaskan resources. The White House has asked me to respond.

During Prime Minister Nakasone's January visit to the United States, President Reagan and the Prime Minister agreed to form a U.S.-Japan Working Group on Energy to examine many of the issues raised in your telegram. Secretary Shultz later met with Foreign Minister Abe to begin the arrangements on the structure and agenda of the first Working Group meeting. Discussions will include a wide range of issues including coal, oil and natural gas, and their respective roles in the energy security and development of both nations.

Japan, through the Ministry of International Trade and Industry (MITI), has been active in performing assessments of Alaska's coal reserves and has expressed interest in the possibility of importing Alaskan oil. The other Pacific Rim nations are also potential markets because of proximity and the desire to deal with the United States as a reliable supplier of both coal and oil.

The export of Alaskan oil is restricted, but there has been much discussion in the Administration and Congress about removing these restrictions. The export of Alaskan oil involves a trade-off of insuring the adequacy of domestic oil supplies, and the economic incentive to export commodities not in short supply. We have sought to balance these objectives while administering the short supply regulations of the Export Administration Act (EAA). We will pay close attention to this issue during the 1983 reauthorization of the EAA. This Administration is committed to increasing the energy security and interdependence of our allies and trading partners.

Sincerely,


Lionel H. Olmer





RECEIVED MAR 2 1983

Department of Energy
Washington, D.C. 20585

March 2, 1983

Honorable John J. Cowdery
State Representative
State Capitol
Juneau, Alaska 99811

Dear Mr. Cowdery:

President Reagan has asked the Department of Energy to review and respond to your telegram of January 18, 1983, in which you urged the President to encourage Japan to look toward the energy resources available in Alaska.

The President has recently initiated a cooperative effort with Japan to explore opportunities for enhancing energy investment and trade between our two nations. During Japanese Prime Minister Nakasone's recent visit to Washington, President Reagan proposed, and the Prime Minister agreed to, the establishment of a U.S.-Japan Working Group on Energy. The focus of the group's work will be on identifying and resolving impediments to private investment and free trade in energy in various sectors: oil, coal, gas and synthetic fuels.

In support of this effort, the U.S. Government will be examining the potential for increased U.S. energy trade with Japan and the legislative, technical, and economic constraints to such trade. In the course of our discussions with the Japanese Government, we plan to make every effort to keep the private sector and the legislature informed of the course of these deliberations at appropriate junctures.

We welcome your interest in further development of U.S. energy resources and in such cooperative efforts as we now have undertaken with Japan.

Sincerely,

George Bradley

George Bradley
Principal Deputy Assistant Secretary
for International Affairs

Introduced by: King
Date: Feb. 1, 1983
Vote: Unanimous
Action: Adopted

KENAI PENINSULA BOROUGH

RESOLUTION 83-34

APPROVING AND ENCOURAGING CONSTRUCTION OF THE TRANS ALASKA GAS PIPELINE.

WHEREAS, the Trans Canada Gas Pipeline for delivery of Alaskan gas to Midwest markets has not proved feasible so as to get necessary construction financing; and

WHEREAS, the result is that the gas is not being sold to the detriment of the Alaskan people and the State of Alaska; and

WHEREAS, the Governor's Economic Committee has filed a report dated January 1983, setting forth the economics of a Trans Alaska Gas System as an alternative for North Slope gas which would result in construction of a pipeline for gas to tidewater in the Nikiski area; and

WHEREAS, the oil and gas infrastructure is already in place in that area which could be developed to utilize gas from the North Slope; and

WHEREAS, use of this gas within the State and preparation of gas within the State for shipment would be beneficial to the State of Alaska through increase of employment and increase of taxes as well as giving a market for North Slope gas; and

WHEREAS, it is in the national interest to allow marketing of this gas in the Pacific rim areas of Japan, Korea, and Taiwan, as well as the west coast of the United States in order to reduce the deficit in our balance of trade with those nations and to bolster the United States economy;

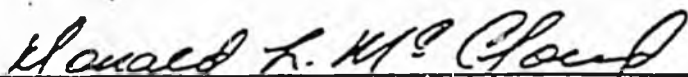
NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

Section 1. That the Kenai Peninsula Borough hereby approves, encourages, and urges rapid action to approve and activate construction of a pipeline for North Slope gas from the Prudhoe Bay area to tidewater in the Nikiski area of the Kenai Peninsula Borough as envisioned in the report by the Governor's Economic Committee.

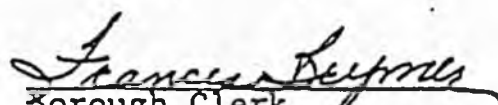
Section 2. That the Clerk of the Kenai Peninsula Borough distribute copies of this resolution to President of the United States Ronald Reagan, U. S. Senators Ted Stevens and Frank

Murkowski, Representative Don Young, Governor of Alaska William J. Sheffield, and to all members of the Alaska Legislature immediately after its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 1st DAY OF February, 1983.


Donald L. McCloud, Assembly President

ATTEST:


Borough Clerk



NEWS

ALASKA CONGRESSIONAL DELEGATION

Senator Ted Stevens
Senator Frank Murkowski

March 14, 1983

FOR IMMEDIATE RELEASE

WASHINGTON--Senators Frank Murkowski and Ted Stevens have urged Commerce Secretary Malcolm Baldrige to recommend revisions in the Export Administration Act's restrictions on the export of Alaskan crude oil.

Baldrige is currently reviewing the act, which is set to expire in September, and the Administration will soon be forwarding to Congress its recommendations for renewal.

"While I have yet to endorse any specific proposal, I recognize that now is the time to begin the lengthy process of removing federal restrictions and preparing for the possibility of future exports of Alaska's oil," said Murkowski.

"Under the existing Export Administration Act, any oil export faces an uphill battle for approval in Congress. Revising the law will remove the first roadblock, but we still face the restrictions included in the TAPS Authorization Act," Murkowski added.

Sen. Stevens said, "The administration's public support in exploring these issues before Congress would be an important step toward the release of Alaska's oil to the free market."

-more-

"We have urged Secretary Baldrige to make an early recommendation on lifting the oil export ban. Any final proposal on the export of Alaska oil to Japan will have to include a provision that only United States ships can carry oil from the Prince William Sound area," Stevens said. "It is also apparent that substantial revisions in Japanese export policies will have to take place before the export of Alaska oil will be acceptable to Congress."

The Export Administration Act was amended by Congress in 1979 to tighten restrictions on resource export. Under the law, any new oil export must be expressly approved by both houses of Congress.

The Trans-Alaska Pipeline System Authorization Act requires the U.S. Senate and the House of Representatives to disapprove, rather than approve, any new export within 60 days after being proposed by the President.

In their letter to Baldrige, the Senators said that the factors which led to the tightening of the Export Administration Act ban on foreign sales of crude oil are not the same today. Murkowski and Stevens said that the interest in crude oil export expressed by the U.S.-Japan Energy Working Group, as well as changing world oil supply and demand dynamics point to a possible change in the Administration's position on oil export.

"If a consensus develops in the near future that favors export, we would not want consideration of this issue to become inflexible because the existing Export Administration Act was already underway," the Senators wrote. "We hope your recommendations regarding the Export Administration Act will have flexible parameters and ample latitude for far-ranging and complete discussions of this issue," they concluded.

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For further information: Jane Robbins (202) 224-6665

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that dogged the earlier oil pipeline. But its main problems have been a sharp jump in cost estimates, from an original \$10 billion, to \$43 billion or more, and the consequent need to pass these costs on to customers.

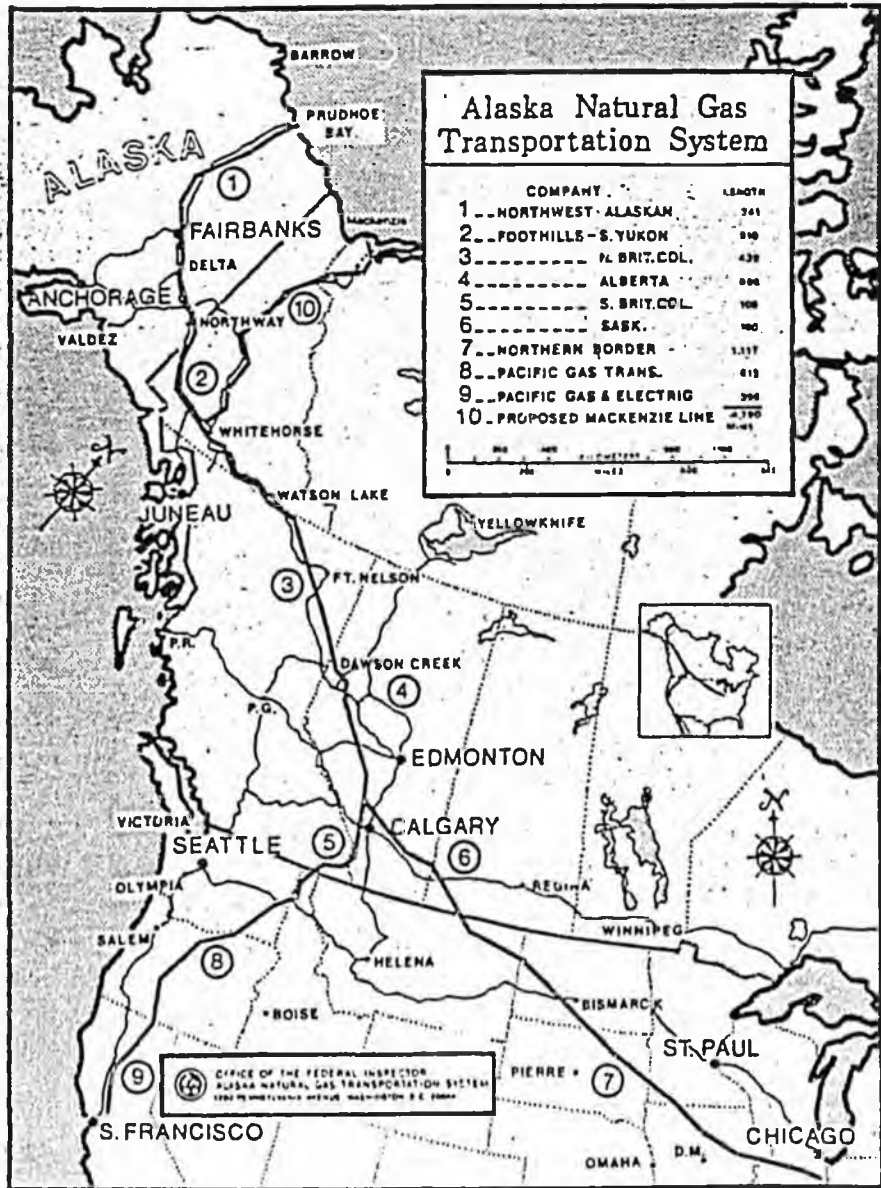
In part, this has been addressed by the companies and Alaska in a variety of plans to make the cost of gas relatively stable throughout the project rather than "front-loading" the capital cost. According to state officials, this could cut the often-cited price of \$18 a thousand cubic feet by 60 percent initially. Then, the costs would be spread over years.

"Everybody has to be a participant in this leveling process," one oil company official said, implying that producing companies would probably have to make concessions on the wellhead price they received for their gas as they asked banks to wait longer for their financing profits.

Companies are also devising ways to reduce costs of conditioning the gas and building pipelines. Nonetheless, a growing body of opinion seems to hold that the pipeline may be dead.

"When ANGTS was approved, the nation was suffering a severe natural gas shortage brought on by wellhead gas price controls," said a recent report prepared for Alaska by Booz, Allen & Hamilton. "Consequently, there was strong interest in bringing Alaskan gas and other supply supplements to market. Now, however, the domestic natural gas supply-demand picture has changed."

Accordingly, two former governors of Alaska, Walter J. Hickel and William A. Egan, are pushing an alternative under the aegis of a special committee appointed to suggest solutions. They advocate



building an 820-mile pipeline from Prudhoe Bay to the port of Kenai, Alaska, and then liquefying the gas for shipment to Japan by tanker. According to this view, Alaskan gas can probably never be competitive in the Lower 48, and its natural market is Japan.

Advocates of this plan say it will lessen the United States' \$20 billion payments deficit with Japan, prevent the Soviet Union from capturing a large chunk of the Japanese gas market—as it has in Europe—and cost \$18 billion less than the line through Canada.

Perhaps most important from

Alaska's perspective, the advocates say, the state could finally profit from what is perhaps its richest resource. This is an especially important argument because Alaska's oil revenues will begin to decline sharply at the end of this decade as the recovery of Prudhoe crude becomes more difficult.

"They've been talking about the potential of Alaska for 150 years now," Hickel said in an interview. "You have to make something happen, or a potential is just a broken promise."

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ALASKA

STATE LEGISLATURE

MEMORANDUM

28 March, '83

TO: Rep. John Cowdery

From: Merrill Sikorski

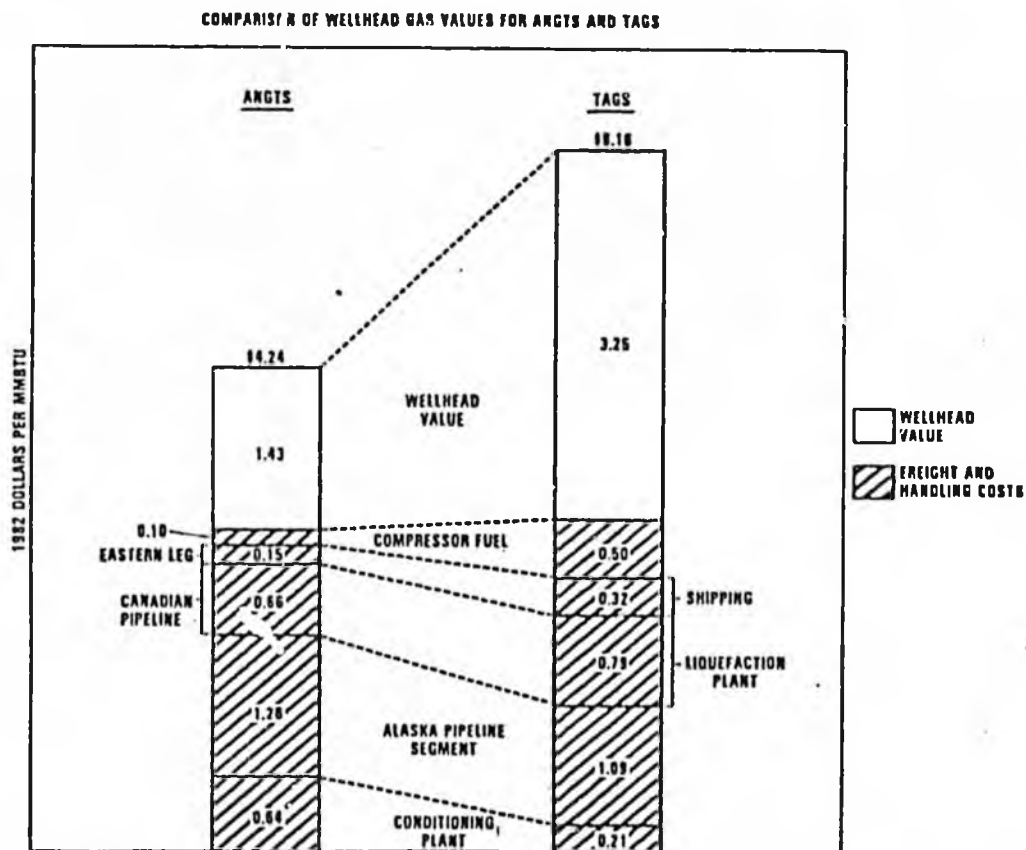
RE: Information & costs of delivered NS gas.

With capital costs being passed on to the consumers, the latest estimates for ANGTS gas to the midwest, is \$18 a thousand cu. ft. (three times the current market rate) As shown in the attached graphic from the Booze, Allen & Hamilton report, TAGS is estimating in 1982 dollars the price to Japan at \$5.67 MMBTU.

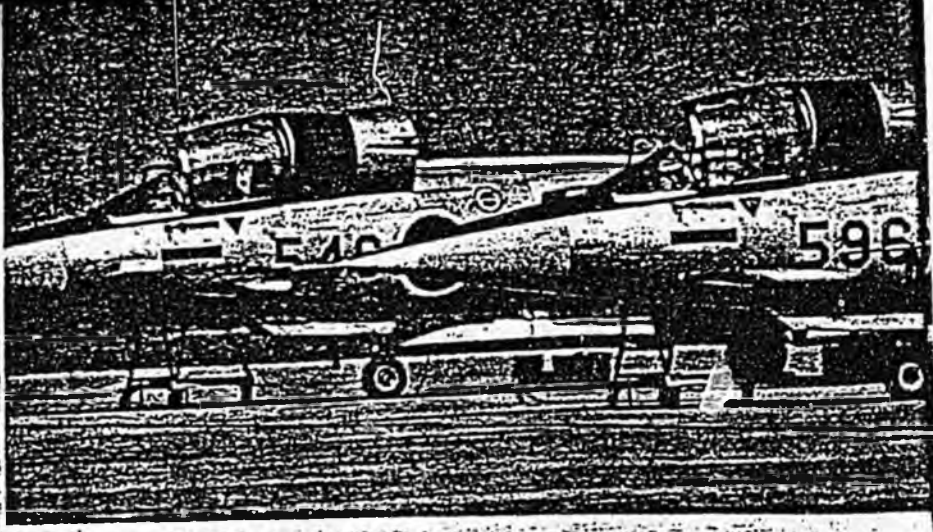
John, another factor that seems apparent after reading the article on "Rearming of Japan", in last weeks U.S. Business Report, is our national security. Nakasone is pushing toward rearming his country. If Japan is as effective as they are at everything else they do, they may have quite a military capability by the end of this decade. This is the same time that their energy needs will call for additional LNG, which will also be available from the U.S.S.R. within that time frame. It would behove this nations security to have a technologically advanced nation such as Japan, with new military capabilities, dependant on the U.S. for its energy supplies, rather than the Soviet Union.

CONCLUSIONS . . .

THE MAJOR ECONOMIC ADVANTAGE OF TAGS IS THE HIGHER VALUE OF ITS TARGET MARKET -- LNG USE IN THE PACIFIC RIM



BUT, BOTH TAGS AND ANGTS ARE VULNERABLE IN SEVERAL WAYS . . .



SPECIAL REPORT

REARMING JAPAN

Reagan prods, U. S. business worries, and many Japanese fume



For 40 years, the issue of defense in Japan has been buried in the radioactive ashes of Hiroshima and Nagasaki. Stunned by a devastating military defeat in World War II and humbled by the American occupation, the Japanese have spent the past decades concentrating on business and trade, leaving the defense of their country almost

entirely in the hands of their conqueror, the U.S. For most Japanese, pacifism became the only acceptable alternative when militarism failed.

But 38 years after General Douglas MacArthur accepted its surrender on the deck of the USS Missouri, Japan is debating whether it should turn once again to arms. In fact, rearmament is destined to be one of the key Japanese foreign policy issues of the 1980s.

More than anyone, it is the Reagan Administration, with an eye toward the Soviet Union, that is pushing Tokyo to increase military spending and assume a much heavier defense role. "Japan is just not bearing its share of the defense load," complains a high State Dept. official. "The U.S. is not willing, or able, to carry all these burdens alone." If the Pentagon has its way, Japan would shoulder responsibility for bottling up the entire Soviet Pacific fleet within the Sea of Japan, while helping to patrol vital sea lanes to Guam and the Middle East (map, page 108).

Although Washington has

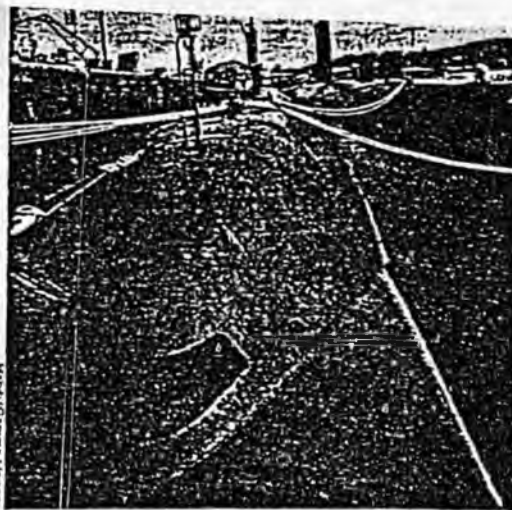
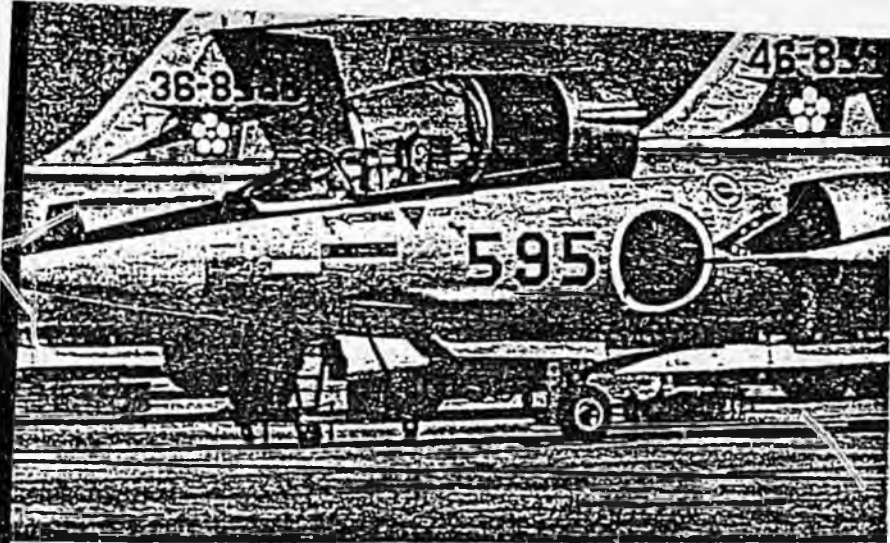
been grumbling for years about Japan's "free ride," it now has a receptive listener in Yasuhiro Nakasone, who became Prime Minister last November. One of Japan's most articulate hawks, Nakasone is a former Defense Minister who believes a country as economically powerful as Japan should play a larger role in its own defense. Unlike his predecessors, who bowed to the deep postwar pacifism of the Japanese, Nakasone is ready to challenge all the taboos on rearmament and military spending. His promise, during his January visit with President Reagan, to turn Japan into "an unsinkable aircraft carrier" was a bone-rattling shock to a Japanese population used to oblique statements from its political leaders.

Japan's forces are poorly commanded and ill-equipped.



Yet that was just one part of Nakasone's rearmament campaign. In mid-January, he led the ruling Liberal Democratic Party (LDP) in calling for a new national constitution that would tear up the "peace constitution" written for Japan by MacArthur and do away with Article 9, reviled by conservatives, under which the Japanese pledge to "forever renounce war" and to "never maintain any war potential." The same week, Nakasone pushed through Cabinet approval of a technology-transfer agreement with the U.S., which Washington had sought for years. Just days after that, he persuaded the LDP to begin reviewing Japan's policy of restricting the export of weapons—a key change if Japan is going to rearm in a big way. Most important, Nakasone is

3/14/83



Weapons made in Japan: To build its arms industry, Tokyo would have to break its own guideline that limits military spending to 1% of GNP.

hinting at breaking the most important of all Japan's self-imposed guidelines—the limitation of military spending to 1% of gross national product. Many expect him to break through that limit in the next two years, opening up the possibility of much higher government financial support for the armed forces. "We are now approaching the ceiling," says Kazuo Tanikawa, director general of Japan's Self-Defense Agency. "Perhaps we are at a point where we have to reconsider [the 1% limit]."

That prospect may win applause in the White House and on Capitol Hill, but it alarms a great many people in Asia, including the Filipinos, who have searing memories of Imperial Japan's Greater East Asia Co-Prosperity Sphere. The growing discomfort with Washington's sponsorship of Japan's rearmament goes beyond remembrances of World War II, however. U.S. businessmen are wondering if Japan will repeat its successes in exporting autos, televisions, semiconductors, and VCRs with a new series of military exports. Japan's electronics abilities could make it a strong exporter of electronic weapons.

Others fear that technology the U.S. transfers to Japan for a military buildup may return home in commercial goods (page 109). Already, Mitsubishi Heavy Industries Ltd., the country's largest defense contractor, assembles F-15s and executive jets in Japan—in adjoining hangars. The specter of a repeat on a huge scale of that kind of technical transfer haunts many U.S. executives. "Do I think it is an eventual threat? You better damned well believe I do," says a U.S. defense industry executive in Tokyo. "Whatever they do, they do well."

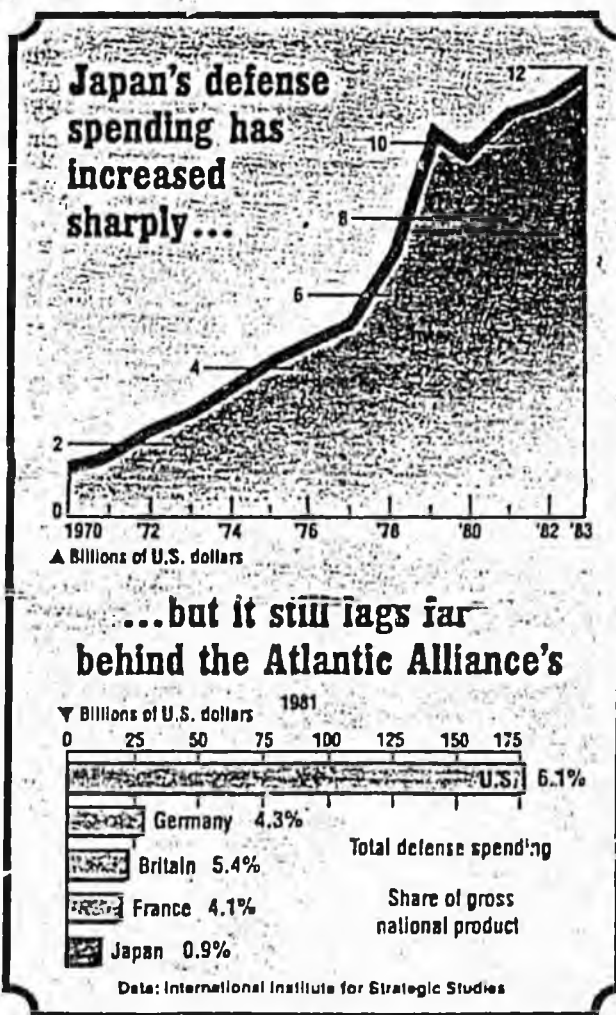
None of this yet worries most officials of the Reagan Administration. Washington is focusing on Japan's enormous economic strength and its failure to carry

out any major military or aid programs in defense of the Western alliance. "Forty years after the war, it is... anachronistic to continue the present situation of total Japanese dependence on us," says a high-level State Dept. official.

Washington discounts the possibility that bolstering Japanese military spending might rebound to hurt American exports. "I don't see much impact on our commercial policy," says another Administration official. In fact, some Administration experts believe that the U.S. can tap into advanced Japanese technology in semiconductors, fiber optics, and robotics by tying Japan into American military programs. A key defense specialist contends that U.S. efforts to persuade Tokyo to increase its military budget are aimed "at getting them to let more of their technologies come here."

Moreover, the Reagan Administration is confident that it can control any tendency toward re-birth of a Japanese militarism reminiscent of the 1930s. "Some people, to be sure, feel that there may be some danger of the Japanese reverting to militarism," says one Administration source. "Kissinger worries about this. But we are confident that that can be managed."

The basic Administration strategy is to offer Japan a limited range of weapons, making Tokyo dependent on the U.S. for most of its military needs. The key tactic is to encourage industry-to-industry technology cooperation for specific defense items. Since Japan would coproduce these weapons under license to U.S. companies; it would need permission from Washington to export them. "It is in the interest of the Department of Defense to equip the Japanese with the weapons they need to defend themselves," says a key Defense official. "But we do not intend to provide them with offensive weapons or give them access



ALASKA

STATE LEGISLATURE

MEMORANDUM

March 9, 1983

TO: Oil & Gas Committee File

FROM: John J. Cowdery /c,

SUBJ: Joint Resolution Points

1. The State of Alaska has to take a strong stand to sell this gas. Ask those who say we shouldn't, "If we can't be strong, how can we expect the oil companies, the Japanese, or the federal government to be strong?"

2. Ask those who say we agree on results but disagree on how to go about it how they would go about it. We have to look at the competition. Indonesia, Canada, Australia, Thailand and the Soviet Union --our competitors-- all send their top government guys to Japan and other markets to make LNG projects happen. We need the same firepower.

3. Alaska will be treated like a stepchild as long as she behaves like a stepchild. We're not a stepchild, we're a sovereign state. We understand the problem in what is the national and international interest. We have to constantly ask the question: "How long can a sovereign state wait when America asks for its resources and refuses to take them?" It's our gas, and our whole state's economy depends on getting to market.

4. We could never give a tree away in Seattle after the Second World War when we wanted to get our timber industry going. We won't ever sell coal in Wyoming. And we're not going to compete with gas in Oklahoma. It's time to get tough. What is the state of Alaska waiting for?

On the resolution itself, I think it is essential that the first two "let it be resolved" clauses of the original draft resolution be included in the final joint draft. The resolution is virtually useless if it does not single out the Asian market and ask governments and businessmen in those areas to take advantage of the secure, long-term trading relationship purchase of Alaska's North Slope gas would offer.

A second, new suggestion would be to include the following resolution clause for the federal government:

"And be it further resolved that the federal government is urged to explore the prospect of making development of North Slope gas transportation facilities a National Interest Project of nations on both sides of the Pacific for its

long term benefits to this nation and its potential trading partners."

To explain, Japan has made projects in the Soviet Union "national interest projects" not because they are uneconomic but because the government has taken the long-term view that this trade would be beneficial to relations between both nations. Our government and Japan should be urged to do the same thing and that consideration will, I expect, be a part of the first joint energy task force talks on March 21.

Finally, we should make one more try to strengthen the joint resolution. Line up other, less committed members of the Senate - majority and minority- but timing is the priority. Even if they are not introduced together, its good to have a strong measure in both houses. Take strong stand, public reaction should be with us, should be easier to get a strong resolution through the Senate. Stand tough.

Pipeline Pains

Back in the midst of the late and unlamented "energy crisis" we kept writing that, even though the weight of the earth was finite, energy prices wouldn't go up and up forever. This fearless (at the time many thought reckless) prediction looks pretty good right now, with OPEC officially cutting its benchmark price to \$29 and probably facing further downward pressure.

Which reminded us to check up on another and more recent prediction: That the great Siberian pipeline would prove to be an economic turkey. When President Reagan was trying to get the Europeans to back out of their deal to finance the Soviet pipeline in response to the crackdown in Poland, we kept insisting that since it's not economic to pipe gas from Prudhoe Bay to Chicago, it can't be economic to pipe gas from Siberia to Bavaria. The Europeans kept insisting that even though they were lending the Soviets money at below-market interest rates (an average of 8.67% on the \$3 billion lent so far), they would make that back by receiving below-market gas prices when deliveries started. By now, with energy prices crumbling, it is totally apparent that if the Europeans had listened to Mr. Reagan, they would have saved themselves a bundle.

It's apparent, that is, to those who understand the complicated gas pricing contracts. This is not easy; if the contracts were understood by the man in the street, Europe would be awash in a consumer revolt. By way of explanation, take what has been published about the otherwise secret German contract, which is for the largest volume and set the standard for the other deals.

The contract has two prices: a base price and a floor price. The base price is around \$4.70 per million BTUs, but goes up and down with movements of an index of oil prices. This is the price the Europeans had in mind in claiming they had negotiated a good deal. However, to apply, the indexed base price must be above the set floor price.

The floor price, intended to give the Russians a minimum return on their investment, started out below the market but assumed a 3%-a-year increase in the real price of oil—producing a price of about \$5.70 per million BTUs in 1981 dollars by the end of the decade. This is about equivalent to the now vanished OPEC benchmark oil price of \$34 a barrel. Unless energy prices reverse themselves and return to this price plus inflation, the relevant price in the Siberian gas contract will be not the base price but the floor price. That is, the price will be well above the world energy price. The Europeans have given the Russians below-market loans for the privilege of buying above-market energy.

Worse yet, the contracts include a take-or-pay clause for 80% of the contracted gas volumes, meaning that whatever happens to energy prices,

the Europeans have guaranteed the Soviets the floor price for 80% of their scheduled deliveries. West Germany, France and Italy have placed dibs on 23 billion cubic meters of gas a year once the pipes are full, with deliveries starting next year and stretching through the end of the century. So they will be buying enormous amounts of gas at prices that may be enormously above the going rate. Perhaps this explains the otherwise cryptic remark by former German Chancellor Helmut Schmidt, whose government set the pipeline in motion in the first place. "I do not think that OPEC should be allowed to break down, certainly not."

Still worse, gas consumption in Europe isn't rising but falling. In its most recent annual report, Ruhrgas, the German supplier and lead contractor with the Soviets, blushing noted that higher prices had mysteriously led to less gas consumption than predicted. The European Community has just released figures showing that European natural gas consumption fell by 6% last year. Gas imports from outside the EC actually fell for the first time ever.

Ruhrgas denies rumors that negotiations are still taking place on one crucial aspect of the contracts, saying that the final contracts are signed and refusing to comment on their terms. The rumor has been that Ruhrgas would like to delay the "plateau phase" of the contract, when the pipelines would be full and the floor price would start to apply. It's easy enough to see how such ideas would arise; if Ruhrgas isn't trying to find a way out of its contract, it ought to be.

There are many reasons to explain why European governments and energy concerns fell prey to such bad economics. One is the general Chicken Little reaction to increased energy prices. On the one hand, this led potential sellers like Norway to keep their energy resources in the ground, where they will now remain for a long time to come. On the other, it led potential buyers into a lot of bad investments. Just as Exxon was collapsing its shale oil projects, though, the Europeans were defending the pipeline against Mr. Reagan's onslaughts. This myopia of course results because governments were involved, partly because they are inherently inflexible, partly because they wanted to subsidize European steel jobs, and partly because they wanted to keep "détente" alive by subsidizing the Soviets.

We hate to say we told you so, but as regular readers know, we did. In rebuffing Mr. Reagan, Europe lost its best and perhaps last chance to get out of a losing deal. Everyone else's energy prices will fall as the OPEC house of cartel cards collapses, but Europe will be stuck with a lot of high-priced Siberian gas. All the European consumers can hope for is that in the future their governments will take a closer look at Russians bearing bargains.



By Expected Drop in Output

By DOUGLAS MARTIN

Special to The New York Times

ANCHORAGE — Measured by the wind-chill factor, the temperature was 86 degrees below zero, driving snow made it impossible to see more than a few feet, and even the ravens seemed to be huddling from the cold. It was a typi-

cal March day at Prudhoe Bay, America's biggest oilfield.

"It's like working on the moon," K. C. Kilty, a production technician, said of the effort required to maintain the mammoth oil wells, each of which pumps more than 400 times as much oil as the average well in the lower 48 states.

Still, much of the hardship of searching for oil 250 miles north of the Arctic Circle has been ameliorated. And Alaska has grown into a leading petroleum province, the only one in the United States that can be mentioned in the same breath with the Persian Gulf kingdoms, the North Sea and Mexico.

But there is trouble on the Arctic horizon, which at this time of year is the color of rosé champagne. For within a few years — perhaps as early as 1985 — production from Prudhoe Bay is expected to decline sharply as the natural difficulties and costs of tapping its vast oil supply mount.

The trouble in getting the Prudhoe oil out of the ground, mainly the result of a decline in the underground pressures that force it to the surface, has long been anticipated and would have

caused less concern if world oil prices had continued to increase, as many experts were forecasting just a few years ago.

With prices dropping, however, it is beginning to be questionable whether the industry will either get the most out of Prudhoe with increasingly costly technologies or replace the lost production with costly new discoveries.

"Any way you look at it, there's not a chance that the present rate of production is going to continue beyond 1988," said C. V. Chatterton, chairman of the Alaska Oil and Gas Conservation Commission. "And I don't see how any new field can possibly be brought into production before the decline sets in for the Prudhoe Bay field."

To be sure, experts believe that Alaska still offers the nation's best opportunities for finding exceptionally large amounts of oil. A number of smaller fields have already been found, and opportunities offshore in the Beaufort and Bering Seas are judged excellent. But even so, the new finds are unlikely, the experts say, to make up the shortfall expected in Prudhoe's decline.

As of now, however, Alaskan oil is a major energy blessing. With only one-thousandth the number of wells drilled in Texas, the oil industry in Alaska is producing 1.7 million barrels of oil a day compared with 2.5 million in Texas, the nation's leading oil-producing state. Alaska's output could be far greater, but the 800-mile Trans-Alaska Pipeline System would not hold it.



The New York Times/March 17, 1983

Route of the 800-mile Trans-Alaska pipeline that transports oil from the Prudhoe Bay field.

Today, a fifth of American petroleum output flows from the North Slope, and experts believe that half the oil yet to be found in the United States is in Alaska. Matching that scale, however, are expense, technical challenges, and distances from supplies and markets.

"If you found a 50-million-barrel field in Alaska, you'd call it a dry hole and go on to the next thing," G. T. Wilkinso, vice president of the Arco Exploration Company, a unit of the Atlantic Richfield Company, said with a shrug. The reason: Larger fields can be found to better justify the huge cost of field development.

Even apparently rich prospects, however, are being subjected to closer scrutiny because of the sharply circumscribed cash flow of the oil companies. Petroleum Analysis Ltd., a consulting firm based in New York, calculates that the profits of major oil companies last year declined by 19.4 percent, which means they have less money to plow into the ground at a time when costs are continuing to rise. "There is a distinct slowdown in the availability of risk money looking for new fields," Mr. Chatterton said.

Prudhoe currently produces 1.5 million barrels of oil a day, more than the amount pumped by each of 10 of the 13

financially strained members of the Organization of Petroleum Exporting Countries. (Only Saudi Arabia, Iran and Venezuela produce more.) But Mr. Chatterton and others estimate that, starting in 1988, the annual decline in production will be between 15 percent and 20 percent; this means that, by 1995, Prudhoe Bay would be pumping only 120,000 barrels a day.

The more optimistic scenario is that the yearly rate of decline will be only 8 percent but will start three years earlier, cutting Prudhoe output to less than half present levels by 1995.

"You fall off a cliff, and you fall pretty flat," Paul Norgaard, president of Arco Alaska Inc., said.

'The Big Endowment'

The biggest losers will be the United States Government and the State of Alaska, which together receive two-thirds of the revenues generated by Prudhoe oil. "Prudhoe is the bonanza, the mother lode, the big endowment, the one-time shot," said Charles Logsdon, a petroleum economist with the state revenue department of Alaska.

The impact of the geological limitations is being magnified by falling oil prices. For Washington, each \$1 drop in the world oil price means \$547.5 million less in Alaskan "windfall profits" taxes each year.

For the state, the world's slackened appetite for energy and OPEC's recent 15 percent cut in prices mean the withering of an oil-fired dream.

A recent study by the University of Alaska estimates that by 1993, petroleum revenues — which account for more than nine-tenths of state spending — will be 70 percent less than forecast two years ago as a result of declining oil prices. The implications are that overall employment will grow 10 percent more slowly over the next decade than had been expected; that population will increase at a rate 8 percent less than expected, and that the state income tax — swept away by petroleum — will have to be reinstated.

Line

(Continued from page A-1)
and by \$356 million a year for the all-Alaska project.

Also, both projects would bring gas to consumers at about the same cost. But the target market for the all-Alaska project — Pacific Rim nations — likely would be better, the report said.

"From the state's perspective, there is no real difference between (the two projects) despite their significant economic and marketability differences," the report said.

The state should back both projects, it continued. "The gas producers, end-use markets, financial community and federal government will be deciding factors as to which project, if any, will proceed, based upon economic and market considerations."

The state also should support spinoff gas projects for Fair-

banks should either of the two major projects be built, the study said.

Under one of the spinoff projects, Fairbanks would tap the major pipeline to get gas to produce electricity. In the other spinoff, methanol would be produced in Fairbanks by tapping gas from the pipeline. The methanol would be exported.

Booz, Allen recommended against constructing a 480-mile small-diameter pipeline from the North Slope to Fairbanks for gas-fired power production. "The small diameter line requires a significantly higher tariff than tapping either of the major lines," Booz, Allen said.

The study concluded the Alaska Highway project involves the least legal and regulatory risks because it has political support and is nearer construction than the all-Alaska project.

Gov. Bill Sheffield said Saturday he has asked several Cabinet members and legislative leaders to review the Booz, Allen study.

Decontrol

(Continued from page A-1)

Reagan's plan was backed by the Natural Gas Supply Association, an industry group, and the Natural Gas Consumers Information Center, an organization representing industrial users of natural gas.

Under Reagan's proposal, gas companies and their suppliers could renegotiate their contracts. Beginning Jan. 1, 1985, any party to a contract could break the pact at will, to seek a better price arrangement elsewhere.

But, to protect consumers from prices regulated only, in effect, by competition in the marketplace, Reagan would order a cap on price increases charged to consumers. The companies could no longer pass along to consumers higher prices charged by producers, as they are now allowed to do.

The gas companies would be allowed to raise prices to keep up with inflation, but all other increases would need the approval of the Federal Energy Regulatory Commission. This provision would remain in effect until Jan. 1, 1986.

In 1980, when he ran for president, Reagan pledged to remove all price controls. But opposition in Congress — which the administration believes has been softened by recent price increases under the present controlled system — held him back.

Under a 1978 law, controls are being removed in stages from gas discovered after April 1977. But the "older gas," roughly half the nation's supply, was supposed to be kept under price ceilings.

One reason for the higher prices being charged this winter is the so-called "take-or-pay" contracts signed by many pipeline companies after the rough winter of 1976-77. Those agreements require payment for the

gas whether it is used or not; so pipelines keep on taking it while dropping their cheaper suppliers when demand falls, as it has done during the recession.

Addressing himself to "one of our major energy sources, natural gas, and what this administration proposes to do to ensure abundant supplies of it at reasonable prices," Reagan said:

"The American consumer is being hurt by government regu-

lations that actually contribute higher gas bills."

The president noted that "howls" of protest were raised when, two years ago, he removed oil price controls, and opponents predicted gasoline prices would rise.

"You don't have to go any further than the nearest filling station to see that prices have gone down, not up, since decontrol," he said.



Maria Luisa Faini

Neil Varon

Gas lines profitable, study says

by Bill White
Times Juneau Bureau

Juneau — State officials should let the market decide which of two multibillion-dollar gas pipelines can be built, because Alaska would benefit from either project.

That is the conclusion of a 76-page, \$150,000 draft study, which explored the best options to get the vast treasure of natural gas in Alaska's arctic to market.

About 26 trillion cubic feet of natural gas, about a fifth of the U.S. reserves, lie beneath Prudhoe Bay.

A proposed \$50 billion, 4,800-mile pipeline through Canada along the Alaska Highway is on hold because its backers cannot get financing to build it.

Last month, a task force headed by former Govs. Walter Hickel and Bill Egan recommended a \$32 billion, 820-mile pipeline be built from Prudhoe Bay to tidewater on the Kenai Peninsula. Gas liquids could be exported to Japan.

The new draft study, done for the state and released Saturday, looked at both those projects and others. It concluded that either of the major projects would bring huge benefits to Alaska.

Both projects would create thousands of construction jobs, the study said. After construction, hundreds of Alaskans would be employed to run the pipeline.

The state treasury also would get a shot in the arm, according to the study by Booz, Allen & Hamilton of Bethesda, Md. Tax and royalty returns would rise by \$220 million a year in 1982 dollars

Reagan seeks to open gas market

by James Gerstenzang
Associated Press

Washington — President Reagan said Saturday he will ask Congress to remove all controls from the natural gas market over the next three years "to ensure abundant supplies . . . at reasonable prices."

At the same time, the Reagan plan would place a cap on consumer prices through Jan. 1, 1986, allowing increases based only on inflation, unless a government agency approves higher fees. On the first day of 1986, all price controls would be removed.

Long-term high price contracts between pipelines and suppliers, which many analysts blame for recent price increases, could be broken at will after Jan. 1, 1985.

"The key to cheaper, more abundant energy for all Americans is a policy that combines consumer protection, incentives to produce, and efficient economic use of

our resources," the president said in his weekly radio address to the nation, broadcast from the Oval Office. "That's what our program will do."

The president said the Energy Department estimates that the plan will reduce prices 10 cents to 30 cents per 1,000 cubic feet of natural gas in the first year.

Larry Speakes, the chief deputy White House press secretary, said Reagan would send the proposal to Congress on Monday, and that Energy Secretary Donald Hodel has reported, on the basis of preliminary consultations, that congressional reaction "has been far better than expected."

"There seems to be a consensus that something has to be done," Speakes said, in reference to complaints about rapid increases in natural gas prices that have driven bills up 20 percent to 40 percent in some areas this winter.

However, Sen. Howard Metzenbaum,

D-Ohio, an opponent of decontrolling natural gas prices, said he believed Reagan's proposal would be defeated in the Senate. He called the Reagan plan was "absolutely off-base" and said he thought there were 10 to 20 senators who would join him in a filibuster against it.

He said a lengthy filibuster he led on gas legislation in 1977 "will be like a Sunday school picnic" compared to the one he expects now.

Metzenbaum also said the move would raise costs to homeowners and increase unemployment by hurting small business.

"The gas industry itself has estimated that decontrol will cost \$60 billion a year," he said.

And Rep. Bill Hefner, D-N.C., giving the Democratic Party response to Reagan's address, said the president's proposal would increase natural gas prices by 67 percent over the next four years.

Supporting the president, Sen. James

McClure, R-Id., chairman of the Senate Energy and Natural Resources Committee, said the proposed protections for the consumer would be "better than the current law."

When current legislation was passed, McClure said, "We faced a radically different energy market. Certainly nobody can be faulted for failing to foresee today's surpluses."

McClure said his committee would begin hearings on the president's bill March 9.

Ed Rothschild, head of the Citizen Labor Energy Coalition, an advocacy group, said a Wall Street study estimated that price decontrol would raise prices \$1 to \$1.50 per thousand cubic feet. He said the average home using natural gas burns 140,000 cubic feet per year, so if the estimated price increase is realized, the average yearly bill would rise by \$140 to \$210.

See Decontrol, page A

Alaska Proposing Japan Connection

Liquefied North Slope Gas Would Be Shipped From Kenai Peninsula

By ROGER LOWENSTEIN

Staff Reporter of THE WALL STREET JOURNAL

For six years oil companies in Prudhoe Bay on Alaska's North Slope, have been producing one billion cubic feet a day of natural gas. And every day, they painstakingly compress the gas and inject it hundreds of feet back into the frozen earth.

The gas is a byproduct of crude oil. But, while the crude oil is piped to the coast, Alaska hasn't found a way to transport and market its Prudhoe natural gas.

The federal government long has supported the idea of laying a gas pipeline across Alaska and Canada to the lower 48 states. But a pipeline consortium has never been able to raise enough funds.

So today, 15 years after the giant Prudhoe Bay field was discovered, a blue-ribbon Alaska state committee was scheduled to unveil what it claims is a better plan to build a shorter and less costly pipeline to Alaska's Pacific coast, convert the gas to liquid and ship it to Japan.

"Alaska's natural markets have always been in Asia," says Walter J. Hickel, the former state governor and U.S. secretary of interior in the Nixon administration, who heads the committee. "Whether it's fish, timber, or coal, it's difficult to trade backwards" with the continental U.S., he says.

At best, the plan would find a market for the gas; it would strengthen U.S.-Japanese relations, reduce the U.S. trade deficit with Japan and heighten the two nations' joint strategic interests in the Pacific.

But Before That . . .

Before any of that, Mr. Hickel's group would have to arrange billions of dollars in private financing. Even more important, it would have to convince the U.S. and Japanese governments to support the plan.

Thus, the timing of the announcement in Washington today is hardly coincidental. With Japanese Prime Minister Yasuhiro Nakasone due to begin a visit tomorrow, officials of both nations are looking for ways to reduce trade tensions.

Mr. Hickel already has been to Japan to pitch the plan "and he's been wandering around town ginning up support" in Washington, as a State Department official puts it.

The advantages, Mr. Hickel's group contends, are many. "One of the beauties of the Hickel proposal is the much greater market flexibility," says Joseph Chomski, an attorney for the Hickel committee, which was appointed by the governor of Alaska. He notes that the Hickel plan would bring the gas to the Kenai Peninsula. "Then, you can ship it to wherever the market is, and readjust as the market changes," he says.

The market in the foreseeable future most likely would be Japan. Alaska, which would gain from its 12.5% equity in the gas and from taxes on the pipeline, thinks it would fetch a better price in Asia than in the U.S., which is glutted with natural gas.

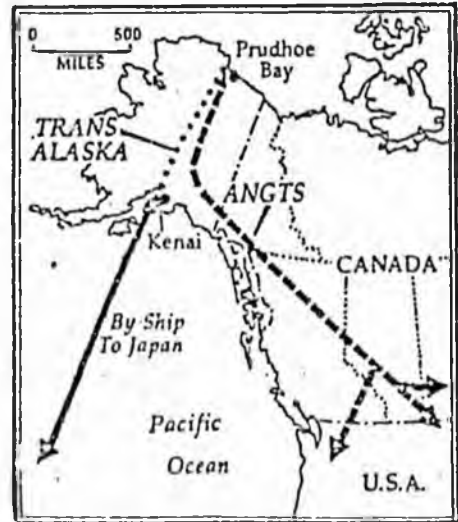
Moreover, Mr. Hickel says his plan is generally more economic. He says it would be geographic madness for Alaska to transport gas overland to the U.S., forcing Japan to carry out plans to import liquefied natural gas from Alberta, Canada.

A similar "inefficient circle" already exists in oil. Much of Alaska's crude oil is

"Strategically, it's a great idea," says a staff member on the National Security Council. The Japanese are said to be interested in the proposal as a means of lessening their troublesome trade imbalance with the U.S. Further, in return for financing and providing a market for Alaskan gas, Japan would hope to strengthen its ties to the U.S. It might, for example, seek access to much-coveted Alaskan crude oil. "There are all sorts of possible *quid pro quos* that could fit into the jigsaw of U.S.-Japanese relations," says a member of Mr. Hickel's staff.

To be sure, there are other proposals. They range from the esoteric and unlikely—shipping liquefied gas in submarine

OVER →



shipped through the Panama Canal to the Gulf of Mexico, while Mexican oil from the Gulf goes to Japan.

While Japan couldn't import Alaskan crude oil without congressional approval, it already imports some liquefied natural gas from southern Alaska. Japan could import gas from Prudhoe Bay merely by gaining the president's approval.

Mr. Hickel is sure to tell National Security Adviser William Clark, with whom he was to meet today, that there are political reasons for President Reagan to give his approval: Supplying Japan with gas would make it less dependent on the Soviet Union and the Middle East. If the Japanese helped finance the project, their appetite for investing in any Soviet pipeline might be reduced.

tankers beneath the polar icecap to Europe—to the more prosaic option of converting the gas to methanol, a liquid fuel, which could be marketed in the U.S. as well as abroad.

Committed to Other Plan

Moreover, the three oil companies that produce the gas, as well as the U.S. government, remain officially committed to the Alaska Natural Gas Transportation System, or ANGTS, pipeline to the lower 48. The ANGTS consortium includes Northwest Energy Co., the sponsor, and Atlantic Richfield Co., Exxon Corp. and Standard Oil Co. (Ohio).

However, the ANGTS project has been repeatedly delayed as costs have escalated to \$43 billion from \$10 billion and energy demand has softened. The project currently is on hold due to lack of financing. "You're stretching world capital markets," says one Chase Manhattan banker, who has little hope for the ANGTS project.

The Hickel group says their Trans-Alaska plan is more economically viable. Their pipeline would run 820 miles, compared to 4,800 in the ANGTS project. In the first stage, scheduled for completion in five years, the Trans-Alaska pipeline would carry only one billion cubic feet a day, half the total proposed by ANGTS. After completion, the Trans-Alaska system would carry nearly three billion cubic feet a day. The estimated cost is \$11.6 billion for the first phase and \$25.5 billion for the entire project.

Of course, Mr. Hickel has yet to prove that his project would work as he says it would. Moreover, while U.S. officials are clearly interested in hearing more, there are political obstacles that could keep Mr. Hickel's plan from getting off the ground.

Problems With Canada

Canada has been counting on using the ANGTS pipeline, if it's ever built, for transporting some of its own gas. State Department officials say the U.S. couldn't walk away from the ANGTS project without snubbing Canada, and the U.S. doesn't want to do that. Moreover, there are many in Congress who still feel that the U.S. shouldn't send its energy resources abroad if at all possible. Since funding for two projects is out of the question, the Hickel proposal would stand a better chance "when and if Congress believes the other project is really abandoned," says one Washington lobbyist.

Technically, congressional approval mightn't be needed. However, financing the project would be difficult even with government support; without it, Mr. Hickel concedes, the project wouldn't stand a chance.

While the oil companies say it is too soon to react to the proposal, they collectively have 26 trillion cubic feet of gas shut in Prudhoe Bay. Presumably, they will back any plan that enables them to market the gas.

The Japanese have contracted for all the gas they need until 1990, but they will need more after that. Japan already is making arrangements with Canada, Australia and others to satisfy that need. Therefore, Mr. Hickel says, "the window is open in Japan to a long-term energy arrangement with the U.S. but it won't stay open. If we don't sell the gas this time it will stay in the ground for years."



Associated Press

Former Alaska governor Walter Hickel yesterday outlines recommendations on an alternative natural gas pipeline for his state.

Alaska Gas Pipeline Advances

By Martha M. Hamilton
Washington Post Staff Writer

A commission appointed by the governor of Alaska yesterday recommended building a \$25.2 billion pipeline to transport the state's abundant natural gas to terminals on its southern coast, where the gas would be converted into liquefied natural gas and shipped to Japan.

The report of the committee chaired by former Alaska governors Walter J. Hickel and William A. Egan recommended the all-Alaska pipeline as an alternative to the Alaska Natural Gas Transportation System (ANGST), a project designed to move the gas to Canada and the United States.

The \$43 billion ANGST project, which had received support from President Jimmy Carter and from Congress, has been stalled indefinitely by an inability to arrange financing and a weaker natural gas market in the United States than anticipated.

According to the committee appointed last June by Gov. Jay Hammond, the Far East provides a far better market for Alaska's natural gas than the United States. That and lower construction costs argue in favor of the proposal, the report said.

"Prospects of available Canadian and Mexican gas . . . as well as less expensive production from a large

number of shut-in U.S. wells, leads the committee to conclude that North Slope gas does not have a ready market in the United States in the near term," according to the report.

But John McMillian, chairman and chief executive officer of the Northwest Alaskan Pipeline Co., the operating partner for ANGST, said the proposal "does not provide any meaningful solutions" to Alaska's natural gas marketing problem.

The committee recommended presidential and congressional action to smooth the project's course if Hammond adopts the recommendation. Otherwise, legal roadblocks might delay it, the report said.

THE WALL STREET JOURNAL

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REGIONS

Alaska, Peeved With the U.S., Vows to Fight for Its Interests

By EUGENE CARLSON

Staff Reporter of THE WALL STREET JOURNAL

ALASKA, you'll be pleased to know, probably won't secede from the United States. Alaska would, however, like a bit more respect from the rest of the country. Especially from the fiscally less fortunate states and their delegates in Congress, who tend to look at Alaska and its enormous oil wealth the way panhandlers eye the display windows at Tiffany's.

With \$3.8 billion in oil revenue in the last fiscal year and untold billions worth of oil and minerals still in the ground, Alaskans can afford to be feisty. Many residents feel their relationship with the U.S. has deteriorated in the 25 years since statehood. Two years ago, voters asked an 11-member statehood commission to explore the reasons why. The results are in.

Conclusion No. 1. Statehood has its problems (the federal government's sins against the state "would fill a catalog," the final report says), but it's better than anything else. The issue isn't frivolous. In setting up the commission, the legislature ordered it to study "alternative forms of association" with the U.S.

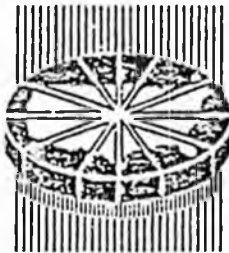
The Republic of Alaska? The state has only 401,000 people, fewer than Chattanooga, Tenn., but 30 members of the United Nations have smaller populations. As long as the oil holds out and oil prices stay high, the state could afford independence, the commission believes.

BUT IT'S NOT GOING TO HAPPEN. Each avenue—illegal secession, opting out of the Union by act of Congress, reversion to commonwealth or territorial status—raises impassable legal, political and emotional hurdles. More to the point, a majority of Alaskans wouldn't vote to leave the U.S., given the chance.

Conclusion No. 2. We're staying around but don't take us for granted. The message of Alberta's bitter fight with Canada's central government over oil prices, that led the western province at one point to begin shutting down oil production, wasn't lost on Alaska.

"The lesson is clear," the commission said in a preliminary report. "If Alaska wants to protect its resources, its revenues and its state prerogatives, the state government must vigorously defend against federal encroachments. It should not be afraid of suing, of mounting a national information campaign, of building political coalitions, or taking what otherwise might seem to be drastic steps, with the exception of secession. Let action force the issue."

Conclusion No. 3. The feds aren't Alaska's only foe. The Middle West and Northeastern states are an even bigger pain in the neck because of their fight to limit severance taxes—the taxes that resource-producing states like Alaska, Montana and Texas place on oil, coal and other minerals they export to other states. The industrial heartland may find severance taxes onerous in a recession, but these states trample on a fundamental tenet of federalism when they try to fiddle with a state's taxing power. The attack on severance taxes is "the most dangerous threat to this state and all the states," the commission says.



Anchorage Daily

VOL. XXXVIII, NO. 18, 48 PAGES

ANCHORAGE, ALASKA, TUESDAY, JANUARY 18, 1983

Hickel proposes gas line

By TIM MILLER
Daily News correspondent

WASHINGTON — Former Gov. Walter Hickel unveiled his all-Alaska natural gas pipeline proposal to an attentive Reagan administration Monday, but critics said the plan would have harmful domestic and international repercussions.

Hickel told high-ranking government officials of the proposal to forsake plans to pipe Alaska gas through Canada to the Lower 48 in favor of a plan to export the gas to Japan.

"There's been an enthusiasm and response more than what I expected," Hickel said after meeting with U.S. Interior Secretary James Watt and National Security advisor William P. Clark. Administration officials were not available for comment.



Anchorage Daily News/Paul Brown

Sen. Pat Rodey of Anchorage, leader of the state senate minority coalition, is sworn in with

Jan. 18, 1983

Hickel takes gas line plan to Washington

Continued from Page A-1

Hickel said the existing plan, the Alaska Natural Gas Transportation System (ANGTS) "died a natural death." He touted his proposal as a means of correcting the skewed U.S. balance of payments with Japan. He said it also would strengthen strategic ties with Asian countries.

The \$42 billion ANGTS system has been stalled by a lack of financing. Hickel said his \$25.5 billion program would be more easily financed.

Assuming annual inflation of 7 percent and 14 percent financing charges, the cost of the proposed all-Alaska gas-line system would be \$25.5 billion if the system were completed by 1992.

The estimated cost would provide for construction of an 820-mile pipeline from Prudhoe Bay to Nikiski, north of Kenai, plus conditioning and liquefaction plants at Nikiski. It would not include tankers or a receiving terminal (presumably in Japan) equipped to convert the LNG back to gas form.

Hickel has dubbed the project "TAGS" for Trans Alaska Gas System.

The first of three construction phases would take three years to build, making the system operational at a cost

of \$11.6 billion in 1988 dollars. The second and third phases of construction would give the system capacity to handle greater volumes of gas.

John McMillian, head of the Northwest Alaskan Pipeline Co., which organized the competing ANGTS project, said Hickel's plan is faulty.

"I do not believe it is in the national interest to design a project that proposes to export 26 trillion cubic feet of domestic natural gas — the nation's largest single gas reserve — to a foreign country," McMillian said in a prepared statement.

"There's one advantage to the (ANGTS) pipeline," McMillian said: "It finally puts the all-Alaska pipeline to rest. By so doing, it will now permit Alaska and its citizens to move ahead in support of the only transportation system approved by the U.S. Congress."

Hickel said McMillian's statement was "kind of silly."

"It shows where he's coming from," Hickel retorted. "He must be scared."

Hickel's proposal also was criticized by James Schlesinger, who was Secretary of Energy for the Carter administration when it helped develop the ANGTS system.

"I can understand the im-

patience of Alaskans and I share that impatience myself," Schlesinger said. "But as a practical matter, the overland pipeline is the only show in town."

Schlesinger questioned the economic assumptions that enable Hickel to predict that his proposal could cut the final costs of natural gas by more than half. He said Hickel's proposal may only cause further delay of ANGTS. He also said abandonment of the overland system would violate agreements between the United States and Canada.

"If we want to have raucous relations with Canada, proceeding down (Hickel's) route would be a certain way to do it," said Schlesinger. He predicted foreign relations committees in Congress would resist moves to abandon the ANGTS system, on which U.S. and Canadian officials have worked for years.

"We're still committed to the ANGTS project," said Patricia Lortie, a spokesman for the Canadian embassy.

Major Alaska oil producers were unenthusiastic about Hickel's proposal. Exxon Corp., a producer and an investor in ANGTS, released a statement saying Exxon still favors the overland route through Canada.

ESS

• Stocks

Alaskans seek oil export OK

by Betty Mills
Times Washington Bureau

Washington — Alaska Sens. Ted Stevens and Frank Murkowski have asked the Reagan administration to support lifting the ban on the export of Alaskan oil, and have appealed to their Capitol Hill colleagues to keep an open mind on the issue.

The administration is reviewing the issue and is expected to make a recommendation to Congress shortly. The Export Administration Act, which bars the sale of Alaskan oil overseas without prior Congressional approval, is up for renewal in September.

Previous attempts to lift the ban on Alaska oil exports have failed. A new bill to continue the ban has been introduced by Rep. Stewart McKinney, R-Conn., with nearly 100 co-sponsors. But the Japanese government is mounting a well-heeled lobbying effort to defeat the McKinney bill and allow Alaskan oil exports.

Although the lobbying has begun in earnest, no Congressional hearings have been scheduled. The House Foreign Affairs Committee had planned to hold a hearing on the issue this month, but postponed it until the White House makes its recommendations.

Murkowski, who heads the Senate Foreign Relations Subcommittee on East Asian and Pacific Af-

fairs, also is waiting for the administration position before conveying hearings.

On another front, the U.S.-Japanese energy working group has delayed its first meeting, from next week until early April. The group was formed following this winter's meeting between President Reagan and Japanese Prime Minister Nakasone. It will focus on the issue of Alaska oil and gas exports. Gov. Bill Sheffield has asked that an Alaskan be allowed to sit in on the April meeting here, and a later session in Tokyo.

Meanwhile, Stevens and Murkowski sent a letter to other members of the Senate Tuesday, urging them to keep an open mind on the Alaska export issue.

"It is our hope you will take the time to review the attached point paper . . . We urge you to remain uncommitted until sufficient information is available for a reasoned decision by the Congress," the senators said.

The senators said, "We are not prepared at this time to endorse any specific proposal until we have had a thorough analysis of the economic impact and effects of removing part or all of the restrictions. However, we would advocate lifting the restrictions if assured that national security, maritime, and oil industry concerns have been adequately addressed. For instance, it may be desira-

ble to protect our maritime industry by providing for carriage in U.S. tankers. There are strategic, economic and international trade reasons that merit your consideration before making a commitment on the issue."

In their letter to Commerce Secretary Malcolm Baldrige, the senators said conditions have changed dramatically since the ban on Alaska oil exports was strengthened in 1979.

"Changing world oil supply and demand dynamics, OPEC's recent series of meetings and decision to lower crude oil prices, and the newly discovered find in the Santa Maria basin of southern California necessitate a complete review of the crude oil export issue," Stevens and Murkowski wrote.

Murkowski said it is time to begin the lengthy process of removing federal restrictions and preparing for the future export of Alaskan oil.

"Under the existing Export Administration Act, any oil export faces an uphill battle for approval in Congress," Murkowski said.

Stevens said, "Any final proposal on the export of Alaska oil to Japan will have to include a provision that only U.S. ships can carry oil from the Prince William Sound area. It is also apparent that substantial revisions in Japanese export policies will have to take place before the export of Alaska oil will be acceptable to Congress."

Congressman renews pipeline deadline attempt

Times Washington Bureau

Washington — Rep. Thomas Corcoran, R-Ill., has renewed his efforts to place a December 1983 deadline on Northwest Alaskan Pipeline Co. as it attempts to gain private financing for its Alaska gas line project.

Corcoran has introduced a resolution that died in the last Congress, establishing a two-year time limit on the gas line waiver package. That package, enacted in December 1981, included several provisions sought by Northwest to expedite private financing of the project. Among the most controversial provisions of the waiver package is one allowing Lower 48 consumers to be billed before gas starts to flow through the line.

In a statement submitted for the Congressional Record last week, Corcoran said, "I strongly opposed those waivers, which had been recommended by the administration . . . Among the waivers granted was one that would allow the pipeline consortium to pre-bill natural gas ratepayers for natural gas they may never receive and may never need.

"Most objectionable, the price of the Alaska gas would be in the range of \$18 per thousand cubic feet. I viewed such a scheme as anti-consumer in 1981, and it would seem ever more inappro-

priate now in view of the outrage that natural gas consumers across the country are expressing about the increasing price of natural gas," Corcoran added.

The resolution also reaffirms the intent of Congress and the Reagan administration that no federal financial assistance will be forthcoming for the project.

Sponsors of the project, estimated to cost up to \$40 billion, still are seeking financial commitments from investment firms. Their failure to come up with a package has stalled the completion date for the project by two years.

The Corcoran resolution has 18 co-sponsors in the 435-member House, and has been referred to the House Energy and Commerce Committee and the House Interior Committee. There is no companion measure in the Senate.

The resolution is not expected to pass, according to Capitol Hill sources familiar with the pipeline issue.

Rick Agnew, an aide to Rep. Don Young, R-Alaska, said Thursday that Congress reaffirmed its support for the Alaska gas line project by adopting the waiver package.

"I don't think there is any substantive support to negate that," Agnew said.

What others say

Oil to Japan: 'a lot to recommend it'

From Business Week

UNDER EXISTING law, Alaskan oil cannot be exported, but the Reagan administration wants Congress to drop this restriction so that it can use the oil in its trade negotiations with Japan. One idea under consideration is to offer to sell Alaskan oil to Japan and replace it in the U.S. market with oil from Mexico. This maneuver, if carried out successfully, would make a healthy \$4 billion to \$6 billion dent in the U.S. trade deficit with Japan and, at the same time, give our southern neighbor foreign exchange earnings with which to repay its debts to U.S. banks.

It is an ingenious scheme but one that raises a number of critical problems. On balance, if the Administration and Congress can remedy those problems, the plan is worth a try.

THE MAJOR OBJECTION to selling oil to

Japan as a way of cutting our trade deficit is that it could easily mask the underlying cause of our trade difficulties with that country — its continued foot-dragging on allowing U.S. producers access to its domestic markets. The U.S. has repeatedly asked Japan to remove barriers that handicap U.S. companies trying to sell there, and Japan has promised repeatedly that it will do so. But so far results are scanty.

Any undertaking to sell Alaskan oil to Japan should be made conditional on that country's agreement to carry out specific moves to open up its markets.

IN SHORT, the Alaskan oil-sale plan will require careful structuring to protect other U.S. interests. But if that can be done, the proposal has a lot to recommend it.

What others say

It's time to allow oil shipments to Japan

From The Ketchikan Daily News

IT SEEMS Alaska has some friends in Seattle, at least on the editorial page staff of the Seattle Times. A recent Times editorial urged an end to the ban on exporting Alaskan oil and natural gas to Japan, and we heartily concur.

The Times quoted a recent Heritage Foundation report that listed the benefits of shipping some of our energy resources to Japan instead of artificially limiting our markets.

THOSE BENEFITS include:

- A \$1.5 billion cut in the nation's budget deficit;
- Improved balance of trade with Japan and other Far Eastern nations;
- Eliminate the need to build the \$2 billion Northern Tier pipeline;
- Increase Alaskan revenues, which have been

declining as OPEC oil prices drop;

— Help break down other trade barriers with Japan and further open the country to U.S. products, while aiding a close ally now dependent on Mideast oil;

THE STUDY ALSO POINTS out that shipping oil and gas to Japan poses "no threat whatsoever" to American security.

Alaska is already a major exporter to Japan, where markets for our fish and timber already exist. It's sad that trade barriers keep Alaska from further developing the relationship we have with one of the most productive countries in the world.

We appreciate the Times' support in ending the export ban, and we hope Washington State's congressional delegation listens to the Times' suggestion. The benefits are widespread.

Expert sees 'disastrous' gas prices

Associated Press

Washington — The head of the Federal Energy Regulatory Commission warned Saturday that unless Congress acts quickly to solve natural gas pricing problems, there "will be a disaster in the gas market" for both consumers and producers.

"Rules governing natural gas prices must be changed, and they must be changed soon," FERC chairman C.M. Butler III told the Senate Energy and Natural Resources Committee. The commission oversees the gas pricing system.

The panel finished four days of hearings on President Reagan's plan to remove all controls from natural gas by 1986, a plan Reagan says will cut prices and end the complaints of consumers who have been hit by price hikes of 40 percent to 50 percent a year.

But Reagan's plan faces stiff opposition in Congress, where more than 20 bills have been in-

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Natural gas prices

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The 1978 law, enacted at a time of gas shortages, lifts price controls on Jan. 1, 1985, from offshore gas and "new" gas discovered after April 1977. But it retains indefinitely price ceilings on "old" gas found before then and includes complex mechanisms that mandates 28 pricing procedures.

The Reagan plan would allow all pipelines and producers to renegotiate their existing long-term contracts. Backers of the plan argue that producers could then get higher prices for old gas while pipelines could get lower prices for new gas.

"The most urgent problem is that natural gas prices are now on average too high," Butler said. "Consumers are being required to pay prices that serve no rational economic purpose; producers with new supplies are finding it impossible to market their gas."

With the prices fixed by the law rather than changing with the natural fluctuations in the marketplace, Butler said, congressional action is needed or consumers will turn to less costly sources of energy. Producers will lose customers and may go

bankrupt, he said.

The current gas glut, with prices artificially high, and the oil glut, with its decreasing prices, will mean a switch to oil, he predicted, "and the result will be a disaster in the gas market."

FERC supports Reagan's proposal and Butler said it will reduce prices because "the price of gas follows the price of oil."

But Sen. Howard Metzenbaum, D-Ohio, said FERC has "totally let down the consumers of this country" by its decisions on energy matters and said he looked "askance" at Butler's prediction of price decreases.

Several consumer groups told the committee that prices would increase under decontrol.

The National Association of Regulatory Utility Commissioners said consumers need to be protected during periods of oversupply and local producers need to have more options in selling their product.

"Today's prevailing prices for natural gas continue to increase even as demand is dropping and gas supplies are growing more abundant," said Laura Murrell, chairman of the Kentucky Public Service Commission, speaking for the commissioners' group.

"Demand-sensitive pricing of natural gas remains largely an unrealized dream," she said.

Quick solution to gas pricing urged

By TIM AHERN
The Associated Press

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Murkowski urges gas plan changes

By Lynn Peebles
Times Washington Bureau

Washington — Sen. Frank Murkowski, R-Alaska, Wednesday endorsed the deregulation of natural gas prices, but said changes must be made in the Reagan administration proposal to meet the unique situation in Alaska.

At a Senate Energy and Natural Resources Committee hearing, Murkowski said the administration bill is a good first step toward ending natural gas wellhead price regulation. But he said Alaska residents may face huge increases in their utility bills if the legislation is not revised.

"Alaska's unique conditions obviously were not taken into consideration when this bill was drafted," Murkowski said. "I agree that the free market approach is preferable when competition is available. However, in Alaska, where utilities may have only one source of gas and are not connected to any Lower 48 pipeline, there is no opportunity to shop around for a better price."

Murkowski said that without competition, there is no ceiling on the price producers could charge Alaska consumers for natural gas.

"Chugach Electric estimates that an increase in natural gas prices to \$3.50 per million cubic feet of gas would require it to seek a 100 percent increase in

electric rates," the senator said. Chugach Electric now pays as little as 21 cents per million cubic feet for natural gas.

Energy Secretary Donald P. Hodel, whose appearance kicked off lengthy hearings on natural gas deregulation, told Murkowski he will work with the Alaskan on a solution to the state's special problems.

Hodel also told Murkowski the federal government does not want to interfere with the role of state utility commissions in limiting wellhead prices in intrastate gas sales.

"Pointing again to Alaska's situation, it's essential that nothing in federal legislation preclude the Alaska Public Utilities Commission from exercising control over rates," Murkowski said.

In a statement to the committee, Murkowski said the administration bill provides "a framework within which we can begin to address the problems and distortions which have plagued natural gas consumers in recent years."

"I am a great believer in the free market. We must move toward decontrol where the market can work, while making spe-

cial and careful provisions in those instances where the market cannot work," Murkowski said.

Hodel told the committee the bill will "assure American consumers of an adequate supply of natural gas at a reasonable price. Under current market conditions, there is an excess supply of natural gas. Under such conditions, any first year economic student will tell you

prices should decline."

But prices are rising, Hodel said, "because the current Natural Gas Policy Act is distorting the market and creating artificial barriers."

Any move to lift all price controls on natural gas is likely to spark stiff opposition on Capitol Hill. Consumer groups fear control will lead to dramatic higher utility bills.

Oil export rule ease urged

The Associated Press

WASHINGTON — Sens. Ted Stevens and Frank Murkowski have urged Commerce Secretary Malcolm Baldrige to recommend revisions in the Export Administration Act to remove restrictions on the export of Alaskan crude oil.

The act expires in September, and it is currently undergoing an administration review before President Reagan forwards his recommendations to Congress for renewal.

The act was amended in 1979 to tighten restrictions on the export of resources. Oil

exports are prohibited expressly approved by Congress.

Murkowski said that is the time to begin a lengthy process of removing federal restrictions and preparing for the possibility of future exports of Alaska oil.

He said revising the act would remove only the roadblock to the export of Alaska oil, because that

faces restrictions contained in the Trans-Alaska Pipeline System Act.

Anchorage Daily News Wednesday, March

Major oil firms stand to gain from decontrol

By MILTON R. BENJAMIN
The Washington Post

analysis

WASHINGTON — President Reagan's proposal for removing federal controls from the price of natural gas would produce one certain winner: the major oil companies.

The administration bill would free "old gas," which accounted for about 56 percent of gas bought by the major interstate pipelines last year, from all controls as of Jan. 1, 1986.

The top 20 producers of such gas — led by Mobil,

Exxon, Texaco, Gulf and Shell — control more than 70 percent of it and stand to gain a \$40 billion windfall between now and 1990 if controls are lifted, according to industry analysts.

These producers now are selling old gas to the 20 largest interstate pipelines at an average of about \$1.38 per 1,000 cubic feet, according to the latest government figures.

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Major oil firms stand to gain from decontrol of gas price

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The rationale for the government controls that hold down the price of "old gas" from wells that were producing before 1977 is that where drilling and exploration costs have been recovered, the cost of continuing production is low.

"Many of these wells were brought in years ago. They were easy to find because they were in or near known gas-producing geological formations. They are shallow, so they didn't cost much," a government analyst said. The marginal cost of producing gas from some of these wells is only pennies."

But the bill lifting controls would enable the companies that own this old gas to double the average price for it. In some cases in which they are selling old gas for as little as 9 cents per 1,000 cubic feet, they may be able to boost their prices by 700 or 800 percent.

New gas is selling to interstate pipelines at an average of \$3.30 per 1,000 cubic feet, according to the latest government figures. Analysts say they believe that the present

market-clearing price where most gas sales would take place if no controls existed might now be as low as \$2.50.

But the Energy Department projects that the average price of gas under its proposal will rise from the present \$2.70 to \$3.60 in 1986, when the decontrol process would begin. Thus, the price of old gas after Jan. 1, 1986, could be expected to approach the \$3 level.

Moreover, producers of old gas would be able to demand this higher price immediately — even though some are locked into long-term contracts that run into the late 1980s and 1990s — because the administration bill would permit them to break every contract on Jan. 1, 1985.

"On Jan. 1, 1985, there will be a massive price shock as gas producers secure high prices for their old gas or exercise their newly granted market power to bring the natural gas market to its knees," said Rush Moody Jr., a member of the Federal Power Commission from 1971 to 1975.

Energy Secretary Donald P. Hodel, asked at a news conference to identify the

winners and losers under the administration proposal, conceded that producers of low-cost gas "are optimistic that they are going to get something better."

Hodel said producers of high-cost supplies, on the other hand, "are very fearful that their prices may be driven down."

But the highest cost gas — which comprises only about 5 percent of all domestically produced gas and has been selling at more than \$7 per 1,000 cubic feet — is "the domain of relatively small companies," according to a Federal Energy Regulatory Commission official.

Thousands of independent companies also provide a majority of the remaining new gas, which may or may not drop somewhat in price under decontrol. While the major companies also own a considerable amount of this new gas, industry analysts say their stakes are not nearly as high as in old gas.

"Old gas is overwhelmingly skewed to the majors," the commission official said.

These top 20 producers of old gas, according to a study performed by the Consumer

Federation of America contracts calling for supply 72.3 percent of gas purchased last year by the nation's 15 largest pipelines, according to the federation.

The federation calculates that if decontrol were to begin in 1983, a prospect that the administration would not occur until these top 20 natural gas producers "stand to gain a billion windfall from sales of old gas to only interstate pipelines for period 1983-1990."

While the federation has not updated its projections to take into account the different schedule of the new administration proposal, industry and government analysts say the White House plan could conservatively produce a billion windfall.

The top 20 old gas producers, in addition to the mentioned earlier, are Texaco, Standard of Indiana, Standard of California, Phillips, Atlantic Richfield, Getty, Cities Service, Union, Superior, Sun, El Paso, Conoco, 1,000, Marathon and Colony, according to the consumer federation.

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The Anchorage Times

Editorial

Narrowing choices

MUCH DOUBT has been cast on any eventuality that Northwest Alaskan Pipeline Co. will build a gas pipeline from Prudhoe Bay through Canada to the Midwest.

There have been years of delay in the \$43-billion project because Northwest has had problems finding financial backers. Some of the sponsors are in the process of protecting themselves by establishing reserves in case the project falls through.

The company said last October construction is less and less likely all the time because the Federal Energy Regulatory Commission would not allow it a sufficient rate of return. At best, the Canadian route could be considered to be on the back burner.

AN ALTERNATIVE all-Alaska route from the North Slope to tidewater has some popular support, particularly now that the Canadian route is doubtful. A move in the legislature to endorse of the Alaska line, however, has met opposition from a firm of consultants. They said the state should keep its options open.

The consultants, Booz, Allen & Hamilton, were commissioned by former Gov. Jay Hammond, whose anti-development philosophy is well known. They concluded that both proposals are on shaky ground and face huge obstacles and the chances are slim that either could ever be built.

Backers of the Canadian

route lack money. The Alaska route lacks federal authorization. And the current soft market for gas is a deterrent to both.

A TASK FORCE co-chaired by two other former governors, Walter J. Hickel and William A. Egan, has proposed the Alaska transmission system and it makes a lot of sense from the Alaska viewpoint. The gas would be moved by pipeline to the Kenai Peninsula, where it would be liquefied and shipped by tanker to Japan, other Pacific rim countries or markets on the west coast of the U.S.

The challenge to those who back the Alaska system is to get authorization from the federal government. Former President Carter chose the Canadian route several years ago and Congress ratified it. That ratification had no termination date, so Northwest has the federal blessing until the president and Congress withdraw it or the company throws in the towel.

A legislative endorsement of the all-Alaska gas line, which would follow the trans-Alaska oil pipeline route much of the way, would be helpful as a starting point in any drive to get congressional approval.

Since the Canadian project is viewed by many as dead, the only decision facing the state would appear to be whether or not to promote an all-Alaska line.