

HJR

38

SENATE RESOURCES COMMITTEE
LEGISLATION CHECKLIST

IDENTIFICATION:

BILL NUMBER: CSJR 38 (Res)

BILL NAME: Marketing & transporting Alaska's natural gas

SPONSOR(S): Cowdery, et al

RELATED BILLS PENDING:

DATE INTRODUCED: 4-13-83

REFERRALS: Resources
Finance

INITIAL RESEARCH:

BILL SUMMARY COMPLETED:

SUMMARY BY LEGAL DIVISION:

SPONSOR CONTACTED FOR
BACKUP MATERIALS:

DEPT. OF LAW SUMMARY:

FISCAL NOTE:

AGENCY RESPONSE:

OTHER INTERESTED SENATORS OR
REPS. NOTIFIED:

BACKGROUND RESEARCH:

SIMILAR BILLS INTRODUCED IN PREVIOUS LEGISLATURES:

RESPONSES FROM INTERESTED PERSONS/GROUPS:

OTHER STATE OR FEDERAL PRECEDENTS, REGULATIONS, LAWS:

HEARING PREPARATION:

CHAIRMAN BRIEFED:

DATE AND PLACE SET:

STAFF MEMO TO COMMITTEE:

TELECONFERENCE:

BACKGROUND MATERIAL DISTRIBUTED:

PSA/PRESS RELEASE:

LIST OF WITNESSES:

SUGGESTED AMENDMENTS/COMMITTEE
SUBSTITUTES DRAFTED:

CSHJR 38 (Res)

RELATING TO MARKETING AND TRANSPORTING ALASKA'S NATURAL GAS.
SPONSOR: COWDERY, ET AL

RE: Trans-Alaska gas system and sale of North Slope gas abroad

Resolves that the Alaska State Legislature support the efforts of all owners of North Slope natural gas and other parties to secure sales commitments for the gas in any market,

encourages Japan and Korea to take advantage of the long-term trading relationship that purchase of the gas would offer,

asks the owners of the gas, our Congressional delegation, and all other interested parties to explore financing and construction of a transportation system for Alaska's natural gas,

resolves that the State immediately enter into negotiations for sale of its royalty interest in North Slope gas to in-state users as a catalyst to construction of a transportation system for Alaska's natural gas,

urges the federal government to explore the prospect of making development of the gas transportation facilities a National Interest Project of nations on both sides of the Pacific.

April 4, 1983

The Honorable Ronald Reagan
President
United States of America
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear President Reagan:

The upcoming energy talks between the United States and Japan, scheduled to begin April 6, offer the opportunity to help encourage the development of an essential American energy resource -- Alaska North Slope natural gas. The known gas reserves on the North Slope comprise about 15% of total national reserves. At present, that 29 trillion cubic feet of natural gas is not being produced, and it is in the national and state interest to explore all feasible alternatives for bringing that gas to market.

The state supports any project that can reasonably offer the prospect of bringing Alaska gas to market. This includes our past and present support of the Alaska Natural Gas Transportation System. But another reasonable alternative which has recently resurfaced is the prospect of exporting Alaska gas to the Pacific Rim, including Japan. Preliminary studies have shown that, at the very least, the option of

April 4, 1983

exporting Alaska natural gas is worthy of serious consideration and further scrutiny.

We urge your administration in your discussions with Japan to emphasize the possibility of future export of North Slope gas to that country. Presently, Japan is receiving significant amounts of Alaska Cook Inlet gas, and the receipt of increased amounts of gas from the North Slope could be in both nations' economic and strategic interests. The success of a North Slope export project will require the interest, involvement and support of the Japanese government, and consequently is an appropriate subject of the upcoming talks. We would also urge your administration to give serious attention and study to the option of exporting Alaska gas to Japan as a component of national energy policy.

This letter is not to be taken as an endorsement of any specific project or, at this point, as support for an export project as opposed to the Alaska Natural Gas Transportation System. While we will continue to support the efforts to bring Alaska natural gas to the lower-48 markets, we also believe that sound national energy policy requires at least a serious discussion of the export option.

The Honorable Ronald Reagan -3-

April 4, 1983

Sincerely,

Bill Sheffield
Governor
State of Alaska

BS/RMM/mr

cc: The Honorable George Schulz
Secretary of State

The Honorable William P. Clark
Assistant to the President
for National Security Affairs

The Honorable Ted Stevens
United States Senate

The Honorable Frank Murkowski
United States Senate

The Honorable Donald E. Young
United States House of Representatives

HJR 38 RELATING TO MARKETING AND TRANSPORTING ALASKA'S
NATURAL GAS.

In 1978 the Congress and the President gave to Northwest Pipeline Company a federal charter to construct a gas pipeline from the North Slope to the midwestern states. Last fall, the Governor's Economic Committee was established to evaluate an intrastate system to transport North Slope gas to tidewater where the gas would be liquified and shipped to the Pacific Rim for sale. The Governor's committee submitted its report early this year. It concluded that a gasline from the North Slope is feasible and economic.

As passed by the House of Representatives, HJR 38 supports the construction of the TAGS line. The Committee Substitute as proposed to the Resources Committee supports the marketing of North Slope gas in any way possible without favoring any gasline over another. This approach is consistent with the report given to the State by Booz, Allen and Hamilton. This report stated that the State of Alaska should support marketing of North Slope gas per se, and it is in the State's best interest to facilitate a market-place decision between the two by supporting both projects. The report further states that the state should fill the role of a "neutral facilitator". The Committee Substitute was drafted to serve this purpose.

pass 18-0 6/20/83

BETTYE, THERE IS A FINANCE COMMITTEE SUBSTITUTE. DIFFERENCES BETWEEN THE RESOURCES AND FINANCE C.S. ARE HIGHLIGHTED ON THE ATTACHED COPIES OF THE BILL.

ESSENTIALLY, FINANCE C.S. URGES MARKETING IN ALL MARKETS, WHERE RESOURCES C.S. LIMITS TO PACIFIC RIM.

FINANCE C.S. REQUESTS THE GOVERNMENT TO REMOVE IMPEDIMENTS TO MARKETING NORTH SLOPE GAS OR OIL. RESOURCES C.S. LIMITS TO JUST GAS.



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:

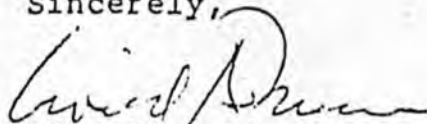
Thank you for your cable to President Reagan regarding Alaskan resources. The White House has asked me to respond.

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 1985 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



BACK UP ARGUMENTS FOR A TAGS LINE & MARKETING TO JAPAN

DISCUSSIONS ARE PRESENTLY UNDERWAY, AS A RESULT OF PRIME MINISTER NAKASONE'S JANUARY VISIT WITH PRESIDENT REAGAN, THROUGH A U.S.-JAPAN WORKING GROUP ON ENERGY, TO OVERCOME THE IMPEDIMENTS TO PRIVATE INVESTMENT AND FREE TRADE IN ENERGY IN VARIOUS SECTORS i.e: oil, gas, coal & synthetic fuels. At the time our Washington Congressional Delegation is recommending revisions in the Export Administrations Act's restrictions on the export of Alaskan crude oil. The changing world Oil supply and demand dynamics point to a possible change in the Administration's position on oil export. Things have never looked better for a consensus to develop in the near future that will favor export. If this happens, Alaska will be in an excellent position to tie the obvious desire for Alaskan crude to the contracted sale of our NATURAL GAS.

In a recent "we told you so" editorial in the Wall Street Journal, the editor recalled their prediction backk in the midst of the unlamented "energy crisis" , that even though the weight of the world was not limitless, energy prices would not go up and up forever. Today, that prediction looks right on with the recent price cut by OPEC of their benchmark price to \$29.00 Another, more recent prediction: That the great Siberian Pipeline would prove to be an economic turkey, also seems to be finding proof in the pudding. When President Reagan was trying to get the Europeans to back out of their deal ot finance the Soviet pipeline in response to the crackdown in Poland, The Journal kept insisting that since it's not economic to pipe gas from Prudce Bay to Chicago, it/cannot be economic to pipe gas from Siberia to Bavaria.

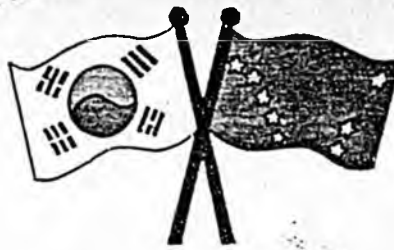
With energy prices crumbling, it is totally apparent that if the Europeans had listened to Mr. Reagan, they would have saved themselves a bundle. The Europeans have given the Russians below-market loans for the privilege of buying above market energy. I do not believe a similiar situation will happen so that the ANGTS line can be built.

The basic conclusion is that the state would benefit enormously from the construction of either gas system; be it TAGS or ANGTS.

The total revenue benefits as backed up by the Booze, Allen report are roughly speaking \$3-4 Billion including roulalty payments, severance, and even property income taxes from ANGTS over its life span (1990 to 2010). The TAGS line over a similiar life span about \$6-7 Billion..NEARLY DOUBLE.... Additional revenues will be forthcoming from potential spin off projects at Fairbanks. Employment benefits are also substantial.

26-27 thousand construction jobs measured in man years for either project....

ALASKA-KOREA BUSINESS COUNCIL, INC.



April 7, 1983

RECEIVED APR 11 1983

Representative John Cowdery
Chairman, Oil & Gas Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Cowdery:

I am pleased on behalf of the Alaska-Korea Business Council, Inc. to respond to your request for further explanation of our Council's evaluation of Korea's interest in importing Alaskan oil, gas and coal.

There exists a very strong interest in Korea in importing Alaskan oil. Korea is 100 per cent dependant on foreign sources for oil. Of these foreign sources almost 90 per cent comes from OPEC nations. Of OPEC oil imported into Korea over 80 per cent comes from the Middle East. Korea's reliance on these sources of oil create two strategic problems. First, OPEC prices are often higher than non-OPEC oil. Second, oil from OPEC nations, especially nations in the Middle East, is strategically tenuous because of political and military problems. It is thus in Korea's interest to diversify its supplies of crude oil to the greatest extent possible and to seek out the most secure and longterm supplies of oil possible.

Korea believes that Alaska offers the most secure source of crude oil. There is no question that the significant transportation savings in transporting Alaskan oil to Korea would be mutually beneficial.

Korea has embarked upon a major LNG project. Phase I of this project is to be completed in 1987. Phase I will import approximately 300 hundred million cubic feet daily of natural gas from Indonesia. The contract between Korea and Indonesia's national oil company,

Representative John Cowdery
April 7, 1983 Page 2 of 2

Pertamina, is now all but complete. Korea may be interested in seeking an incremental supply of LNG from Alaska so as to meet their full Phase I requirement. Since their Phase I LNG project will be completed in 1987 it is probable that only Alaska's Cook Inlet gas could serve as this incremental supply.

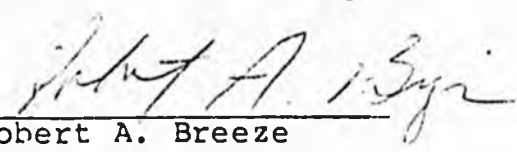
Korea's Phase II LNG project should be completed by 1989 or 1990. Korea's Phase II project will be at least as large as their Phase I project. Korea is most interested in seeking Alaska gas as the primary supply for their Phase II project. While many sources of supply are available to Korea for LNG, Korea would favor the most secure source of supply that is located the closest to Korea. That criteria favors importing LNG from Alaska assuming competitive pricing. In this regard it is important to note that the Korean's view energy imports holistically without a great deal of distinction between crude oil and natural gas. The Koreans see a linkage between oil and LNG imports. It was for this reason that they selected Indonesian gas as their primary source of supply for their Phase I project. Korea was already importing substantial quantities of crude oil from Indonesia.

It is impossible to speculate with any degree of certainty about the prospects for lifting the ban on the export of North Slope crude oil. This issue is being addressed in Washington, D.C. at this time and we will know by October 1 of this year as to whether the ban will be lifted. Arguably, it may be in the State's interest to delay pending decisions on the sale of North Slope royalty crude oil until we know whether the export option is a viable one or not.

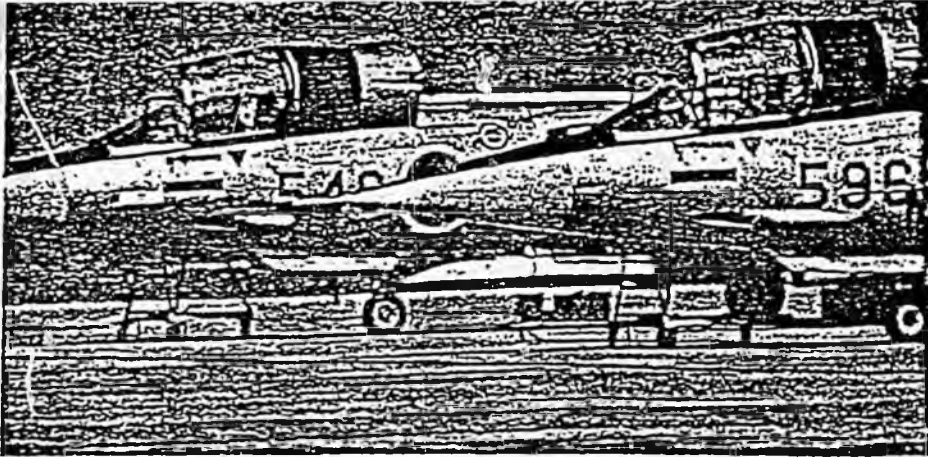
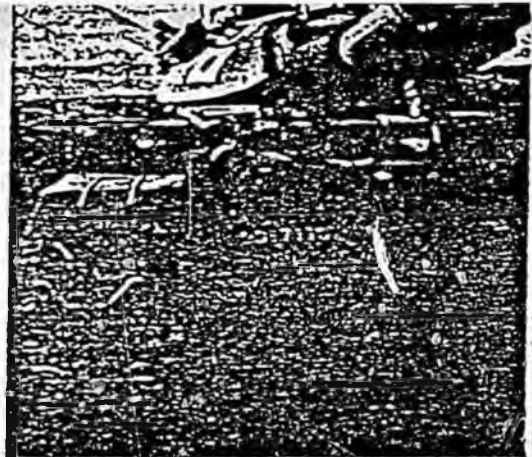
I hope that these comments adequately covered the points that you raised in your request. If I can provide you with any further information or give testimony before the committee, please do not hesitate to call upon me.

Best regards,

By


Robert A. Breeze
President

RAB/jds



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

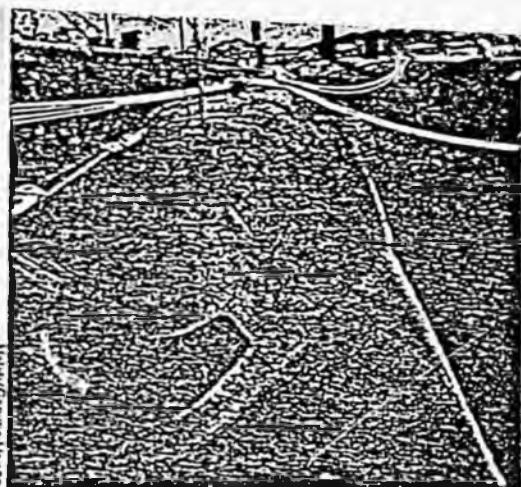
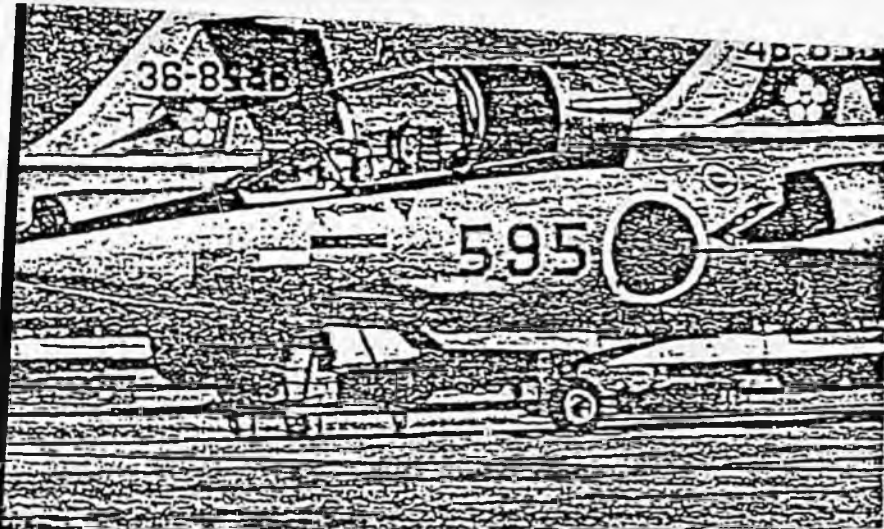
been grumbling for years about Japan's "free ride," it now has a receptive listener in Yasuhiro Nakasone, who became Prime Minister last November. One of Japan's most articulate hawks, Nakasone is a former Defense Minister who believes a country as economically powerful as Japan should play a larger 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, revised 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."

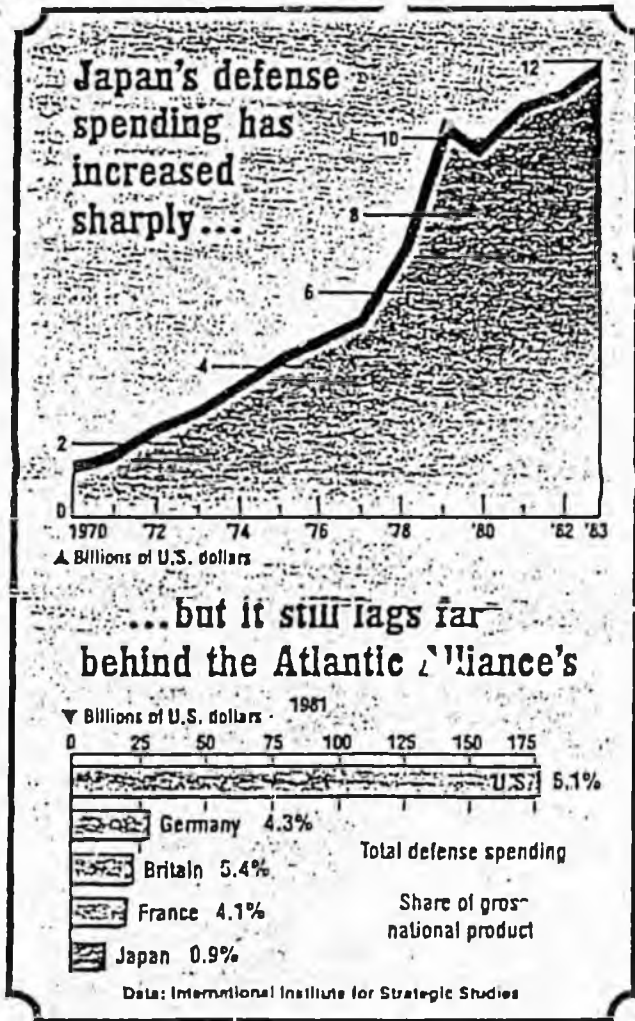
None of this yet worries most officials of the Reagan Administration. Washington is focusing on Japan's enormous economic strength and its failure to carry

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 rebirth 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

John, Thus far this Session 576 Bills have been introduced. 336 in the House, 240 in the Senate. Of those 11 in the House can be interpreted as being related to issues that will create revenue, 13 in the Senate. Of the 123 Resolutions introduced so far only 6 relate to revenue producing issues. None of them even come close to the magnitude of the revenue that would be generated by an Alaskan Gas Transportation system.

CONCLUSIONS . . . TAGS

BUT, THERE ARE MARKET TIMING RISKS. JAPAN IS NOW MOVING TO CONTRACT FOR LNG SUPPLIES FOR THE NEXT DECADE, AND THE COMPETITION TO SUPPLY THEM IS FIERCE . . .

ESTIMATES OF LNG SUPPLY SHORTFALLS (MMT/YR)

	1990	1995	2000
MITI	5.9	14.6	28.6
MITSUBISHI RESEARCH INSTITUTE	(0.1)	..	24.6
MARUBENI	4.9-8.9	..	32.6-36.6
SUMITOMO	1.9-6.9
MITSUI	1.0
RANGE	(0.1)-8.9		24.6-36.6

POTENTIAL LNG SUPPLY PROJECTS TO MEET SHORTFALL

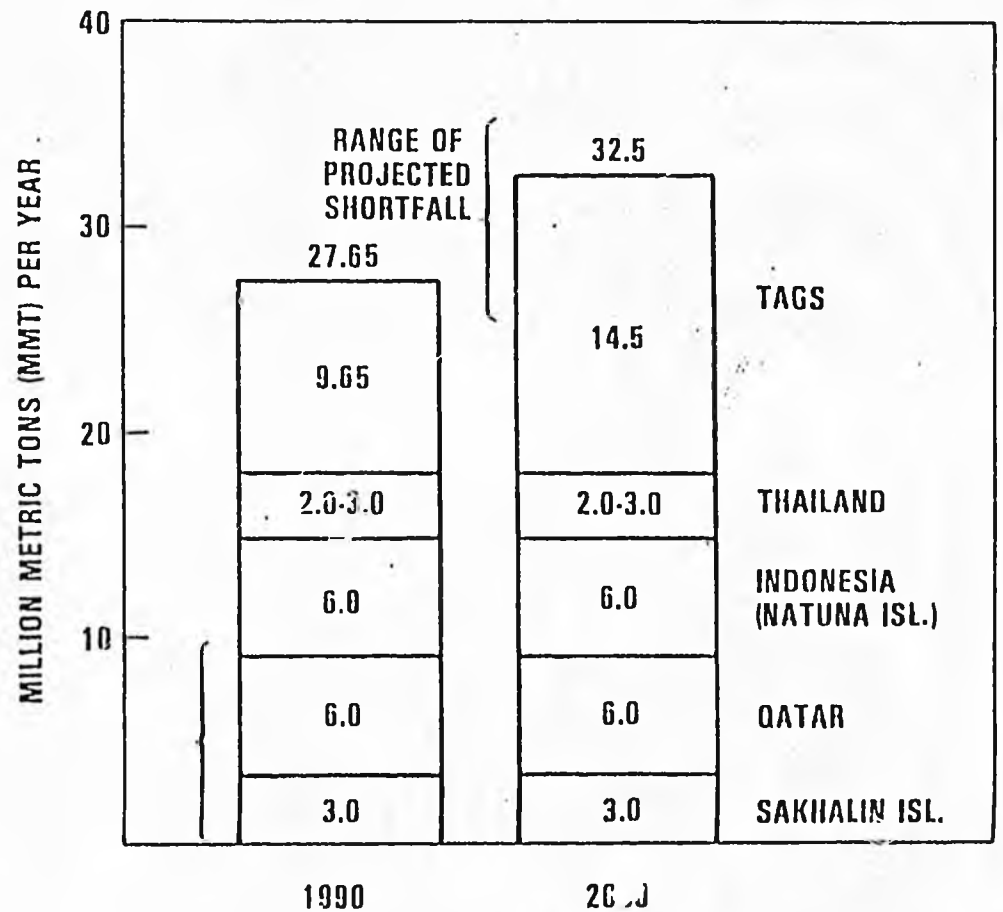


Table 4

Prospective System LNG Costs Delivered In Japan
Compared with Projected Japanese LNG Prices

(Nominal Dollars Per MMBtu)

	<u>Total System</u>				
	<u>System LNG Costs Japan (Lower Tariff)</u>	<u>System LNG Costs Japan (Higher Tariff)</u>	<u>Japanese LNG Price Forecast</u>	<u>Economic Value of LNG (Lower Tariff)</u>	<u>Economic Value of LNG (Higher Tariff)</u>
1988	5.67	7.16	7.89	2.22	0.73
2011	26.21	33.27	37.40	11.19	4.13
Average	13.52	17.13	19.13	5.61	2.00

	<u>Phase I System</u>				
	<u>System LNG Costs Japan (Lower Tariff)</u>	<u>System LNG Costs Japan (Higher Tariff)</u>	<u>Japanese LNG Price Forecast</u>	<u>Economic Value of LNG (Lower Tariff)</u>	<u>Economic Value of LNG (Higher Tariff)</u>
1988	6.94	8.91	7.89	0.95	(1.02)
2007	24.67	31.90	28.53	3.86	(3.27)
Average	14.08	18.11	16.17	2.09	(1.94)

Prospective System NGL Costs Per Barrel Delivered In South Alaska

Prospective System NGL tariffs delivered in South Alaska developed by the base analyses have not been analyzed in connection with Japanese markets but provide a basis of comparison for North Slope producers in evaluating cost estimates of alternative options of conditioning and transporting NGL products. NGL tariffs on a Btu basis are the same as LNG

MARKETING

Dome/Japan LNG Export

Dome Petroleum Ltd., of Canada, has plans to export LNG under permit from the Canadian federal government, but the project may be doomed from the weight of its special conditions. Dome must obtain pricing/term concurrence from both the (producing) provinces of Alberta and British Columbia. It must obtain a low interest loan agreement from Japanese customers for a \$2 billion LNG plant, and must go back to the National Energy Board for complex tariff review. If conditions could be met Dome could export 2.3 trillion c/f LNG under a 15 year license.

The Dome gas would be internationally priced at about \$6.68 mcf in Japan, compared with \$4.94 mcf U.S. price, but the gas must "netback," after deduction of processing and tariffs, to produce the same value to the producer (and therefore to governments in royalties/taxes) equal to North American exports. Critics say despite the higher price the netback will have a difficult time matching the netback from continental exports.

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FERC REFUSES, 3-2, TO ALLOW COST RECOVERY FOR COMPETING ALASKA PROJECT

FROM "INSIDE FERC" APRIL 11, 1983

IN A HOTLY DEBATED 3-2 DECISION, THE COMMISSION RULED RECENTLY THAT THE SPONSORS OF THE ALASKA NATURAL GAS TRANSPORTATION SYSTEM CAN'T CHARGE THEIR RATEPAYERS FOR THE COSTS OF ENVIRONMENTAL STUDIES CONDUCTED BY A CONSORTIUM THAT MADE AN UNSUCCESSFUL BID TO BUILD A PIPELINE TO TRANSPORT ALASKA GAS:

COMMISSIONER ANTHONY SOUSA, LEAD COMMISSIONER FOR THE ANGTS PROJECT, AND CHAIRMAN C.M. BUTLER III, FAILED TO CONVINCE THEIR COLLEAGUES THAT BECAUSE OF THE UNIQUE NATURE OF THE ANGTS PROJECT, CUSTOMERS OF NORTHERN BORDER PIPELINE, SPONSOR OF THE EASTERN LEG, AND OF ALASKAN NORTHWEST NATURAL GAS TRANSPORTATION, SPONSOR OF THE ALASKA SEGMENT, SHOULD PICK UP THE COSTS OF AN UNSUCCESSFUL PROPOSAL THAT THEY SAID CONTRIBUTED SUBSTANTIALLY TO ANGTS. THEY ARGUED THAT ALASKAN NORTHWEST WOULD CHARGE ITS RATEPAYERS MORE THAN \$38 MILLION AND NORTHERN BORDER WOULD CHARGE \$305,000 FOR STUDIES CONDUCTED BY THE GAS ARCTIC/NORTHWEST STUDY GROUP. SOME PARTNERS OF THAT GROUP, WHICH FAILED TO WIN APPROVAL OF ITS CERTIFICATE APPLICATION, LATER BECAME PARTNERS IN THE GROUP'S SPONSORING ANGTS. APPROVAL OF THE ALASKAN NORTHWEST COSTS WOULD HAVE REVERSED A JUNE 1982 COMMISSION RULING THAT THE COSTS SHOULD NOT BE PASSED ON TO RATEPAYERS.

COMMISSIONER OLIVER "RICK" RICHARD III LED THE OPPOSITION TO SOUSA'S AND BUTLER'S PROPOSAL. RICHARD'S RESERVATIONS WERE "WHO ULTIMATELY PAYS FOR THE SUPERIOR BUSINESS JUDGEMENT OF THE APPLICANT WHO USED THE HEADS OF THE APPLICANTS WHO CAME IN FIRST? ...I TEND TO THINK THE SUCCESSFUL APPLICANT PERHAPS SHOULD COME UP WITH ALL THE DOUGH FOR DOING A WONDERFUL JOB."

COMMISSIONERS DAVID HUGHES AND GEORGIANA SHELDON AGREED WITH RICHARD WONDERING, WHAT KIND OF POLICY WOULD BE ESTABLISHED FOR PIPELINES THAT WEREN'T SUCCESSFUL APPLICANTS AND DIDN'T JOIN PARTNERSHIPS THAT WERE ULTIMATELY SUCCESSFUL. ALL THREE COMMISSIONERS WERE CONCERNED THAT SOUSA'S AND BUTLER'S RECOMMENDATIONS WOULD SET A DANGEROUS PRECEDENT FOR RECOVERY OF COSTS BY UNSUCCESSFUL COMPETITORS FOR OTHER PROJECTS.

SOUSA, HOWEVER, INSISTED THAT THE ANGTS CASE WAS SPECIAL AND THAT ARCTIC GAS CONTRIBUTED TO THE SUCCESS OF THE FINAL PLAN. IN A DRAFT HE REJECTED NORTHWEST ORDER SAID, "IN DECIDING THE ISSUES HERE, ... THERE IS NO DOUBT THAT THE SELECTION PROCESS WAS SUBSTANTIALLY ASSISTED BY THE FUNDS ARCTIC GAS EXPENDED WHICH ALASKAN NORTHWEST, BUILDING ON THE ARCTIC GAS PROPOSAL, NOW SEEKS TO INCLUDE IN ITS RATE BASE."

BUT RICHARD SAID THAT IN EFFECT FERC WOULD BE TELLING RATEPAYERS THAT THEY CONTRIBUTED TO THE NATIONAL INTEREST THROUGH AN UNSUCCESSFUL PROJECT. BUTLER, HOWEVER, NOTED THAT ANGTS WAS APPROVED DURING A TIME OF GAS SHORTAGES. PIPELINES MAY FACE "SUBSTANTIAL DISCOURAGEMENTS" TO INVESTMENTS IN SUPPLEMENTAL PROJECTS, HE WARNED, IF THEY DON'T HAVE ASSURANCES THAT THEY CAN EARN RETURNS ON THEIR INVESTMENTS DURING FAVORABLE TIMES AS WELL AS TIMES OF RISK.

PREHEARING CONFERENCES / KUPARAK 4/27 10:00 A.M.
COOK INLET 4/28 10:00 A.M.

Japan, U.S. Agree to Exchange Semiconductor Industry Reports

Japan and the U.S. have agreed to exchange detailed reports on each country's semiconductor industry in order to help dispel mutual misunderstanding, the Ministry of International Trade and Industry (MITI) said Friday.

The agreement came during a session of the Japan-U.S. semiconductor subcommittee under the governmental Japan-U.S. High Technology Work Group held in Washington from Tuesday to Thursday.

The report will cover such subjects as the industry's market structure, investment, trade volume and research and development efforts. The reports from the two countries will be unified into a joint report in the fall of this year, according to MITI.

A MITI official said that the joint report will help Japan and U.S. to obtain a common understanding of each other's semiconductor industry.

During the Washington meeting, the two countries also agreed to exchange statistical data on monthly shipments of various semiconductor products produced by each country's industry.

From the Japanese side, not only MITI and Foreign Ministry officials, but also officials from NEC, Hitachi and the Electronics Industries Associations of Japan attended the meeting.

From the U.S. side, officials from the U.S. Trade Representative's Office and Commerce Department and from Advanced Micro Devices, Motorola, Harris and the

Semiconductor Industry Association attended the meeting.

The U.S. delegates complained that U.S. makers only have a 10 percent share of the Japanese semiconductor market, while they enjoy 60 percent in Europe, according to MITI.

The Japanese side called on the U.S. side not to look at the market only in terms of share and said that businessmen engaged in the semiconductor trade know that the Japanese market is wide open to U.S. makers, according to MITI.

Gov't Will Ask Indonesia to Ease Shrimping Rules

Japan will ask Indonesia to ease restrictions on Japanese trawl-fishing for shrimps off the Indonesian coast, a government spokesman said Friday.

The request will be made when Prime Minister Yasuhiro Nakasone confers with President Suharto during his visit to Jakarta on a forthcoming tour of ASEAN countries, the spokesman said.

Indonesia permits Japanese shrimp fishing in its waters on condition that various other fish hauled in with the shrimps be used commercially.

Japanese operators want about two-thirds of such fish thrown away because of their lesser commercial value and also because of the insufficient refrigeration capacity aboard the trawlers.

The fishing companies estimate 36,000 tons of fish are hauled in along with the 8,000 tons of shrimps taken by Japanese trawlers off the Indonesian coast every year.

TSE Trading

Share prices on the Tokyo stock exchange inched further down Friday with export-oriented stocks as main losers.

The 225-stock Dow-Jones average, a 136.95 loser Thursday, fell 7.08 to 18,435.37.

The composite TSE index of some 900 listed first-section stocks was down 1.29 points to

Tariff Cut on Nullified, U.S.

NEW YORK (AP) — The tariff on imported American cigarettes nullified the reduction by slapping a 10 percent surcharge on cigarettes sold in Japan, a man charged Thursday.

"The surcharge effectively nullified the reduction," a spokesman for the American Tobacco International said. "Whatsoever for the imposition of brands."

In a telephone interview with Winston-Salem, N.C., the reduction from 35 to 20 percent with a 120 per pack surcharge.

In the past year, the company's cigarettes in Japan have been compared with 1180 for brands state tobacco monopoly. With the price of a pack of American cigarettes dropped by 130, Reynolds said the price will drop only 110.

"This small price change will make brands more competitive," said vice president of Reynolds International.

He said the surcharge was imposed and unwanted price increase and that American companies as a result of it. "The only products out of the reach of who want to buy them," he said.

"We had hoped that during Prime Minister Yasuhiro Nakasone's visit to Washington earlier this year toward making American brands with Japanese brands," said Reynolds. "The surcharge effectively negates much of the reduction."

Reynolds says that because of the surcharge, distribution, advertising and American cigarettes account for 10 percent of the Japanese cigarette market world. The remaining 98.6 percent is state-owned Japan Tobacco International. The corporation is the only American cigarettes in Japan.

Japan Mulls Investment In U.S. Energy Projects

WASHINGTON (Reuters-Kyodo) — The United States and Japan Thursday completed the first in a series of high-level talks that could ultimately lead to Japanese investment in U.S. energy projects.

The two days of talks were held against a background of a Japanese desire to diversify its sources of energy for which it relies almost totally on imports.

Officials said the talks included discussion in general terms of Japanese investment in U.S. coal, gas and oil linked to long-term purchases of these fuels.

The meeting was the first of an energy working group of the two countries set up by President Ronald Reagan and Japanese Prime Minister Yasuhiro Nakasone here last January.

The U.S. delegation was led by Undersecretary of State Allen Wallis while the Japanese

team was headed by Deputy Foreign Affairs Minister Mori Yukio Motono and Trade and Industry Vice Minister Kunio Komatsu.

Officials of both sides said the talks were mostly conducted in broad terms with detailed discussion left for experts. They described the talks as useful and planned a second meeting in Tokyo this summer.

A statement issued at the conclusion of the talks said the U.S. delegation "pointed to the U.S. role as a reliable supplier with abundant energy resources and numerous opportunities for investment and purchase of U.S. coal, oil and gas."

It said the need for new investment in energy was discussed but made it clear that long-term supply contracts were needed to encourage investors to come forward.

Embassy Told to Protest U.S. Hike in Bike Duties

The Japanese government

In a move to alleviate injury

Gov't Eases On Bank Co

The Finance Ministry Friday decided to ease banking regulations and allow commercial banks install automatic teller machines (ATM) outside their branches and introduce portable computer terminals to their door-to-door services.

In its third round of financial deregulation measures, the ministry also decided to allow banks to link computer communication lines with their corporate customers as a first step toward "firm-banking" services.

Commercial banks have far been allowed to set up only

ROK Spinners Propose Talks To Settle Yarn Dumping Issue

South Korean textile makers have proposed to solve through talks the issue of their cotton yarn export to Japan, on which Japanese textile makers are calling for imposition of an anti-dumping duty, the Ministry of International Trade and Industry said Thursday.

A MITI official said that the Korea Spinners Association has proposed to its Japanese counterpart that officials from the two organizations meet to find ways of solving the problem.

Although the Japanese side is ready to meet officials from the South Korean organization, the date and venue for the meeting have not yet been finalized, the official said.

In the first anti-dumping petition by Japanese manufacturers in history, Japan's 79 textile firms filed suit with the Finance Ministry and MITI on Dec. 27 last year, calling for imposition of anti-dumping duties on 20-count and 40-count cotton yarn imports

from South Korea. The Japanese textile makers have alleged that these cotton yarns being sold here are more than 20 percent cheaper than in South Korea.

They also filed a suit at the same time calling for imposition of a countervailing duty on cotton yarn imports from Pakistan on the grounds that Pakistani firms are receiving from their government export subsidies equivalent to 7.5 percent of the free-on-board (FOB) export prices of 20-count cotton yarn,

plus other financial and taxation favors.

At their meeting with Japanese government officials on Feb. 28, Pakistani officials said that although their government is giving the export subsidies, they did not consider the measure to be a violation of the General Agreement on Tariffs and Trade (GATT), according to the MITI official.

MITI will shortly decide whether or not to start full investigation on the cotton yarn imports from South Korea and Pakistan, the official said.

Alaska Oil Sale Must Be Given Chance: Hodel

WASHINGTON (AP-DJ-Kyodo) — U.S. Energy Secretary Donald Hodel said Wednesday the possibility of selling Alaskan oil to Japan shouldn't be "arbitrarily" dismissed and sales should be allowed if the transaction proved economical for U.S. consumers.

He acknowledged in a talk at the National Press Club that a number of issues stand in the way of such oil sales to Japan, including the use of U.S. ships and labor, U.S. pipeline plans to transport the oil to U.S. markets, and political uncertainties.

Discussing Canadian energy policy, the secretary said the imposition by Canada of energy policies that best serve that country is to be expected, but he believes the Canadian government in time should realize that the best policy in one that maintains a close working relationship with the U.S.

Hodel said one issue that should be settled soon, as Canada readies itself to provide more natural gas to the U.S., is the problem of Canadian prices that currently are about twice the average price for U.S. gas.

Energy Talks
WASHINGTON (Reuter-Kyodo) — High U.S. and Japanese officials Wednesday held a day-long meeting on energy collaboration between the two countries and are to meet again Thursday morning.

The talks, expected to be the first of a series of working group meetings, were arranged when Prime Minister Yasuhiro Nakasone visited Washington last January.

Heading the U.S. official team is W. Allen Wallis, undersecretary of state for economic affairs. The Japanese officials are led by Mori Yukio Motono, vice minister of foreign affairs in charge of economic affairs.

U.S. and Japanese officials, declined to give details of the talks until they are concluded, but they centered on Japan's almost total reliance on imported energy and raw materials.

Japan wants to reduce its reliance on Middle East oil, which accounts for 70 percent of its oil imports, and would like to import U.S. Alaskan oil. U.S. law, however, bans export of this oil.

Japan Trade Curbs Main

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Fujitsu Fanuc, GM to Build Plant

TROY, Mich. (AP) — Under a joint venture, General Motors Corp. and Fujitsu Fanuc Ltd. of Japan plan to use robots to build a robot manufacturing plant, holding down the size of the human labor force to 50 workers.

Plans call for robots to build the robots, Eric Mittelstadt, president of GMF Robotics Corp., said Tuesday.

No site has been selected for the plant. Construction is to begin late this year, and company officials say they will have the plant in operation by 1985.

GMF, based in the Detroit suburb of Troy and formed last June, is a joint venture between GM and Fujitsu Fanuc Ltd., Japan's leading machine tool and robotics maker and manufacturer of 50 percent of the world's robots.

The robots to be manufac-
tured will be able to

Prudhoe Bay gas goes nowhere despite nation's need for energy

By DOUGLAS MARTIN
The New York Times

PRUDHOE BAY—There is seldom anything poignant about an oil-producing facility. But the words scrawled on a giant ball valve at the central compressor plant situated above the vast Prudhoe Bay oilfield tell of a dream deferred: "To future gas plant 1986- plus."

The gas plant, intended as the final processing point for Alaskan natural gas before moving it south by pipeline, has never been built. Neither has the pipeline. The original goal—to have it in service this year—has slipped to 1989 at the earliest, and probably far beyond.

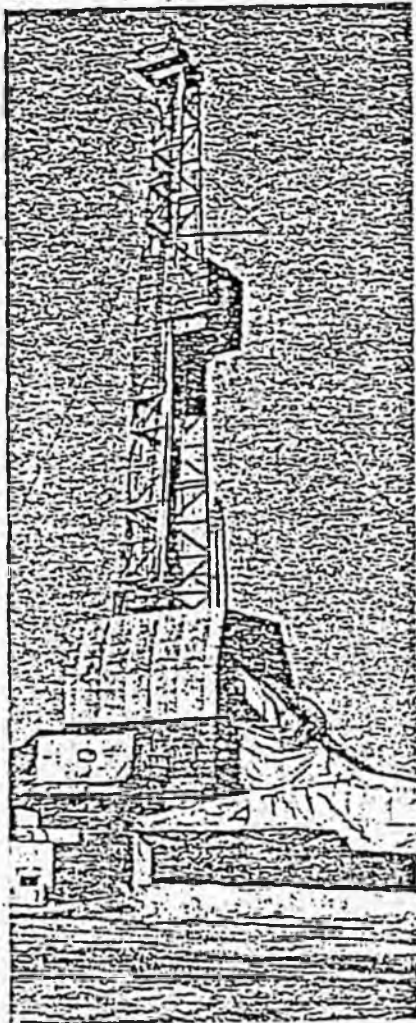
The reasons include the persistent abundance of oil worldwide, a similar abundance of far cheaper gas in the United States, the steep rise in estimated costs and severe financing problems.

The stakes are potential gas resources more than twice the size of today's proven reserves in the United States—enough gas to heat all the homes in the nation for a decade.

For lack of a market, however, millions of dollars are being spent to inject the gas back into the underground reservoir from which it came, in the hope it can someday be sold. Until that day, the gas is viewed mainly as a problem to the companies producing and selling North Slope crude oil.

"It's simply an added expense," said Richard A. Bray, president of the Sohio Petroleum Company, a unit of the Standard Oil Company of Ohio. "It's a nuisance."

Gas exists in two ways at Prudhoe Bay: in a giant "cap" overlying the oil reservoir, and mixed in with the oil. It is thus impossible to pump oil, which is transported to market through the



NORTH SLOPE WELL
Gas future uncertain

Trans-Alaska Pipeline System, without also producing gas. Currently, 1.71 billion cubic feet of gas a day are produced; some powers turbines and other equipment, but 1.54 billion cubic feet are reinjected daily.

Theoretically, this process could go on forever. But with time, the

amount of gas relative to oil brought to the surface will grow, and increasing amounts will need to be reinjected. The capacity of the injection system is 2 billion cubic feet a day.

"Will it be worth the cost to go to three billion?" asked Paul Nordgaard, president of Arco Alaska Inc., in a discussion about the impact of today's plunging oil prices on Alaskan petroleum development.

The main concern, however, is how best to use one of the nation's major sources of energy. In essence, this means finding an affordable way to get the gas to willing buyers.

If capital costs are passed on to consumers immediately, as normally happens with pipelines, the price to gas buyers in the "Lower 48" states could be as high as \$18 a thousand cubic feet, compared with a current average for domestic gas of about \$3.

"You really have to work this marketability problem before you work the financial problem," an executive of a major oil company said.

Ownership of the Prudhoe gas is divided among Arco, Sohio, the Exxon Corp. and a group of oil companies owning smaller portions.

Currently, there is only one legal way to transport the gas to market: the Alaskan Natural Gas Transportation System, a planned 4,800-mile pipeline running from Prudhoe Bay south through Gana-da to markets in the Middle West and the Pacific Coast. A consortium led by the Northwest Energy Co. and including producers of the gas has spent \$700 million designing the system.

The route, chosen by President Jimmy Carter in 1977 and ratified by Congress, has faced some of the same environmental objections

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 difficulty of passing these costs on to consumers.

In part, this has been done by the companies and Alaskan state officials, who have a variety of plans to make the gas price relatively stable through the project rather than through "loading" the capital cost. According to state officials, this could mean the often-cited price of \$60 a thousand cubic feet by 1989, initially. Then, the costs would be spread over years.

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

Companies are also looking for ways to reduce costs of producing the gas and building the pipeline. Nonetheless, a growing opinion seems to hold that the line may be dead.

"When ANGTS was approved, the nation was suffering from a natural gas shortage brought on by a wellhead gas price controlled by a recent report prepared by Booz, Allen & Hamilton. Consequently, there was a great interest in bringing Alaska and other supply supplies to market. Now, however, the natural gas supply-demand picture has changed."

Accordingly, two former governors of Alaska, Walter Egan and William A. Egan, are looking for an alternative under the special committee approach. They suggest solutions. They

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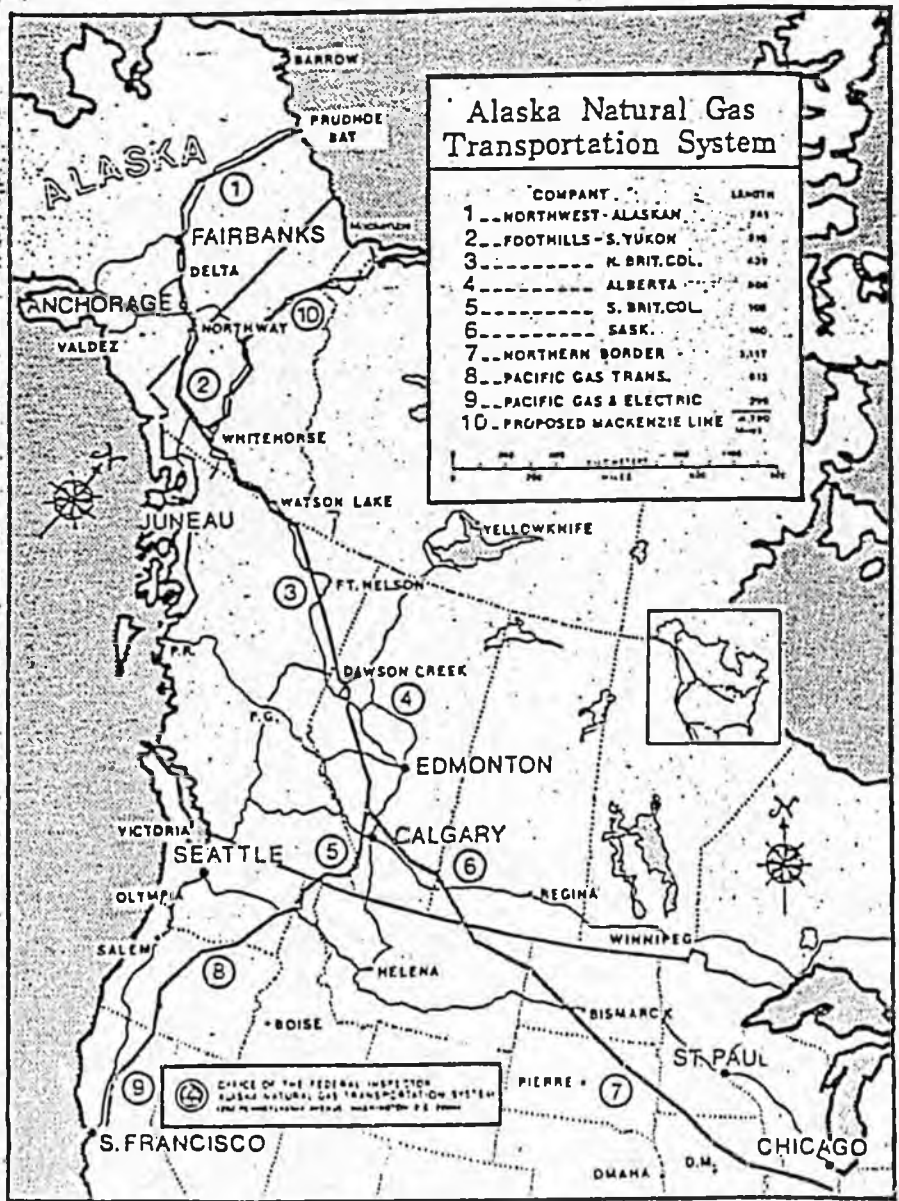
In part, this has been addressed by the companies and Alaska in a variety of plans to make the cost of gas relatively stable throughout the project rather than "front-loading" the capital cost. According to state officials, this could cut the often-cited price of \$18 a thousand cubic feet by 60 percent 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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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU
BILL SHEFFIELD
GOVERNOR

NEWS RELEASE



FOR INFORMATION CONTACT:
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Press Secretary
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Deputy Press Secretary
Office of the Governor
Pouch A, Juneau, AK 99811
Bus. Phone (907) 465-3500

April 6, 1982
No. 83-86

FOR IMMEDIATE RELEASE

FYI: The attached letter was hand-delivered to the White House today.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 4, 1983

The Honorable Ronald Reagan
President
The White House
Washington, D.C. 20500

Dear Mr. President:

The upcoming energy talks between the United States and Japan, scheduled to begin April 6, offer the opportunity to help encourage the development of an essential American energy resource -- Alaska North Slope natural gas. The known gas reserves on the North Slope comprise about 15 percent of total national reserves. At present, that 29 trillion cubic feet of natural gas is not being produced, and it is in the national and state interest to explore all feasible alternatives for bringing that gas to market.

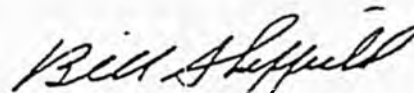
The state supports any project that can reasonably offer the prospect of bringing Alaska gas to market. This includes our past and present support of the Alaska Natural Gas Transportation System. But another reasonable alternative which has recently resurfaced is the prospect of exporting Alaska gas to the Pacific Rim, including Japan. Preliminary studies have shown that, at the very least, the option of exporting Alaska natural gas is worthy of serious consideration and further scrutiny.

We urge your administration to remove all legal impediments to the export of North Slope gas and, in your discussions with Japan, to emphasize the possibility of future export of North Slope gas to that country. Presently, Japan is receiving significant amounts of Alaska Cook Inlet gas, and the receipt of increased amounts of gas from the North Slope could be in both nations' economic and strategic interests. The success of a North Slope export project will require the interest, involvement and support of the Japanese government, and consequently is an appropriate subject of the upcoming talks. We would also urge your administration to give serious attention and study to the option of exporting Alaska gas to Japan as a component of national energy policy.

April 4, 1983

This letter is not to be taken as an endorsement of any specific project or, at this point, as support for an export project as opposed to the Alaska Natural Gas Transportation System. While we will continue to support the efforts to bring Alaska natural gas to the lower-48 markets, we also believe that sound national energy policy requires at least a serious discussion of the export option.

Sincerely,



Bill Sheffield
Governor
State of Alaska

cc: The Honorable George Schulz
Secretary of State

The Honorable James Baldrige
Secretary of Commerce

The Honorable William P. Clark
Assistant to the President
for National Security Affairs

The Honorable Ted Stevens
United States Senate

The Honorable Frank Murkowski
United States Senate

The Honorable Donald E. Young
United States House of Representatives

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.

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QUIZ:

How many veterans were there in 1930, when the Veterans Administration was created to look after their needs? How many are there now?

(Answer below)

THE FEDERAL REPORT

DOE Official Speaks Out for Oil Firms

By Cass Peterson
Washington Post Staff Writer

An Energy Department official has been traveling the statehouse circuit in recent weeks, testifying at government expense against legislation that would bar oil companies from charging extra for credit-card sales.

The official is Leonard Coburn, head of the DOE's Office of Competition, who has appeared recently before legislative panels in at least three states to argue against any restrictions on the so-called "credit surcharge," usually advertised at the pumps as a discount for cash customers.

Coburn says he sees himself as a messenger for the Reagan administration's free-market philosophy, giving "expert guidance" to state legislators "before they do something to the marketplace that somehow will mess it up."

But his activities have been attacked by some gasoline wholesalers and service station dealers who oppose the surcharge. They say Coburn's activity amounts to "gratuitous lobbying" by a government official and runs counter to the administration's vow to keep the federal nose out of state business.

Rep. Berkley W. Bedell (D-Iowa) passed along their complaints, and a few of his own, in a letter to Energy Secretary Donald P. Hodel this month. Finding a "remarkable coincidence" between Coburn's views and those of the major oil companies, he pointedly suggested that Hodel might even save federal money by abolishing Coburn's office.

"I can confidently predict that whatever work they do in that office would quickly be picked up by the big oil companies, whose budgets are in better shape than the government's right now," he wrote.

Coburn's boss, Assistant Secretary Robert C. Odle Jr., says that Coburn's activities have his full approval and are "totally consistent" with the administration's pro-federalism and anti-regulation policies.

"It is a perfectly proper thing for government officials to present their views on administration policy," said Odle, who added that Coburn testified at the request of several states. "If he wasn't welcome, the appropriate state body would tell us and he wouldn't go."

But Texas legislators say Coburn's appearance before a House committee in Austin last week was his idea, not theirs.

"He was not invited by the committee," said Rep. Hugo Berlanga, who sponsored the anti-surcharge bill. "This gentleman called and indicated to the committee that he had been traveling around the states offering testimony in opposition to similar legislation and he wanted to come down."

"I find it rather disturbing," said Berlanga. "I'm appalled that someone from the Department of Energy would come in and interfere with the state's ability to deal with the major oil companies."

State Rep. Leo Jackson, chairman of the committee that held Tuesday's hearing, confirmed Berlanga's account.

"I've never had an out-of-town witness come and ask if they could speak, but our rules are that hearings are open and anyone can speak," he said. "They said they needed something in writing, so I sent them a letter saying they'd be welcome. I assume someone needed that as evidence for reimbursement of travel."

Jackson said he didn't share his fellow Democrat's sense of outrage at Coburn's appearance, noting that the legislature frequently hears witnesses from federal agencies. "We have somewhat selective indignation," he said.

Odle also attributed the complaints to special-interest concerns. "I suspect that there's more concern about the policy as opposed to the methods by which he's doing it," he said.

In his testimony before a Maryland Senate committee, which eventually killed the bill, and a Texas House committee, Coburn said the surcharge puts the cost of credit where it belongs—on the upper- and middle-income customers who use credit cards—rather than on the "poorest segments of our society" and the elderly.

By barring the surcharge, he suggested, a state might force an oil company to drop credit-card programs or pass the costs along to all customers by raising the price of its gasoline to the dealer.

Opponents of the surcharge, or cash discount, say their price comparisons show that both cash and credit-card customers pay less for gasoline at stations that don't offer the discount.

"That discount is the biggest phony in the world. Coburn knows it and so do the oil companies," said Vic Rasheed, executive director of the Service Station Dealers of America, who has sent a formal complaint about Coburn's activities to the DOE's inspector general.

The inspector general's office said it is conducting a preliminary investigation into Rasheed's complaint. But the department's ethics officer said he knew of no provision in the DOE standards of conduct that would apply to Coburn's activities.

Legislation to spur development of Alaska's renewable resources, mainly fisheries and timber, will be among his top priorities this year, Senator Ted Stevens said in his annual address to the State Legislature in February. At the same time, the senator stressed that Alaskans must continue the effort to correct misunderstandings about their state in Washington.

Following are some of the highlights of the senator's speech:

Alaska's Image In Washington

"Our relationship with Washington, D.C. is difficult, in part because of the loss of institutional memory in the Congress and the fact that so few members of Congress have been to Alaska. Sixty-one new senators and 299 new congressmen have come to Washington since the '70's when several committees came to our state to acquire a better comprehension of Alaska's unique geographic, economic, and political conditions.

"The vast majority of those now in Congress were not there during debates over Native claims, the Trans-Alaska pipeline, the natural gas pipeline, and certainly not statehood.

"This means we must make a special effort to obtain cooperation from Washington. We hope to bring members of Congress to Alaska during the recesses again this year.

Severance Tax Battle

"We've had a long battle with representatives of the Midwest and Northeast Coalition over Alaska's right to levy severance taxes. It will be even harder this year to defeat punitive tax legislation targeted at Alaska, but at least we know that logic is not on the side of our antagonists.

"The argument of the Northeast-Midwest coalition used to be that resource states exported severance taxes to consumers in the energy consuming states. At my request, the Congressional Research Service examined that argument and found most of Alaska's oil severance tax, approximately 87 percent, is not shifted to consumers.

"The coalition realizes the 'shifting' argument is a spurious one, and now makes an emotional appeal to members and the public on what they call "fairness." It's "unfair," they say, for Alaskans not to distribute our wealth to states in need.

Alaska Railroad Legislation

"Fortunately, we made the issue of fairness work in our favor when we finally secured passage of legislation to authorize transfer of the Alaska Railroad to Alaska. Some people thought that because of Alaska's wealth the federal government could extract an exorbitant price for the railroad. But we demonstrated to our opponents that our railroad is an essential component of Alaska's future development. With a modernized railroad, we may fully develop our coal or hard rock mineral resources. The evaluation price must be reviewed in relation to the value of the vast natural resources we could not develop without the railroad. The legislation we enacted includes broad authority for the Secretary of Transportation to negotiate with the state, terms and conditions that will be acceptable.

State Offices Near You

The addresses and phone numbers of Senator Stevens' offices in Alaska are:

Anchorage	701 C Street, Box 2, 99513	(907) 271-5915
Fairbanks	101 12th Ave., Box 4, 99701	456-0261
Juneau	P.O. Box 149, 99801	586-7400
Nome	Box 608, 99762	443-2842
Kenai	Box 3030, 99611	283-5808
Ketchikan	Federal Bldg., Rm. 501, 99901	225-6880
Kodiak	P.O. Box 177, 99615	486-5407



WASHINGTON, D.C. RESIDENTS and visitors had the opportunity to enjoy both traditional and contemporary Alaskan Eskimo art at the Smithsonian Institution's recent exhibit, "Inua: Spirit World of the Bering Sea Eskimo." Here, Cyndi Ahwiriona, receptionist for Congressman Don Young, and Senator Ted Stevens, admire a portrait by Alaskan Larry Ahvokana, one of the contemporary artists included in the exhibit. Portions of the "Inua" exhibit will travel to Juneau, Fairbanks and Anchorage this year.

Fisheries

"The fishing industry is the largest private employer in the state of Alaska. Our top legislative goal should be to improve the competitiveness of our fishing industry. Our emphasis must be on improving the competitive posture of our traditional coastal fisheries.

"In the 98th Congress, we will seek extension of the capital construction fund to shorebased fish processing facilities.

"I have also asked Congress to create a fishery development corporation to perform many of the research and development projects that are under the control of the National Marine Fishery Service. We will also seek authorization for a fisheries marketing board similar to that pioneered through the Alaska Seafood Marketing Institute.

"The Library of Congress is studying, at my request, existing agricultural support programs to determine how they might be modified to help the fishing industry.

Timber

"The weak state of our timber industry, primarily caused by a slowdown in the Japanese economy, is of great concern. You know the dismal statistics describing mill closures, declining lumber purchases and widespread unemployment. Irreparable damage may result if we do not act to assist Alaska's small and large timber operators.

"Due to pressure from environmentalists, we expect a tough fight maintaining the \$40 million minimum appropriation for timber sale preparation established in the Alaska lands bill. Additionally, there is timber relief legislation cosponsored by Senator Murkowski and me pending before the Senate.

North Slope Gas

"A transportation system for Alaska's North Slope Gas is absolutely essential. Exploration and development activities will be affected adversely if the pursuit of oil yields large quantities of gas which cannot get to market. I intend to actively assist the first project for transporting Alaska's gas that is adequately financed. Financing is the key. When financing is available, I believe Congress will act to assure such a system is built, as long as it is consistent with our national energy needs.

Freight Rates In Alaska

"The Statehood Commission touched a nerve in their review of the U.S.-built requirement for Alaska's shipping traffic. As Chairman of the Merchant Marine Subcommittee, I intend to review changes in law that will reduce overall freight rates for Alaska. Hawaii has an exemption that permits foreign trade vessels to stop on their voyages overseas. Alaska should also benefit from that exemption."

Price 11% on Gas Piped to U.S. Discount for Large Purchases Is Delayed; Producer Group Urges Bigger Cut

By a WALL STREET JOURNAL Staff Reporter

OTTAWA—The Canadian government reduced its base price for natural gas piped to the U.S. but delayed an announcement on discounts for large gas purchases.

As of midnight last night, the price of Canadian natural gas delivered at the U.S. border declined 11% to \$4.40 (U.S.) from \$4.94 a million British thermal units. A thousand cubic feet of gas contains about a million British thermal units of energy.

Reaction to the announcement was muted. "It was a step in the right direction but wasn't a very big one," said a spokesman for TransCanada PipeLines Ltd. The Canadian Petroleum Association, an industry group, called for a further reduction.

Canada's minister of energy, Jean Chretien, who made the price announcement in a speech in Calgary, said a possible discount for large purchases will continue to be studied. Uncertainties in the U.S. natural-gas market and differences between Alberta and British Columbia, Canada's principal gas-producing provinces, complicated the discount question, the minister indicated. He said he has asked for a detailed report within four weeks on a possible discount scheme.

The drop in the base price isn't likely to renew U.S. interest in Canadian gas, however, and Canadian officials said further reductions may be needed. "It was the best thing that could be done on a short-term basis," said one Canadian official.

At Northern Natural Gas Co., an Omaha, Neb.-based unit of InterNorth Inc., a spokesman said the reduction was welcome but wasn't enough to interest the utility in larger purchases of Canadian gas. The utility cut its purchases last month.

Canada set its administered price for exported natural gas at about \$4.94 a thousand cubic feet in April 1981. The price was regarded as high at the time. Since then, prices for gas in the U.S. have weakened substantially, and Canada's price is nearly double the range in which much U.S. gas is sold.

Canada has resisted reducing the price on the theory that the current glut of natural gas in U.S. markets is temporary. However, in recent months, the prospect of a tightening in gas markets appears to have receded further. Some analysts say U.S. deregulation of natural-gas prices and the decline of world oil prices may delay any such change indefinitely.

Political pressure has been building on both sides of the border for a lower Canadian gas-export price. In the U.S., consumers whose utilities are under long-term contracts to buy Canadian gas and can't change to cheaper domestic fuel have complained about their bills. In Canada, relatively small companies producing gas for export have been squeezed by the dwindling U.S. demand for the high-priced gas.

In Salt Lake City, Northwest Energy Co., one of the largest purchasers of Canadian gas, said the price cut "will do nothing to improve gas marketing conditions in the U.S."

"It's good to see Canada finally recognizing the need to act on this issue, but the price reduction is extremely disappointing and doesn't go far enough. It is like applying a Band-Aid when major surgery is needed," said John G. McMillian, chairman and chief executive.

Mr. McMillian said a price of \$3.50 per million BTU's would be more realistic. "And if world prices decline further, they should drop the border price again," Mr. McMillian said.

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Dome Petroleum Moves to Avoid New Debt Problems

By a WALL STREET JOURNAL Staff Reporter

CALGARY, Alberta—Dome Petroleum Ltd. has been forced to take some special precautions to avoid cross-defaults stemming from the failure of Cyprus Anvil Mining Corp. to meet a \$6.5 million (Canadian) principal payment on a loan.

The financially troubled Canadian oil and gas company has reduced its holding in the mining company to 43.75% from 87.5% so that Cyprus Anvil won't be a Dome Petroleum subsidiary. Sources say Dome sold the shares to its affiliate, Dome Canada Ltd., Calgary, for a nominal payment of \$20. Dome Petroleum has the right to repurchase the shares at the same price later, the sources said.

Without the precaution, a default on the Cyprus Anvil loan could have triggered demands from nearly all of Dome Petroleum's lenders for accelerated repayment of most of Dome Petroleum's \$6.5 billion in debt. Dome Petroleum already is unable to repay \$2 billion that came due last year. It is negotiating a refinancing agreement for its own debts.

Cross-default clauses permit lenders to demand repayment of all their loans to a borrower if the borrower defaults on any of its loans.

As previously reported, Dome Petroleum has disclosed that it has "reorganized" its holdings of Cyprus Anvil without providing details. Cyprus Anvil owns a lead-zinc mine in Faro, Yukon Territory, which has been temporarily closed since last June because of weak metal markets. It owes three banks \$130 million, including the \$6.5 million principal repayment that came due March 31. The repayment came into conflict with a stand-still arrangement on debt repayments that Dome has negotiated with its main bankers in Canada. The stand-still arrangement affects all of Dome's subsidiaries. Dome said one of Cyprus Anvil's three bankers, holding less than 4% of the loan, refused to accept the deferral. The banks haven't been identified.

To protect Dome Petroleum from claims that it exercised undue influence on 48%-owned Dome Canada regarding the Cyprus Anvil purchase, Dome Petroleum's representatives on Dome Canada's board didn't vote, sources said. Dome Canada apparently also received independent legal advice regarding this matter.

As reported, the three banks have requested that the \$6.5 million repayment be made by May 13, failing which the banks would be able to demand repayment of the entire loan. A Dome Petroleum spokesman said he didn't know if Cyprus Anvil would be able to meet its debt-repayment obligation now that the mining company isn't a Dome Petroleum subsidiary.

Northern Tier Ends Plans for a Pipeline To Move Oil From West Coast to Midwest

By WALL STREET JOURNAL Staff Reporter

SEATTLE—After a long, \$50 million effort, Northern Tier Pipeline Co. said it was abandoning plans for a controversial 1,490-mile pipeline that would have moved Alaskan crude oil from Washington state to the Midwest.

The company said yesterday that it decided not to reapply to Washington state for a permit, denied in April 1982, to build the pipeline's first leg and a critical deep-water port at Port Angeles, Wash. Northern Tier also said it wouldn't seek another route for the \$2 billion project.

"We had gotten about 1,400 permits for the project, but without the Washington state link we had nothing," Jim E. Shamus, Northern Tier's president, said.

"We could have spent another \$8 million to \$10 million to go through another permitting session and still come up with another zero at the end," Mr. Shamus added.

The decision was considered a significant victory for a feisty coalition of Washington state environmentalists who mainly were opposed to the proposed supertanker port that would collect the Alaskan crude for shipment to the line's proposed end at Clearbrook, Minn. They said the hazards of oil spills, fire and explosion greatly outweighed the pipeline's economic advantages. State officials also complained that the pipeline, once completed, would create few jobs in the state but would expose it to numerous environmental dangers.

Though Northern Tier complained that the environmental hazards were "greatly overstated," a special Washington state commission—applying the same standards the state applies to the siting of nuclear power plants—last April recommended the denial of a construction permit.

Idaho, Montana, North Dakota, Minnesota and the federal government already had given approvals to the project.

Despite the April 1982 setback, Mr. Shamus said Northern Tier had been tempted to try again and spent about \$5 million since then evaluating its chances for approval. He said the special siting commission, despite its initial negative decision, had become "very cooperative" in attempting to identify the remaining environmental hurdles.

"We aren't pointing any fingers at Washington state, or the siting commission," Mr. Shamus said. "But when we looked at the process that by law we had to go through, we decided our chances for approval weren't better than 50-50."

The decision leaves the future of Northern Tier, formed in 1975 by a coalition of small independent oil companies, in doubt, since its sole purpose was to design and oversee construction of the proposed pipeline. Over the years, partners had come and gone but its most recent influential backers include Getty Oil Co., Los Angeles; U.S. Steel Corp. and Westinghouse Electric Corp., Pittsburgh; Burlington Northern Inc., based here; and Farmers Union Central Exchange of Grove Heights, Minn., a farm-supply cooperative.

All concurred in yesterday's decision, Mr. Shamus said.

Spokesmen for U.S. Steel and Westinghouse said the companies were minor investors in the project. The U.S. Steel spokesman said the company hadn't any comment, and Westinghouse declined immediate comment.

Marine Midland Elects Petty To Succeed Duffy as Chairman

BUFFALO, N.Y.—John R. Petty, 52 years old, as expected was elected chairman of Marine Midland Banks Inc. and of the company's main unit, Marine Midland Bank, at the annual shareholders' meeting.

As reported, the former chairman, Edward W. Duffy, 57, plans to retire June 30. Until then, Mr. Duffy will remain a director and chairman of the holding company's executive committee. He will also remain on the board of Hongkong & Shanghai Banking Corp., which owns 51% of Marine Midland.

BEFORE THE SENATE RESOURCES COMMITTEE
LEGISLATURE OF THE STATE OF ALASKA

PREPARED STATEMENT
OF
HAROLD W. MOLES
VICE PRESIDENT, ALASKAN OPERATIONS
NORTHWEST ALASKAN PIPELINE COMPANY

April 22, 1983

My name is Harold W. Moles. I am the Alaskan representative of Northwest Alaskan Pipeline Company ("Northwest"), which is agent and operator for the Alaskan Northwest Natural Gas Transportation Company, a partnership. Northwest, on behalf of the project sponsors, holds the authorization to construct a pipeline in Alaska to take gas from Prudhoe Bay to the Canadian Border and thence to the lower-48 states. Northwest obtained endorsements for the project -- the Alaska Natural Gas Transportation System (ANGTS) -- in 1977 from the President, the Congress, the Federal Energy Regulatory Commission, and the Canadian Government after literally thousands of hours of administrative hearings, passage of two congressional acts and two formal Canadian-U.S. agreements. In the course of obtaining these endorsements and subsequently in planning to build the pipeline, the project sponsors have done extensive environmental and engineering studies, field work, and other planning. They have worked for years to obtain the necessary permits they now hold to proceed with the line. The three producers that own the vast majority of the gas, the nine major gas transmission company sponsors, and major financial institutions, have worked together toward completion of a financing

plan for this extremely expensive project. Approximately a year ago, we were close to completing that plan. But at that point, the world oil pricing situation, a temporary gas surplus in the U.S., and a severe economic recession made it necessary to delay the project. We do intend, however, to build this project when financial conditions warrant and we are proceeding today toward that end. To date, the parties to the project have invested about \$600 million on the Alaskan segment alone, and we are continuing to expend funds toward that day when construction can begin. You should note, moreover, that about one-third of the total pipeline mileage for the ANGTS has already been financed and placed into operation in Canada and the lower-48 states. These segments of the system temporarily are transporting surplus Canadian gas, but the facilities were sized, justified, and financed on the basis of the eventual flow of Alaskan gas.

The delay in project construction has caused understandable frustration in Alaska, where many look forward optimistically to the vast economic benefits which would attend a project of this size. Let me assure you that we share this frustration. Some Alaskans have now come forward with ideas which they believe will get the gas to market more quickly than the ANGTS project. Specifically, those Alaskans have proposed a Trans Alaska Gas System (TAGS) from the North Slope to the Kenai Peninsula, a liquification plant on the Kenai, and LNG shipments from there

to markets in the Far East. The proposal made by this group has been submitted to the legislature in outline form.

While much has been said by the promoters about TAGS, the legislature should not lose sight of the most fundamental fact -- that the TAGS idea is just that -- an idea, not a project. No private group has offered to construct such a system, no in-depth studies of the costs have been made, no financial institution has made any commitment, tentative or otherwise, to finance such an idea. No significant environmental and engineering studies have been done to show that the concept is feasible and acceptable, and the proponents have not realistically faced up to the formidable, lengthy proceedings necessary to comply with the National Environmental Policy Act and other statutes and regulations. There is no indication whatsoever that Congress would be willing even to consider a change in the route for transportation of North Slope gas, much less to actually make a change in the law and to repudiate U.S. agreements with Canada. The sort of prerequisite background work, which took years to accomplish for the ANGTS and cost hundreds of millions of dollars, has only been sketchily outlined to buttress this new idea. And no sponsoring group has come forward with venture capital well in excess of \$600 million, which is what it would take merely to bring the TAGS idea to the present state of development of ANGTS.

Yet, without completion of this background work, and with none of the crucial environmental, engineering, financial,

marketing, regulatory, or political questions resolved, the legislature is being urged to support this concept by passing a resolution which treats this idea as a viable alternative to the ANGTS. Make no mistake -- however such a resolution is drafted, its sole result would be to put the legislature on record as seriously considering and supporting the TAGS concept as a reasonable, viable alternative for the transportation of North Slope gas.

There is nothing wrong in the end with the legislature considering any alternative project for the transportation of natural gas. But at least there should be a consideration of one comparably developed "project" vis-a-vis another. The ANGTS is, indeed, a genuine project. The three major North Slope oil producers, Exxon, Arco, and Sohio, together with nine major gas transmission companies, have fought long and hard to put it together, and they believe it is still the best alternative. If another private group is willing to come forward and do the work the ANGTS sponsors have done and make the expenditures that they have made to get the project where it is today, then it certainly deserves your consideration. But if you are willing to give credibility to anyone who comes here simply with an idea, without having done the necessary background work, the real message you send to the financial markets and the energy markets in the United States and elsewhere is clear -- that support for the ANGTS project is so transparent and lukewarm that you are willing to give credence to any suggested

alternative without even requiring the promoters of that idea to present you with the fundamentals of a project, including a substantial group of backers with major funds committed.

The legislature recently retained the firm of Booz, Allen and Hamilton to advise it on the action it should take in just this type of circumstance. The advice you received was clear, and I stress that it came not from the ANGTS sponsors but from a firm of independent consultants retained by the legislature. They told you that absolutely nothing you could do, be it by resolution or anything else, could decisively help either the ANGTS project or the TAGS idea. Whether ANGTS or TAGS or anything else gets built will depend largely upon economic reality -- not political gesture. On the other hand, actions by the legislature certainly can harm the perceptions of support for the ANGTS as we continue to work on financing the project.

As to economic reality, highly regarded energy analysts increasingly are predicting a natural gas shortage in the United States. For example, Richard Nehring, a Rand Corporation expert on world petroleum and gas supplies, recently said that the natural gas surplus that exists in the U.S. could disappear by late 1984. "If we are going to characterize the domestic natural-gas situation as a glut, it is the most unique glut in the history of natural resource gluts." Nehring said "the situation has been created by low demand caused through economic sluggishness and through conservation."^{1/} Another expert,

^{1/} The Register [California], March 27, 1983, page A26.

Geoffrey M. Hertel, the respected chief oil analyst for Houston-based investment bankers Rotan Mosle, Inc., recently predicted an acute shortage of natural gas within two years. Rotan Mosle's detailed analytical study concludes that: "...the natural gas oversupply situation is not chronic... [and] perhaps the most disturbing aspect of this study is the projection that natural gas markets could be severely supply constrained by 1985."^{2/} A recent Wall Street Journal report included the following statement: "As for natural gas, most experts expect a shortage eventually; the current surplus is slowing exploration..."^{3/} The International Energy Agency, moreover, warned in October 1982 of a possible new oil crisis in the mid- to late-1980s that would "deal a devastating blow" to major industrial countries.

With this sort of prospect, it is worth remembering that Prudhoe Bay natural gas constitutes 15% of proven lower-48 natural gas reserves, the energy equivalent of over 600,000 barrels of oil per day for 22 years. A key objective of the Alaska Natural Gas Transportation Act of 1976, which resulted in the ANGTS project, was to make this important source of energy available to help meet needs in the lower-48 states. Clearly, it would take much more than a resolution to convince the U.S. Congress that now there is no future need for Alaskan

^{2/} Rotan Mosle Industry Review Report, "The Natural Gas 'Bubble'," dated February 25, 1983.

^{3/} Wall Street Journal, April 18, 1983, page 1.

gas in the lower-48 states and that the gas can, therefore, be removed from its commitment to the ANGTS and be recommitted to foreign export.

A resolution that encourages the establishment of markets on the Pacific Rim, or suggests to Congress that they remove impediments to the export of North Slope gas, while clearly aimed at helping the TAGS concept, predictably would have no real impact and would in the end only raise undue expectations, at least if you believe your own consultants. At the same time, as Booz Allen also recognized, you do have the capacity to harm the existing ANGTS project by indicating to the financial community that you really do not give it your full support. We all know that obtaining financing is going to be difficult for a project of this size, and one of the things lenders will look to is the degree to which the state will support the construction of the line. If you indicate either directly or by inference that you do not support the ANGTS, it will be taken into account and at least according to your consultants will have a detrimental impact on the construction of the line.

If the promoters of the TAGS concept can find people who will actually invest heavily toward such a line, can demonstrate that the line would be environmentally and technically sound, can demonstrate that there are real markets for the gas, and that financing is available, and finally can demonstrate that the U.S. Congress would realistically consider this proposal as a viable if not preferred alternative, then it will

be time for the legislature to act. At that time, you would have before you two true projects, and you could evaluate which would be best for the State of Alaska. At such a point, there would be no need for resolutions which seek to assist both the TAGS concept and the ANGTS project or use obscure phrases in an effort to satisfy supporters of one route while not offending supporters of another. You then could and should make a clear selection and support whichever route you deem appropriate. But we believe you should not at this time pass a resolution which encourages a concept about which little or nothing is known at the risk of harming and delaying a project that you do know about and that is in fact prepared to go ahead when marketing and economic conditions warrant.

In the end, economic conditions will determine when North Slope gas is taken to market. We remain convinced that the gas will, in the foreseeable future, be urgently needed in the lower-48 states and that this fact will again become evident as the economy improves. We also remain convinced that the ANGTS is already developed to a point that gives Alaska its best prospect for a completed project. We, therefore, respectfully suggest that the legislature follow its own consultant's advice and not impede or harm the chance of construction of the ANGTS going forward at the earliest possible date.

Thank you for the opportunity to present these views. I will attempt to answer any questions you may have.