

SCOMM

129:5

Alaska State Legislature

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Joint Committee on Natural Gas Pipelines

FOR IMMEDIATE RELEASE: Oct. 12, 2001

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Torgerson Traveling to Boost Gasline Prospects

(KASILOF) – As part of the Legislature's continuing effort to build international support for a pipeline to bring Alaska's North Slope gas to markets, the chairman of the Joint Committee on Natural Gas Pipelines plans to travel to Canada next week to meet with government and business leaders on the issue.

"We are engaged in a long-term effort to overcome any obstacles to getting Alaska's gas resources to market," Sen. John Torgerson (R-Kasilof), said today. "As that effort continues, it is important to maintain and expand our working relationship with the Canadians who are our neighbors and potential partners in that effort."

Torgerson will travel first to Calgary, Alberta, to deliver the keynote address to the Mackenzie Delta Oil and Gas Development Strategies Conference on Wednesday, Oct. 17. He plans to discuss the history of natural gas projects in Alaska and current projects being considered; Alaska's opposition to an "over the top" pipeline route through Canada's Mackenzie River Delta; and the possibility of using incentives and state ownership in a pipeline to prevent stranding Alaska's gas.

"I also plan to continue to promote my proposal for an International Working Group of officials from Alaska and Western Canadian provinces and territories, that will help us build consensus on issues surrounding delivery of Arctic natural gas to markets," Torgerson said.

The benefits of the working group will also be on the agenda at a Wednesday meeting with Alberta's Minister of Energy, Murray Smith. Torgerson said he hopes to convey to Minister Smith that the working group will help avoid misunderstanding from cross-border communications, and will serve as a forum for the exchange of information on issues of labor employment, in-state gas processing, and U.S. and Canadian environmental standards that might bear upon the gasline project.

In meetings scheduled for Oct. 19 with the Edmonton Chamber of Commerce and the University of Alberta School of Business' Business Advisory Council, Torgerson plans to informally discuss the economic benefits of gas production and strategies our governments can employ to avoid stranding Arctic natural gas. He will also hold meetings with Foothills Pipe Lines Ltd., which holds permits for a southern route pipeline, and with Agrium, a Canadian company that owns and operates a gas-fired ammonia plant in Nikiski.

"Everyone involved in the gasline issue understands the benefits of pipeline development to our northern economies," Torgerson said. "Alaskans and Canadians are 'can-do' people, and I'm confident we can work together to realize the benefits of this project to both of our countries."

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Representative John Davies

Testimony by Senator John Torgerson to the Senate Committee on Energy and Natural Resources October 2, 2001

Good morning Mr. Chairman and members of the committee. My name is John Torgerson. I chair the Senate Resources Committee and the Joint Committee on Natural Gas Pipelines which is made up of equal members from the House and Senate. One of the responsibilities of this joint committee is to represent the Legislature before Congress on natural gas pipeline issues.

The joint committee met on September 19th and we discussed the Alaska Gas Producer's Pipeline Team's proposed legislation. We unanimously opposed this draft legislation and voted in favor of requesting Congress to reaffirm the Alaska Natural Gas Transportation Act (ANGTA) as the prevailing law. Virtually everything the producers have proposed can be found in ANGTA.

One of our major concerns with the producer's legislation is the fact that it is route neutral, giving them the opportunity to apply for a buried underwater offshore ANWR pipeline route to which Alaska is adamantly opposed.

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Back in the mid 1970s, there were three pipeline applications filed under the Natural Gas Act, the so-called "over the top" route, the Alaska Highway or Alcan route, and an all Alaska or Liquefied Natural Gas route. To end the route debate, Congress passed the Alaska Natural Gas Transportation Act. Section 7 of this Act required the President to prepare a Decision on an Alaska Natural Gas Transportation System, which he did and which he submitted to Congress on September 22, 1977. The President's Decision was approved by Congress with Public Law 95-158 and modified by Public Law 97-93. The Canadian Parliament then passed its own version of ANGTA known as the Northern Pipeline Act.

Since the President and Congress have not repealed their action in selecting an Alaskan Highway route, ANGTA is still the prevailing law with respect to an Alaskan gas pipeline. Furthermore, an application should not be given consideration if it is filed under the Natural Gas Act since these very same proposals have already been reviewed and a route has been selected.

The Alaska Highway route authorized by Congress and the President is important to Alaskans for the instate jobs, the creation of value added industries along the line and along spur lines to tidewater, a stable revenue stream for our communities and the state, and most importantly, a clean burning energy source for Alaskans to rely on for many years into the future.

A pipeline built in the Beaufort Sea greatly reduces the potential for Alaskans to reap the benefits from our gas. In addition, we believe, and national environmental organizations agree, that the Alaska Highway route is more environmentally sound than a route under the Beaufort Sea.

In our support of ANGTA as the prevailing law, the Joint Committee recognizes that a few changes would be helpful to bring this project into the 21st century. Therefore, we approved twelve proposals that I have submitted in my written testimony for your consideration. In the interest of timing, I would like to highlight a few of the committee's recommendations.

- The first proposal, which I have already addressed, is to reaffirm the Alaska Natural Gas Transportation Act as the prevailing law.
- Adopt the provision in HR 4 to ban the over-the-top route through the Beaufort Sea as a legitimate pipeline route.
- Create a joint board consisting of members appointed from the Federal Energy and Regulatory Commission and the Regulatory Commission of Alaska to insure that Alaska has fair and reasonable access to gas produced within the State.
- Our last two proposals have to do with tax incentives. First we support the language currently in HR 4 allowing for an accelerated depreciation schedule of seven years. Our last proposal could be considered a tax disincentive. Since it is the policy of the United States to reduce our dependence on foreign energy sources, we believe Congress should not pass any law giving tax incentives to Liquefied Natural Gas imported from outside North America. Rather, Congress should give incentives to gas from non-conventional sources and frontier areas within the United States.

As far as other tax incentives are concerned, the producers have not asked for any and they have not shared their financial projections with my committee.

The only thing the producers have mentioned is a need for fiscal certainty in the state's tax regime. I feel we should not begin our negotiations by leading with incentives until we at least verify the profitability of a project.

In closing Mr. Chairman, I would also like to mention that it is important to Alaskan's that the provisions authorizing the exploration and drilling in the Arctic National Wildlife Refuge remain in HR 4. America needs more reliable sources of energy, we have those resources available in Alaska and we stand ready to assist you in delivering this energy to market.



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Alaska Gas Resources

Submitted to Senate Committee on Energy and Natural Resources

Prepared by Staff to Joint Committee on Natural Gas Pipelines

Alaska has huge known gas reserves and unknown discovered gas resources on the North Slope. The Alaska Department of Natural Resources' 2000 Annual Report estimated known gas reserves on the onshore North Slope at over 30 tcf. The Mineral Management Service (MMS) places the number at over 32 tcf onshore with an additional 5 tcf in the offshore. The two agencies estimate about 23 to 26 tcf in the Prudhoe Bay area alone. According to the MMS, these gas reserves "can be considered readily available for export." K. Sherwood, Prospects for Development of Alaska Natural Gas: A Review 8 (MMS 2000)

Regarding potential undiscovered resources, the numbers have varied, but all are substantial. The National Petroleum Council (NPC) estimates that gas resources from new discoveries within Alaska will be about 215 tcf and about 55 tcf from nonconventional gas resources like coalbed methane. Most of this resource is expected to be found in the Alaska Arctic. The MMS forecast for gas in Arctic Alaska is similar to the NPC forecast. The mean forecast is about 160 tcf and the high is about 340 tcf.

The oil and gas consulting firm of Purvin & Gertz reached similar conclusions.

"Alaska has over 170 tcf of natural gas resources: 26 tcf of proven reserves, 33 tcf of probable reserves, 29 tcf of possible reserves, and speculative resources of over

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80 tcf. The major share of these resources, over 55% of the natural gas reserves, are found on the North Slope. In addition over 93% of the proven gas reserves are found in Prudhoe Bay."

Purvin & Gertz, Alaskan Gas Development Strategies IV-16 (2000)

Just using the 30 tcf of known reserves, a pipeline carrying 2.5bcf/d would have a life expectancy of over 32 years. If the pipeline carried 4 bcf/d, the life expectancy would be over 20 years. But, as shown above, many more discoveries are expected. In fact, at this year's oil and gas lease sale of acreage in the Foothills, the State of Alaska sold the largest amount of acreage at any time in recent history. Most of this acreage was purchased by companies interested in exploring for and producing gas. The interest was generated by increased gas prices and the possibility of a gas pipeline.

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FOR IMMEDIATE RELEASE: October 2, 2001

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KNOWLES PUSHES FOR NATIONAL INTEREST GASLINE LEGISLATION
Tells Senate Committee Highway Project Meets National Need for Energy, Jobs

Washington, D.C. – Saying it meets national interests for a secure, substantial, and long-term source of clean energy and would create thousands of needed jobs, Gov. Tony Knowles went before the Senate Energy Committee today to push for federal legislation to start work on the Alaska Highway Natural Gas Pipeline.

"Tapping into America's largest known natural gas reserves of 35 trillion cubic feet, this long-term supply of affordable energy will increase consumer confidence and business investment," Knowles said. "The critical step in realizing this economic and energy boom is strong, creative, and focused national interest legislation that could come from this Committee and this Congress."

No single undertaking will do more to put Americans to work than the Alaska Highway natural gas pipeline project, Knowles told the Senate committee, chaired by New Mexico Sen. Jeff Bingaman, with Alaska Sen. Frank Murkowski the ranking minority member.

"At a time when this nation may well be in a recession and the only news from corporate headquarters is the size of layoffs, this project will provide 30,000 construction, manufacturing, and transportation jobs with a payroll in excess of a billion dollars a year," Knowles said. "At a cost estimated between \$15 billion and \$20 billion, the 3,500-mile pipeline from the Alaska North Slope to lower 48 markets would be the largest privately funded project in this nation's history and provide natural gas for homes, businesses, and electric generating plants for the next half century."

Knowles said legislation to promote development of the natural gas pipeline must contain three essential components. First, the route must be mandated along the Alaska Highway, as provided for in the 1976 Alaska Natural Gas Transportation Act (ANGTA).

"The route that follows the existing oil pipeline from the Alaska North Slope to Fairbanks and then the Alaska Highway through Canada to Alberta is currently authorized in ANGTA and is part of an international treaty with Canada," Knowles said. "It recognizes the environmental advantage of following existing transportation corridors. It allows vitally important access to the gas for the residents and businesses in Alaska. For

-more-

National Gasline Legislation

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October 2, 2001

these reasons, this route has the broadest support among Alaskans of any major project in recent history."

Knowles said serious concerns remain over the proposed alternative route commonly known as the northern or "over the top" route that proceeds 240 miles under the ice-choked Beaufort Sea to the Mackenzie River Delta.

"If the producers opt for this northern route, there would be years, if not decades, of fighting from indigenous peoples, environmental groups, and Alaska's business and political leadership," Knowles said. "There also could be potential litigation for claims of rights allegedly granted by Congress two decades ago in the ANGTA regime. The only route that can provide a timely beginning of this national interest project is the already approved Alaska Highway route and current legislation must reflect that."

Secondly, Knowles said the legislation must help build American industry and create jobs. Knowles called incentives for the use of American and Canadian steel; a project labor agreement to attract the highly skilled workers in organized labor to build and maintain the pipeline; and provisions to address employment needs in Alaska, the state that will supply the nation this resource. These would include a preference for the hiring of Alaskans and Alaska Natives, and the use of Alaska businesses in accordance with applicable state and federal law.

Lastly, Knowles called for economic incentives to attract the private capital to the project which when completed will substantially add to the national treasury. This would include accelerated depreciation at a 7-year rather than a 15-year rate; investment tax credits which as used in other federal projects could shave \$2 billion off the cost of the project; and a production gas tax credit to provide investor confidence by allowing a tax credit for natural gas production tied to a floor price of gas.

"Since completion of the trans-Alaska oil pipeline nearly 25 years ago, Alaska has been proud to be America's energy storehouse," Knowles said. "We have supplied up to a quarter of America's domestic oil production from the nation's two largest oil fields. By working with this committee, the entire Congress, and the national administration, Alaska will continue to help meet America's oil needs from the Arctic National Wildlife Refuge, the National Petroleum Reserve-Alaska, and other fields.

"Yet just a pipeline away, North American demand for natural gas for electrical generation, industry, and transportation is growing," Knowles concluded. "The United States and Canada already consume about 24 trillion cubic feet of natural gas a year, with that projected to soar to 30 trillion cubic feet by the decade's end. Alaska can help meet this demand, while giving our sagging national economy a sorely needed shot in the arm.

"The State of Alaska and my administration stand ready to assist you and the national administration in crafting a sensible national energy policy that continues to rely on Alaska as our nation's energy storehouse," Knowles told the Senate Energy Committee.

While in the nation's capital, the Governor is also lobbying key senators on oil and gas development in the Arctic National Wildlife Refuge and talking to U.S. and Canadian media about Alaska development issues.



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OCT 11 2001

MEMORANDUM

To: Members of the Joint Committee on Natural Gas Pipelines

From: Senator Torgerson, Chairman *Darwin Peterson for Sen. Torgerson*

Re: Washington D.C. trip

Date: October 5, 2001

I have assembled a packet of information for all members of the Pipeline Committee that I think will be helpful for those interested in the recent hearing on an Alaskan natural gas pipeline held in Washington D.C. by the Senate Committee on Energy and Natural Resources.

Enclosed you will find:

- 1) A copy of my testimony and backup material submitted to the committee prior to the hearing. Members also received my testimony via email from my staff on October 1st.
- 2) A copy of each witness's oral testimony delivered to the committee.
- 3) Notes prepared by my staff describing the question and answer portions of the committee hearing.

If you or your staff have any questions, please don't hesitate to contact my office.

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October 1, 2001

The Honorable Jeff Bingaman
United States Senator, New Mexico
Committee on Energy and Natural Resources
SD-312
United States Senate
Washington, DC 20510-3102

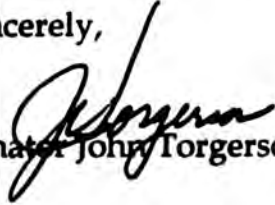
Dear Chairman Bingaman:

Thank you for the opportunity to testify before the Senate Committee on Energy and Natural Resources about the transportation of natural gas from Alaska to markets in Alaska and the lower 48. I am providing the Committee with 75 copies of the following materials as my testimony:

1. Oral Testimony of Senator John Torgerson
2. Twelve Proposals of the Joint Committee on Natural Gas Pipelines
3. Alaska Gas Resources
4. The Importance of the Alaska Natural Gas Transportation Act of 1976 Today

If you have any questions, feel free to contact me at your convenience.

Sincerely,


Senator John Torgerson

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As far as other tax incentives are concerned, the producers have not asked for any and they have not shared their financial projections with my committee. The only thing the producers have mentioned is a need for fiscal certainty in the state's tax regime. I feel we should not begin our negotiations by leading with incentives until we at least verify the profitability of a project.

In closing Mr. Chairman, I would also like to mention that it is important to Alaskan's that the provisions authorizing the exploration and drilling in the Arctic National Wildlife Refuge remain in HR 4. America needs more reliable sources of energy, we have those resources available in Alaska and we stand ready to assist you in delivering this energy to market.



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12 Proposals on Federal Legislation

Proposal # 1

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress reaffirm that the Alaska Natural Gas Transportation Act (ANGTA) is the prevailing law with respect to a transportation system for delivery of Alaska natural gas to Alaska, the contiguous States, and other markets, and the construction and initial operation of that system.

The Joint Committee on Natural Gas Pipelines also respectfully requests that Congress allow certain amendments to ANGTA to modernize the act without changing the basic nature and general route of the approved transportation system or otherwise preventing or impairing in any significant respect the expeditious construction and initial operation of the transportation system.

Justification for Proposal # 1

Before the enactment of ANGTA there were three competitive proposals for an Alaska Natural Gas Transportation System. Specifically those proposals were:

- 1) the Arctic Gas Project, which proposed an overland pipeline extending from Prudhoe Bay, across the North Slope of Alaska to the Canadian Mackenzie Delta and thence southerly through Canada to the lower forty-eight states;
- 2) the El Paso LNG Project, which proposed an overland pipeline extending from Prudhoe Bay to Southern Alaska, where the gas would have been liquefied and transported by tankers to terminals in the western United States; and
- 3) the Alcan Pipeline Project, referred to in Canada as the Alaska Highway Pipeline Project, which proposed an overland pipeline

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extending from Prudhoe Bay to Fairbanks, Alaska, and thence southeasterly through western Canada to the lower forty-eight states.

All of these proposals were filed under the Natural Gas Act, debated by FERC, and Congress passed ANGTA, which authorized the President to select a route. The President then approved the ALCAN route and entered into a treaty with Canada, which were later confirmed by Congress. The Canadian Parliament also passed the Northern Pipeline Act, the equivalent of ANGTA. ANGTA was never repealed. In fact, in 1992 the federal inspector recommended that ANGTA be abolished, but Congress rejected that notion.

Proposal # 2

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress adopt provisions that prohibit the over-the-top route through the Beaufort Sea as a pipeline route.

Justification for Proposal # 2

- The Alaska Legislature has banned this route in Senate Bill 164.
- The House of Representatives in Congress has adopted an amendment in the Energy Bill to ban this route.
- This route seriously decreases the benefits Alaskan's will receive from the development of natural gas.
- The North Slope Borough and the Alaska Eskimo Whaling Captains oppose this route.

Proposal # 3

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress create a mechanism for allowing the transparent and fair distribution of the costs allowed to be included in the tariffs associated with a conditioning plant(s).

Justification for Proposal # 3

Other producers will likely discover gas downstream from access to a conditioning plant in Prudhoe Bay that will require them to construct an additional conditioning plant. These producers will need to be treated fairly with regard to tariffs to encourage development and exploration of all North Slope gas resources.

Proposal # 4

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to eliminate the Dempster-Lateral route from provisions in ANGTA, if necessary.

Justification for Proposal # 4

The original version of ANGTA included approval for the construction of a Dempster-Lateral pipeline to deliver natural gas to market from the Northwest Territories. The Northwest Territories has developed plans for their own pipeline route to Alberta, making the Dempster-Lateral line obsolete.

Proposal # 5

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation that limits tariff charges for prior work to compensation for work done that does not have to be duplicated and which is deemed appropriate to the current transportation system.

Justification for Proposal # 5

The current owner of the authorizations under ANGTA is Foothills Pipeline Ltd. Previously, Foothills had several partners, which over time have withdrawn from the partnership. The withdrawn partners spent funds in support of the ANGTA route and have filed documents with the FERC to include recovery of those costs in any tariff for transportation of Alaska natural gas. Foothills has been negotiating with the withdrawn partners to resolve this outstanding liability. However, those negotiations have not been successful to date.

Foothills and its partners should be compensated for the work done in furtherance of the ANGTA system that does not need to be duplicated. If the work needs to be redone or modernized, they should not be entitled to collect for the funds previously expended. Accordingly, the Joint Committee should support this request.

Proposal # 6

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation to assure that Alaska have fair and reasonable access to gas produced within the State and to create a joint board consisting of members appointed from the Federal Energy and Regulatory Commission and the Regulatory Commission of Alaska to recommend access and tariffs that affect the state of Alaska.

Justification for Proposal # 6

Unlike the Trans-Alaska Transportation System for oil, the Natural Gas Act does not provide for the Regulatory Commission of Alaska to set rates for gas used in Alaska. Although section 13(b) of ANGTA provides that the state is authorized to ship its royalty gas on the approved system for use within Alaska and to withdraw such gas from the interstate market for use within Alaska, it does not deal specifically with how Alaska delivery points along the line will be approved. Access to gas is necessary for social and economic development of Alaska. Alaska's regulatory commission should be part of a team that determines how intra-state access and rates are determined.

Proposal # 7

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to develop a formula that would allow for the setting of different tariff rates for natural gas distribution points along the route. (HUBS)

Justification for Proposal # 7

Alaska is studying different proposals for usage of natural gas within the state, including several proposals for LNG facilities, a petrochemical plant, several GTL plants, and in-state usage by communities. It is important to be able to set the tariff at different rates to allow these take off points.

Proposal # 8

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation to assure that gas producers that do not have an ownership interest in the pipeline have fair and reasonable access to space on the pipeline and the ability to obtain expansion capacity of the pipeline.

Justification for Proposal # 8

ANGTA originally precluded the Producers from participating in the ownership of the gas pipeline. In 1981, a waiver was sought and obtained by President Reagan to permit the Producers to have an ownership share in the pipeline. Their participation, however, had to be approved by the FERC and could be approved only after consideration of the advice from the Attorney General and upon a finding by FERC that the participation would not (a) be inconsistent with the antitrust laws or (b) in and of itself create restrictions on access to the transportation system for non-owner shippers or restrictions on capacity expansion.

Alaska has much more gas than that contained in known fields. Current estimates provide that there is greater than 100 tcf of gas undiscovered on the Alaska North Slope. Currently, companies are considering exploring for such gas. If discoveries are made, that gas will need access to the pipeline on fair and reasonable terms. If significant discoveries are made after the initial capacity is filled, the pipeline will need to be expanded and any expansion request needs to be determined on fair and reasonable terms. Accordingly, the law must be clear that the FERC has the authority to make such determinations.

Proposal # 9

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a provision for project labor agreements.

Proposal # 10

The Joint Committee on Natural Gas Pipelines respectfully requests Congress to approve a preference for qualified Alaskan businesses for the construction and maintenance of a natural gas pipeline.

Proposal # 11

The Joint Committee on Natural Gas Pipelines respectfully requests that Congress pass legislation that prohibits tax incentives for LNG from sources outside of North America.

Justification for Proposal # 11

The President and Congress have recommended a variety of incentives as part of a national energy policy. Alaska natural gas is in competition with LNG imported from foreign sources to supply gas to the lower 48 states. It is the policy of the United States to reduce dependence on foreign energy sources. Accordingly, Congress should not pass any law that gives tax incentives to facilities importing LNG from sources outside North America. Rather, Congress should enact incentives that benefit production from the frontier areas of the United States, including Alaska. Otherwise, United States gas in frontier areas may be stranded.

Proposal # 12

The Joint Committee on Natural Gas Pipelines respectfully requests that the Congress pass legislation providing a tax incentive that allows for an accelerated depreciation schedule of seven years for Alaska natural gas brought to United States markets.

Justification for Proposal # 12

The President and the Congress has recommended a variety of incentives as part of a national energy policy. It is the policy of the United States to reduce dependence on foreign energy sources. Alaska has significant gas resources that can reduce that dependence and bring cleaner burning fuel to United States markets. However, the construction of a pipeline to the lower 48 would cost billions of dollars and involve significant risk. Accordingly, Congress should enact tax incentives, such as accelerated depreciation, investment tax credits, and downside price tax credits that benefit gas production from Alaska.



Official Business

ALASKA STATE LEGISLATURE

JOINT COMMITTEE ON NATURAL GAS PIPELINES

Senator John Torgerson, Chair

Senator Rick Halford

Senator Pete Kelly

Senator Johnny Ellis

Representative Joe Green, Vice-Chair

Representative Brian Porter

Representative Scott Ogan

Representative John Davies

Alaska Gas Resources

Submitted to Senate Committee on Energy and Natural Resources

Prepared by Staff to Joint Committee on Natural Gas Pipelines

Alaska has huge known gas reserves and unknown discovered gas resources on the North Slope. The Alaska Department of Natural Resources' 2000 Annual Report estimated known gas reserves on the onshore North Slope at over 30 tcf. The Mineral Management Service (MMS) places the number at over 32 tcf onshore with an additional 5 tcf in the offshore. The two agencies estimate about 23 to 26 tcf in the Prudhoe Bay area alone. According to the MMS, these gas reserves "can be considered readily available for export." K. Sherwood, Prospects for Development of Alaska Natural Gas: A Review 8 (MMS 2000)

Regarding potential undiscovered resources, the numbers have varied, but all are substantial. The National Petroleum Council (NPC) estimates that gas resources from new discoveries within Alaska will be about 215 tcf and about 55 tcf from nonconventional gas resources like coalbed methane. Most of this resource is expected to be found in the Alaska Arctic. The MMS forecast for gas in Arctic Alaska is similar to the NPC forecast. The mean forecast is about 160 tcf and the high is about 340 tcf.

The oil and gas consulting firm of Purvin & Gertz reached similar conclusions.

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"Alaska has over 170 tcf of natural gas resources: 26 tcf of proven reserves, 33 tcf of probable reserves, 29 tcf of possible reserves, and speculative resources of over 80 tcf. The major share of these resources, over 55% of the natural gas reserves, are found on the North Slope. In addition over 93% of the proven gas reserves are found in Prudhoe Bay."

Purvin & Gertz, Alaskan Gas Development Strategies IV-16 (2000)

Just using the 30 tcf of known reserves, a pipeline carrying 2.5bcf/d would have a life expectancy of over 32 years. If the pipeline carried 4 bcf/d, the life expectancy would be over 20 years. But, as shown above, many more discoveries are expected. In fact, at this year's oil and gas lease sale of acreage in the Foothills, the State of Alaska sold the largest amount of acreage at any time in recent history. Most of this acreage was purchased by companies interested in exploring for and producing gas. The interest was generated by increased gas prices and the possibility of a gas pipeline.

THE IMPORTANCE OF THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976 TODAY

Submitted by Senator John Torgerson

- I. The Alaska Natural Gas Transportation Act of 1976 provided for expedited procedures to construct a gas pipeline built when the Lower 48 required gas.**
 - A. Delayed by litigation, the oil pipeline from Prudhoe Bay was only expedited by an act of Congress and the President.**

In the winter of 1967-68, a wildcat rig drilling the Prudhoe Bay State Well No. 1 discovered the field that has become known as Prudhoe Bay field located on the Alaska North Slope (ANS). The discovery turned out to be the largest petroleum reserve on the North American continent, estimated to contain over 25 tcf of original gas in place and 25 billion barrels of oil in place.

In 1969, the State of Alaska held a lease sale in the area of Prudhoe Bay and received almost \$1 billion in lease bonuses. Shortly thereafter, the three major leaseholders, Arco (now Phillips), BP and Exxon, announced their intention to build an oil pipeline from Prudhoe Bay to a site on the Gulf of Alaska. The pipeline, known as the Trans-Alaska Pipe Line System or TAPS, became entangled in legal and environmental disputes until November of 1973. Then Congress and the President approved the construction plan and provided for expedited procedures. Construction started immediately thereafter and by June of 1977, the TAPS was ready to flow oil.

- B. Since Congress was concerned that a gas pipeline would be delayed like the oil pipeline, it passed the Alaska Natural Gas Transportation Act.**

The regulation of the gas industry in the lower 48 began in 1938 with the passage of the Natural Gas Act (NGA). The NGA created the predecessor of the Federal Regulatory Commission (FERC) and gave it power to regulate interstate natural gas pipelines, including the ability to regulate prices at the wellhead. Price volatility and gas supply shortages in parts of the country ensued. Following the oil embargo of 1973, there were many shortages and curtailments of gas deliveries. Some thought that Prudhoe Bay gas could alleviate the situation.

In March of 1974, a partnership known as "Arctic Gas" filed an application to construct a pipeline from Prudhoe Bay through ANWR, and then through the MacKenzie Delta to move gas from the ANS to United States and Canadian markets (Northern route). The application was filed with FERC's predecessor and the National Energy Board (NEB) of Canada. Shortly thereafter in September 1974, another group called "El Paso" filed a competing application. El Paso planned to build a gas pipeline adjacent to TAPS to Valdez, liquefy the gas, and ship it to California by LNG tanker (LNG route). There the LNG would be regasified and shipped to consumers through existing pipelines.

In 1975, the FERC's predecessor and the NEB conducted massive hearings. In July of 1976, a third group called the "Alcan Group" filed yet another competing application. The Alcan Group planned to build a pipeline along an existing utility corridor, the Alaska Highway, through the Yukon Territory into U.S. markets (Alcan route).

The United States Congress recognized the potential for delay inherent in the normal NGA procedures for a project of this magnitude. Congress was especially concerned given the shortages of natural gas. So in October of 1976, Congress passed the Alaska Natural Gas Transportation Act of 1976 (ANGTA) to expedite construction and initial operation of a pipeline to carry ANS gas to the lower 48. The ANGTA terminated all proceedings before the FERC's predecessor and required that the President expeditiously select a route. The ANGTA also provided for limited judicial review and created a new office, the Office of the Federal Inspector (OFI) to coordinate government activities relating to the ANS pipeline.

In the meantime under the Trans-Alaska Pipeline Act, Congress had authorized the President to meet with Canada and discuss its willingness to build a pipeline for Alaska gas across Canada. During discussions, Canada indicated that they were prepared to consider a general agreement as opposed to a particular agreement. Negotiations ensued leading to the Transit Pipeline Treaty, which was signed in January of 1977 and entered into force in September of 1977.

As required by the ANGTA, the FERC's predecessor rejected the LNG route and recommended either the ANWR or the Alcan route. Also as required, many agencies commented on the predecessor's recommendation, raising important questions regarding every major element of the recommendation. In July of 1977, the NEB made its decision regarding an overland route and rejected the northern route, finding it to be "environmentally unacceptable."

That summer Canadian and United States negotiators met to enable the President to make an informed decision. After intensive negotiations, President Carter and Prime Minister Trudeau announced that the countries had reached an "Agreement on Principles" on a joint project to transport Alaska and Canadian gas. The Agreement was signed in September 1977. The agreement endorsed the Alcan route and selected the operators for the Canadian and United States portions. The Agreement has a term of 35 years and continues beyond 2012 unless terminated on one year's notice by either party.

Two days after the Agreement was signed, on September 22, 1977, the President issued his Decision and Report to Congress as required by ANGTA. He determined that the Alcan route was the most economical and environmentally sound means to get Alaska gas to market quickly. On November 2, 1977, the Congress passed a resolution ratifying the President's Decision. Thus, the Alcan route became the designated route under United States law.

In December 1977, the FERC issued certificates to the Alcan route's sponsors. In April of 1978, the Canadian Parliament passed the Northern Pipeline Act. This act granted a certificate to the sponsors of the Alcan route for the Canadian portion of the route.

C. ANGTA has specific provisions designed to expedite the construction and initial operation of a pipeline to bring gas from Alaska to the lower 48 and insure that Alaskans have a right to use the gas in-state that can be used today.

When Congress passed ANGTA, it fully intended to pass a bill that could expedite the construction of pipeline to bring Alaska gas to market. Given that a route and an operator have already been selected, the following summarizes provisions that are relevant today and which can be used to expedite a gas pipeline from Alaska.

Section 3 set forth that ANGTA's very purpose: to expedite construction of an Alaskan gasline:

"The purpose of this chapter is to provide the means for making a sound decision as to the selection of a transportation system for delivery of Alaska natural gas to the [Lower 48] States ... and ... to expedite its construction and initial operation"

Section 5 advances this purpose by creating a new independent agency, the Office of the Federal Inspector (OFI), to coordinate all federal activities related to the pipeline, and for assuring timely, efficient, and environmentally construction. In 1992, Congress abolished the OFI. However, Congress transferred all of the functions and authority to the Secretary of Energy. The President's NEPD Group recommended that the President issue an Executive Order to rationalize permitting for energy production in an environmentally sound manner by directing federal agencies to expedite permits and other federal actions, and to coordinate their efforts. The Alaska legislature believes that the combination of the authority in the Secretary of Energy and an Executive Order by the President would be adequate to insure the federal agencies coordinate and expedite their actions so we have not asked for reinstitution of the OFI.

Section 8(g)(1) provides a mechanism to update any problem with ANGTA. The section provides that at any time the President finds that any provision of law applicable to actions by federal agents require a waiver of law to permit expeditious construction and initial operation of the approved transportation system, the President may submit a waiver to both Houses of Congress. This section was used in 1981 when President Reagan submitted certain waivers to Congress.

Section 9 deals with issuance of any certificates, right-of-way, permit, lease, or other authorization (collectively "authorizations") necessary or related to the construction and initial operation of the transportation system. It says that federal officers and agencies shall issue them at the earliest practicable date. Further it provides that such actions shall take precedence over any similar applications or requests.

Section 9 also provides that any federal officer or agency may amend or abrogate any term or condition included in the authorizations. The only limitations are that the actions cannot compel a change in the basic nature and general route or otherwise prevent or impair the expeditious construction and initial operation of such transportation system.

Section 10 limits judicial review. Claims must be brought within shortened periods. Claims are limited to constitutional violations or to authority issues. Claims must be filed in Court of Appeals for the District of Columbia. Any claim takes precedence over other matters to the greatest extent practicable.

Of particular importance to the State of Alaska is Section 9(b) of ANGTA. This section lays to rest any argument that the gas that belongs to the state as its "birthright" can by pass it.

"The State of Alaska is authorized to ship its royalty gas on the approved transportation system for use within Alaska and, to the extent it contracts for the sale of royalty gas so provide, to withdraw such gas from the interstate market for use within Alaska; the [Federal Energy Regulatory Commission] shall issue all authorizations necessary to effectuate such shipment and withdrawal"

The President's Decision also recognized the importance to Alaska that it be able to use the gas in-state.

"Furthermore, the State will be able to utilize the pipeline for natural gas distribution and development with the State. Prudhoe Bay gas, including the State of Alaska's royalty gas, will be made available to local Alaskan communities along the route of the Alcan Pipeline System. Installation of additional pipeline facilities connecting with the Alcan system could provide natural gas to other areas of the State, particularly the Cook Inlet region and Southeastern Alaska, and thus supply the energy base required for long-term economic development. The Alcan system also will offer a readily accessible transportation service for a number of potential Alaska gas reserves located in interior Alaska, Cook Inlet and the Gulf of Alaska."

Decision at 270. Alaskans need to be assured that they will get the benefit of their gas to provide for the economic development of the state.

South-central Alaska, which includes Anchorage, other urban areas, and industrial complexes, currently uses about 220 bcf a year of natural gas. That gas comes from gas reserves in the Cook Inlet in the southern part of South-central. The reserves to production ratio has been rapidly declining and the MMS has recognized that unless new reserves are found, the Cook Inlet will be out of gas in the next ten years or so. The citizens of South-central have long envisioned a spur pipeline, as discussed in the President's Decision, to Cook Inlet area. Without such a line, Alaska citizens literally may be freezing in the dark while other others are kept warm and lighted with Alaska's

gas. Accordingly, the Joint Committee has recommended certain proposals to insure Alaska's active participation in deciding when and how Alaska gas should be used in-state. See Proposals # 6 & 7.

D. ANGTA has been repeatedly reaffirmed and it has the flexibility to be modernized.

Because demand in the lower 48 for natural gas changed in the late 1970s and early 1980s, the Alaska portion of the ANGTS was not built. Twice, Congress has reaffirmed its support for the ANGTA and the selected route. The President has also reaffirmed ANGTA. ANGTA remains the law of land and can be modernized to deal with current conditions.

In 1980, Canada needed assurances reaffirming the commitment of the United States government to go forward with the Canadian portion of the ANGTS. On July 1, 1980, Congress passed a Joint resolution that reaffirmed its support. The resolution stated "it is the sense of Congress that the [ANGTS] System remains an essential part of securing this nation's energy future and, as such, enjoys the highest level of Congressional support for its expeditious construction and operation ..."

In 1987, Yukon Pacific was seeking a finding allowing the export of Alaska gas. Canadian officials expressed concern about such a finding on the ANGTS. In January of 1988, President Reagan issued a finding granting the exception. However, he also declared: "I want to reaffirm our support for the special regulatory treatment of the of the [Canadian] portion of the ANGTS, including the minimum revenue stream guarantees."

In 1992, the OFI issued a report recommending that United States abandon its support for the completion of the ANGTS, Congress repealing ANGTA, terminate the treaties and agreements with Canada, and abolish the OFI. The ANGTS did not oppose the elimination of the OFI. They did, however, oppose the other recommendations. The government of Canada objected to most of the recommendations as contrary to the obligations of the United States. The then chairman of the Senate Committee on Energy and Natural Resources also opposed the recommendations. Ultimately, Congress transferred the OFI's authorities to the Secretary of Energy, but the other recommendations were rejected.

Some have asserted that the ANGTA cannot be modernized. For example, the pipeline diameter and pressure constraints may need to be change from that discussed in the President's decision. These types of modifications will improve the efficiency, safety and environmental impact of the pipeline. Because these types of changes would not involve a change to the "basic nature" to the route, the appropriate federal agencies have authority to amend the previous approvals. As noted above, Section 9 of ANGTA specifically authorizes such amendments. If a change to the basic nature was necessary, the ANGTA also provides the President can submit waivers to the Congress for approval. Nevertheless, to clear up any uncertainty regarding this issue, Congress could make clear that federal agencies have authority to modernize the route.

II. Other than allowing the construction of an over the top route and the selection of a new operator, the Producers' proposed enabling legislation is not materially different from the ANGTA.

The Joint Committee has reviewed the Producers' proposed legislation and believes that in terms of provisions for expediting construction and an initial operation, the proposed legislation is duplicative of ANGTA. The only purpose that would be served by the producers' legislation is to renew the route and operator debate that was resolved by ANGTA. Rather than clarify the situation, the producers' proposed legislation would create confusion and chaos with ANGTA (which is not repealed by the proposed legislation) and with Canada's version of ANGTA, the Northern Pipeline Act. Although producers say the ANGTS can forward because their proposed legislation does not terminate ANGTA, as practical matter, the ANGTS would be dead. There is no way two gaslines will be built from Alaska.

The Producers' legislation would open up the possibility of a pipeline along an over the top route. The producers themselves have said they would not build along a route that the State of Alaska did not want. I am hear to tell that Alaskans do not want that route. First, it was not the preferred route in ANGTA. Second, our Alaska legislature passed a bill, SB 164, prohibiting the permitting the over the top across state lands. Third, our governor has expressed his view supporting an Alcan route. Fourth, the North Slope Borough oppose the route and the Alaska Eskimo Whaling Commission has passed a resolution strongly opposing an over the top. Fifth, conservation groups oppose the over the top route. Sixth, our entire congressional delegation opposes the route. Alaskans opposition to the over the top route has been supported by the United States House of Representatives which included in HR 4 a provision banning the route and environmental group. There is simply no way Alaskans will allow the gas, which is owned by the state and its birthright, to be extracted and shipped out of the state without a line running through the state. As Senator Ted Stevens told the Joint Committee, Alaskans would rather see the gas left in the ground than go over the top.

III. The Joint Committee believes that ANGTA prevails over the Natural Gas Act.

A. Congress should reaffirm ANGTA as the prevailing law to put to rest questions raised by the Producers and federal agencies about ANGTA.

The Joint Committee believes that in passing the ANGTA, approving by resolution the President's decision selecting an Alcan route under section 7 of the ANGTA, and reaffirming ANGTA and the Alcan route, Congress has demonstrated its intent that ANGTA prevails over an application over the Natural Gas Act (NGA) and a competing proposal to construct a different pipeline cannot be considered under the NGA. Nevertheless, some have pondered the question: "To what extent can the FERC consider a new proposal that varies from the ANGTS that was previously approved by the

President and Congress, including consideration of proposals under section 7 of the NGA?" Although my view may be colored because I am a legislator, I cannot believe that agencies are even questioning what I believe was this legislative body's clear intent. To put this issue to bed, Congress could expedite the process by reaffirming that ANGTA controls and that an application under the NGA cannot be considered until after the ANGTA approved line is built.

B. To expedite the construction and initial operation of an Alaska gasoline, Congress could update some of ANGTA's provisions.

As discussed above, the Joint Committee believes that section 9 of the ANGTA allows the line to be updated so long as a proposed amendment do not change the basic nature and general route of the transportation system. Nevertheless, there are provisions that Congress might consider that could benefit the ANGTS, enhance the possibility of in-state deliveries for Alaskans, and could provide more gas for Alaska and the nation, which are contained in Proposals that the Joint Committee has submitted to you today. In this section, I discuss two issues that have been raised as possible impediments to the construction of ANGTS.

The first is what has been referred to as the "withdrawn partner contingent liability". The partnership that was selected to build the Alcan route originally had eleven partners. Today only two remain. We have been told that the partnership actually spent around \$280 million to advance the Alcan route. On the most recent FERC Form No. 2, which is filed for ratemaking purposes, this amount had grown to \$3.7 billion because of the 14% interest allowed under FERC accounting. The Alcan route (or any other route for that matter) would clearly not be economical if it, in essence, started \$3.7 billion in the hole.

The two remaining partners, Foothills and Transcanada, say that this contingent liability will not impede construction and operation of the Alcan route. No monies will be paid to the withdrawn partners unless the line is built and payment can be paid without "undue hardship to the Partnership." Accordingly, Foothills and Transcanada say that the withdrawn partners have strong incentive to work cooperatively to resolve the matter.

Nevertheless, they have not resolved the matter to date. The Joint Committee discussed the matter and decided that the partnership should be compensated for past work, but only if the work does not have to duplicated now and the FERC decides that it is appropriate for inclusion in a modern ANGTS. See Proposal #5 attached.

The second possible impediment concerns the partnerships' obligation to construct a Dempster Lateral pipeline to connect gas in the MacKenzie Delta with the ANGTS after the Alaska portion of the ANGTS is built. This requirement is no longer necessary because various parties have filed applications with the NEB to bring MacKenzie Delta gas south along the MacKenzie River and south. They say that this route would be cheaper and no other parties have shown an interest in a Dempster Lateral route. Accordingly, the Joint Committee respectfully requests Congress grant the FERC the authority to eliminate the Dempster Lateral from ANGTS, if necessary. See Proposal #4.



Official Business

ALASKA STATE LEGISLATURE

Senator John Torgerson

- ♦ Chair, Senate Community & Regional Affairs Committee
- ♦ Chair, Senate Resources Committee
- ♦ Chair, Joint Committee on Natural Gas Pipelines

Fax

To: Joint Committee on Natural Gas Pipelines **From:** Darwin Peterson, Sen. Torgerson's office

Fax: **Pages:** 10 w/ cover

Phone: **Date:** 10/11/01

Re: Federal Energy Bill **CC:**

Members of the Joint Committee on Natural Gas Pipelines,

I have attached a letter we received today from C.J. Zane with the law firm of Dyer, Ellis & Joseph, the committee's contracted firm in D.C. Mr. Zane explains the recent activity regarding the energy bill. Also included are news articles and Senator Murkowski's recent floor speech.

Sincerely,

Darwin Peterson

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MEMORANDUM

TO : The Honorable John Torgerson
FROM : C. J. Zane
DATE : October 11, 2001
RE : Energy Bill

Senator, you probably picked up on most of this already but I wanted to forward some articles and give you a short note about what we hear regarding the energy bill. With the declaration by Senators Landrieu and Akaka that they would favor an ANWR opening provision in the energy bill, Senator Daschle has pulled the bill from the Energy and Natural Resources Committee and said he will bring an energy package directly to the floor. The Democrats say the reason for bypassing the committee is due to the multiple committee jurisdictions that such a wide sweeping bill touches upon and that having the bill referred to multiple committees will take too long. However, the real reason appears to be to avoid having ANWR added in the bill in the Energy and Natural Resources Committee. In addition, most folks on the Hill believe that Daschle has given anything but a firm commitment to bring a bill to the floor. He has said things like he wants to try to complete an energy bill this session, but that finishing the Appropriations bills, completing an economic stimulus package, resolving the anti-terrorism and airport and airline security bills, are all top priorities and must be finished before there would be floor time for an energy package. In short, we may still be getting the slow roll, but Daschle is positioning himself and the Dems to move a bill quickly if they perceive the American people want one and/or if events in the "war on terrorism" further propel the need for a bill.

Mike Menge, Dan Kish and Justin Stiefel all say that even if Daschle is doing the "slow roll", the Delegation will continue to look to alternative vehicles to move ANWR. Such vehicles include individual appropriations bills or the "mini-omnibus" appropriations bill (containing the last three or four appropriations bills), the economic stimulus package or even the anti-terrorism package. With or without an specific energy bill per se, the Delegation favors including some language on the gas line, but it's not clear at this point what that language would be. It does seem to us, at least, that the Delegation, despite some mixed comments lately, favors the existing ANGTA route and they can be convinced to support language clarifying the primacy of the existing route or to do nothing if that ends up helping the existing route. All appear to agree that resolving the withdrawn partner issue and getting U.S. firms like Enron and Williams in the deal will do much to create momentum for the ANGTA route, both legislatively if needed, and at the White House.

I have included for your information several articles and Murkowski's floor statement from yesterday. Please call Duncan Smith or me if you have any questions. Thanks.

Attachments (4)

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Congressional Record, 10/10/012003
Page 1 of 4**ANWR -- (Senate - October 10, 2001)**

[Page: S10421]

Mr. MURKOWSKI Mr. President, I call attention to some of the comments made in this Chamber earlier today relative to the issue of taking up a national energy security bill before this

[Page: S10422]

body. I spoke a little earlier on the floor today and indicated that, clearly, it is in the national interest that we in the Senate proceed with an energy bill--report it out, bring it to the floor, and vote on amendments in an orderly manner.

As I further indicated earlier, the majority leader has indicated that it is his intent to develop an energy bill--in his words, a "balanced bill"--and it would be introduced by the majority leader. Of course, this excludes the process associated with the committee reporting out a bill.

Further, in the discussion that has taken place today, the issue of ANWR came up as the bone of contention. I want to address a couple points because there is a good deal of misunderstanding around this issue. There was a reference today that the accident that occurred when a bullet penetrated the pipeline earlier this week was proof that we should not rely on increasing the supply of oil that would traverse through that pipeline.

I remind my colleagues that that pipeline is about 28 years old. It has provided the Nation with 25 percent of the total crude oil produced in the United States for that period of time. That volume has dropped from 25 percent to 17 percent. The pipeline capacity was a little over 2 million barrels a day previously, in the early development of the Prudhoe Bay oil fields, that flowed through that pipeline. Today, with the decline in Prudhoe Bay, it has dropped a significant amount, to roughly 1 million barrels a day. But it still supplies this Nation with 17 percent of the total crude oil produced in this country.

Now, to suggest that this firing by a very high-powered rifle penetrated the pipeline is not quite accurate because it has been shot at numerous times. It is half-inch, high-tensile steel. It is my understanding that this particular firing--a blast of five bullets--penetrated an area where there is a valve and, as a consequence, because of pressure in the pipeline, there was a significant leak, a spillage. The question of whether there is any permanent damage done has been addressed in the cleanup. There was no movement of any oil into any water or streams in the area. The security group of Alyeska found the incident as a consequence of the notification of a drop in pressure. They went out with helicopters and not only found the leak but identified and arrested the perpetrators. You can criticize anything, but the system did work. Everything is subject to, obviously, the exposure of terrorist activity, but in this particular instance this was a fellow who was extremely drunk, bored, or he lost his mind, and he simply decided it would be fun to start firing at the pipeline.

That pipeline has been bombed; bombs have been wrapped around it. It has been wrapped with hand grenades, shot at, and it suffered exposure of numerous earthquakes over the 27 years and it continues to be one of the wonders of the world. So to suggest that somehow this bullet-piercing accident is somehow questionable relative to the integrity of that pipeline is an expression of very little knowledge--factual knowledge--on behalf of those who suggest that somehow the pipeline can't be trusted for additional flowthrough if indeed ANWR is developed.

I am going to conclude, as I promised my friend from Pennsylvania that I would be brief, with an explanation of some of the more common myths associated with the ANWR issue. I hope we can get ANWR

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up before this body and vote on it up or down in conjunction with an energy bill. That is the democratic process. Clearly, that did not prevail in the Energy and Natural Resources Committee because I can only assume the votes were there to report out a bill with ANWR in it. I can only assume the votes are in this body to pass an energy bill with ANWR in it. Polling seems to indicate nearly 60 percent of the American public support opening ANWR as a significant contributor to reducing our dependence on imported oil.

Some say there is an insufficient amount of oil. Some say it is only a 6-month supply and not nearly enough to justify exploration. That is nonsense. The U.S. Geological Survey, experts who have studied the 1002 ANWR area, estimate that between 6 and 16 billion barrels of oil are economically recoverable; 10 billion barrels is equivalent to what we would import from Saudi Arabia over a 30-year period; 10 billion barrels is the equivalent of what we import from Iraq for a period of 50 years.

We are importing a million barrels a day from Iraq and enforcing the no-fly zone. We are taking the oil, putting it in our airlines, bombing some of the targets in Iraq, and have for some time. They take our money, pay the Republican Guard, develop a missile capability, and aim it at our ally, Israel.

Maybe that is a short synopsis of foreign policy, but nevertheless I think one can conclude that is the ultimate outcome.

We do not know what is in ANWR because we have never been allowed to determine through modern exploration, through seismic exploration, specifically what is available. Only Congress can authorize it.

What is the extent of the area? It is interesting because ANWR is about 19 million acres—about the size of the State of South Carolina. The proposal is to allow exploration on 1.5 million acres. The House-passed bill, which is H.R. 4, has limited that to 2,000 acres. That is the size of a small farm in the entire State of South Carolina—the wilderness, if you will, as a comparison.

Prudhoe Bay was supposed to produce 10 billion barrels. It is on its 13 millionth barrel today. It is absurd to think ANWR is only a 6-month supply of oil. That is to assume ANWR is the country's only source of oil; that there is no oil produced in Texas, or Louisiana, offshore, or no other oil is being imported into the country. The American people are wise enough to see that argument just does not hold oil, if you will.

Clearly, the potential for this country's domestic supply is ANWR, and the abundance associated with the likelihood of a major discovery is second to none identified in North America. It is almost like wondering if you have a strategic petroleum reserve in your own backyard, but if you do not know, and if you do not have the ability to develop it, you really cannot use it.

What is required in development? Very little. We need authorization by Congress. The House has done its job. The House passed a bill. H.R. 4 includes ANWR. It is a challenge to the Senate to do its job.

Some say it will take as long as 10 years before the oil is flowing and that is too long to make a difference. If the

previous President had not vetoed the budget reconciliation bill in 1995, today ANWR would be open, or if the oil was not there, it might have been a park. We could have been less dependent on foreign oil, and our energy future would look a lot more certain if, indeed, we had taken that action back in 1995, but we could not overcome a Presidential veto.

We built the Pentagon in 18 months. We built the Empire State Building in a year. Industry says if they make a discovery, they can develop and get oil online in somewhere between 18 months and 2 1/2 years, depending on our will to give them the authority within the environmental parameters to do it safely.

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Some people say our energy policy is misguided; we need to focus on natural gas. We found 6 trillion cubic feet. Let's use gas. Recognize that America moves on oil. Our planes, our ships, our trains move on oil.

In response to the September 11 attack, we are preparing now for a long, sustained war. Are we going to count on unstable governments in the very part of the world where we are fighting to assure our energy security? We need to begin at home with energy solutions found within our borders, and if we make the commitment to authorize the opening of this area, I assure my colleagues it will be very symbolic. It would send a very solid message to that part of the world where we continue to increase our dependence on imported oil.

About 67 percent comes from foreign sources, a majority of that from the Mideast. Fighting a war uses a lot of energy. Mr. President, 450,000 barrels of petroleum products were estimated to be used daily, and that was through 582,000 soldiers in the Persian Gulf war. It is estimated we are using over 500,000 barrels a day currently in this conflict.

[Page: 510423]

Some say it is America's Serengeti, its mountains; it is deserted; it is beautiful. Again, it is the size of the State of South Carolina. It is 19 million acres. Can we open it safely? Yes.

Some say we can get the energy from the National Petroleum Reserve in Alaska; that is why it was established. That is wishful thinking because actually just 15 percent of that entire coastline is open for exploration. Just 3 years ago, the Federal Government closed vast amounts of NPR to protect the birds that live in the lakes. If you look at the model and lakes over NPR, that is where bird life is. There are very few lakes associated in the ANWR area.

Finally, there is a concern of the Porcupine caribou and the Gwich'in, but no one mentioned what is happening on the Canadian side and involvement of the Gwich'in who are participants in putting up land for lease.

There was an extraordinary article in the Vancouver Sun newspaper indicating the Gwich'in are benefiting greatly from oil and gas exploration because Canada expanded its oil and gas leasing program to include testing exploratory wells, et cetera.

The bottom line is there seems to be a great fear suddenly to take up an energy bill, with no particular explanation, particularly when the administration has encouraged Congress to take it up, particularly when the House has done its job, and now we are advised by the majority leader that the committee of jurisdiction, the Energy and Natural Resources Committee, is going to suspend any further markup on energy legislation for "this session"—this session.

I have a press release that states that instead the chairman will propose comprehensive and balanced energy legislation. The chairman will. It does not say with the participation of the committee or the minority or the Republicans. It says the chairman outside the parameters of the committee.

It further says "the comprehensive and balanced legislation that can be added"—it does not say "will be added;" it says "can be added"—"by the majority leader to the Senate calendar for," it says, "potential action." It does not say "action."

Mr. President, I ask unanimous consent that the press release be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

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Page 4 of 4

Energy Committee Suspends Mark-Ups; Will Propose Comprehensive and Balanced Energy Legislation to Majority Leader

At the request of Senate Majority Leader Tom Daschle, Senate Energy & Natural Resources Committee Chairman Jeff Bingaman today suspended any further mark-up of energy legislation for this session of Congress. Instead, the Chairman will propose comprehensive and balanced energy legislation that can be added by the Majority Leader to the Senate Calendar for potential action prior to adjournment.

Noted Bingaman, It has become increasingly clear to the Majority Leader and to me that much of what we are doing in our committee is starting to encroach on the jurisdictions of many other committees. Additionally, with the few weeks remaining in this session, it is now obvious to all how difficult it is going to be for these various committees to finish their work on energy-related provisions.

Finally, and perhaps most importantly, Bingaman said, the Senate's leadership sincerely wants to avoid quarrelsome, divisive votes in committee. At a time when Americans all over the world are pulling together with a sense of oneness and purpose, Congress has an obligation at the moment to avoid those contentious issues that divide, rather than unite, us.

Bingaman will continue to consult and build consensus with members of his committee, with other committee chairs and with other Senators as he finalizes a proposal to present to the Majority Leader.

Mr. MURKOWSKI. I encourage again the majority leader to reflect on this action, give us the assurance he will take it up during this session and allow sufficient time for Members to provide for amendments, provide us with an opportunity to have an up-or-down vote on contentious issues, and that we meet our obligation as the Senate, as the House of Representatives has done, in addressing what is in the national security interests of our Nation, and that is the passage of the comprehensive energy bill.

I thank my colleague from Pennsylvania for allowing me this extra opportunity to speak.

The PRESIDING OFFICER. The Senator from Georgia.

Mr. MILLER. I ask unanimous consent to speak as in morning business for up to 5 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

END

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washingtonpost.com: Daschle Stops Panel's Consideration of Energy Bill

http://www.washingtonpost.com/wp-dyn/A40032-2001Oct10?language=prin

Daschle Stops Panel's Consideration of Energy Bill

Measure, Headed for Passage, Would Have Allowed Oil Drilling in Arctic National Wildlife Refuge

By Eric Fassin and Peter Behr
Washington Post Staff Writers
Thursday, October 11, 2001; Page A04

Senate Majority Leader Thomas A. Daschle (D-S.D.) yesterday abruptly halted further committee consideration of major energy legislation after Democrats concluded there were probably enough votes on the panel to approve the Bush administration's plan for drilling in Alaska's Arctic National Wildlife Refuge.

Two Democratic members of the Energy and Natural Resources Committee — Sens. Daniel K. Akaka (Hawaii) and Mary Landrieu (La.) — said they would vote with the Republican minority in favor of exploratory oil and gas drilling along the coastal plain of the Alaskan refuge, provided they agreed with other major sections of the energy package, according to their aides.

"Several members of the other side don't want a vote on ANWR because they know they would lose," Sen. Frank H. Murkowski (R-Alaska), a chief proponent of the drilling plan, angrily told reporters. "They didn't have the votes in committee and we did."

Senate Democratic and energy industry sources confirmed that Murkowski had enough votes in committee to approve the Alaska drilling proposal. An aide to Daschle said that while he was unaware of a hard count, the issue had become "a bit of a wild card" for the Democrats.

As majority leader, Daschle has authority to bring up a major energy bill of his choosing, and some senior Democrats are urging him to do so if he can work out an agreement with the GOP and the administration to set aside the question of drilling in the Alaskan refuge.

The House in early August approved drilling in the pristine 19 million-acre Arctic refuge along with other major portions of President Bush's plan to stimulate energy production, including \$33.5 billion in tax breaks and other incentives for the power industry aimed at increasing domestic production.

Environmentalists and their Democratic allies — stunned by the strong 240 to 189 House vote and the effective lobbying by the Teamsters and other labor groups that favor drilling — assumed that they could derail the drilling plan in the Senate or block it with a filibuster.

But with the labor groups continuing to press for approval of the drilling plan and Akaka and Landrieu signaling their likely support, Democratic leaders decided not to risk a vote. Instead, Daschle instructed Sen. Jeff Bingaman (D-N.M.), chairman of the committee, to suspend any further markup of energy legislation and provide him with a set of energy proposals that he could place on the calendar for "potential action" before adjournment.

Some Democrats said that with so many other pressing issues and a looming deadline for adjournment, that it was unlikely the Senate would turn to an energy package until early next year. However, Bingaman said yesterday that Daschle still hopes for action on energy legislation before adjournment, after Congress completes work on emergency legislation to address the continued threat of terrorist attacks and recession and the 13 spending bills for the fiscal year that begins Oct. 1.

Bingaman said that, after weeks of deliberation within his committee, it became apparent that many of

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washingtonpost.com: Daschle Steps Panel's Consideration of Energy Bill <http://www.washingtonpost.com/ac2/wp-dyn/A40032-2001Oct10?hpid=hp:print>

the issues under consideration -- from electricity restructuring to automobile and air conditioning efficiency standards -- fall under the jurisdiction of other committees that need to be consulted.

"He [Daschle] wants the Senate to be in a position to move to consideration of an energy bill in a timely fashion and it was his view that this process of putting a bill together -- hopefully on a consensus basis, involving input from Democrats and Republicans -- was the best way to do that," Bingaman said.

But Murkowski and fellow Republicans Larry E. Craig (Idaho) and Craig Thomas (Wyo.), yesterday blasted Daschle's action, saying that it would almost certainly postpone action on an energy package during a time of war, when the United States should be attempting to reduce its dependence on oil from the Middle East.

Craig said that by ordering the Energy and Natural Resources Committee to "cease and desist," Daschle is blocking "a national energy policy for this country, which is now a national security issue."

Daschle spokesman Doug Hattaway said the majority leader "thinks it [the energy package] is an important piece of legislation and ought to be considered as soon as possible . . . but he's made no commitment on when it would go to the floor."

Daschle's maneuver allows him to attach other important and highly controversial issues to an energy bill that are not within the jurisdiction of Bingaman's energy committee.

If he chooses, Daschle could seek a Senate vote on a proposal he made last year to greatly increase the use of ethanol -- a grain byproduct -- as a pollution control additive in gasoline. Strongly backed by corn growers in Daschle's state, an ethanol promotion measure could trigger a divisive Senate debate over formulas for blending gasoline, which vary greatly from region to region.

The nation's energy agenda had occupied center stage in the first months of the Bush administration. Since then, it has lost steam as California's electricity crisis eased, energy prices dropped around the nation, and the administration focused on the terrorism crisis.

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REGULATION, LAW & ECONOMICS

(No. 194)

A-45

governmentwide board Bush plans to set up shortly that will coordinate the protection of critical information systems.

The two appointments came one day after Bush formally named former Pennsylvania Gov. Tom Ridge as the head of the new Office of Homeland Security, which will coordinate the executive branch's efforts to deal with terrorist threats within the United States.

The White House said Downing and Clarke will report to both Ridge and National Security Adviser Condoleezza Rice. Rice said she and Ridge plan to work closely together to make sure U.S. security in the face of terrorist threats is "seamless."

"We will make sure that what we are doing abroad to protect and defend American national security is closely coordinated and matched with what we are doing to protect the security of Americans at home," Rice said.

Two-Prong Effort Described. Rice and Ridge described the appointments as part of a two-prong effort being undertaken in the wake of the terrorist assaults last month on New York and Washington. The reorganization of the government underway, Rice said, puts an emphasis both on fighting terrorism on the global level and domestically.

In his role as national director for combating terrorism, Downing will be the president's principal advisor on all matters related to combating global terrorism, including efforts to detect, disrupt, and destroy global terrorist organizations, the White House said.

The White House said Downing has ample experience in combating terrorism, crisis management, training large and small organizations, and more. During his 34-year career in the Army, it said, Downing served in a variety of command assignments in infantry, armored, special operations, and joint units culminating in his appointment as the commander in chief of the U.S. Special Operations Command. After his retirement, he was appointed by the secretary of Defense to assess the 1996 terrorist attack on the U.S. base at Khobar Towers in Saudi Arabia and to make recommendations on how to protect U.S. facilities worldwide from terrorist attack. More recently, Downing served on the National Commission on Terrorism.

Downing said his job will be difficult and did not predict any early conclusion to the administration's war against terrorism.

"[L]et's not make any bones about it: this is going to be an extremely difficult job," Downing said. "It's a tough foe, it's a determined foe. And as events have shown us, it's a very, very smart foe and a crafty foe."

Cyberpace Terrorism Feared. Ridge said the administration remains particularly concerned about protecting the nation's information technology.

"It pervades everything from a shipment of goods, to communications, to emergency services, and the delivery of water and electricity to our homes," Ridge said. "All of these aspects of our life depend on a complex network of critical infrastructure information systems. Protecting this infrastructure is critically important."

Ridge said the challenge is both to prevent disruptions and, when they occur, make them infrequent, short, and manageable. Besides being a technical challenge, he said, it is a legal challenge, since the effort raises both privacy and civil liberties issues.

Ridge also said there is a political challenge involved as the government must work in partnership with the private sector, which owns and operates most of the nation's infrastructure.

Ridge said Clarke is one of the nation's leading experts on cyber security, having been appointed the first national coordinator for security, infrastructure protection, and counter-terrorism in May of 1996. He also has served as deputy assistant secretary of State for intelligence in the Reagan administration and as assistant secretary of State for political military affairs in the first Bush administration.

Besides being Bush's principal advisor on cyber security, Clarke will serve as chairman of a new board that will be charged with coordinating the protection of infrastructure systems, Ridge said. The president, he added, is expected to sign an executive order soon that will formally establish the governmentwide board.

By NANCY OGNANOVICH

Energy

Senate Panel Agrees Not to Mark Up Energy Bill

Sen. Jeff Bingaman (D-N.M.), chairman of the Senate Energy and Natural Resources Committee, announced Oct. 9 that he intends to abandon all committee efforts to mark up a comprehensive energy bill before the end of this session.

The move is designed to avoid contentious votes which Republicans say include issues such as drilling in the Alaskan National Wildlife Refuge.

But Republicans were incensed. "This action by the Democratic majority has taken the nation's energy security and made it a partisan issue locking out Republicans and the entire committee process," Sen. Frank H. Murkowski (R-Alaska) said. Murkowski is the ranking member of the Senate Energy and Natural Resources Committee.

The decision to avoid "divisive votes" came at the request of Senate Majority Leader Tom Daschle (D-S.D.), Bingaman said in a prepared statement.

"The Senate's leadership sincerely wants to avoid quarrels, divisive votes in committee," Bingaman said in a prepared statement. "At a time when Americans all over the world are pulling together with a sense of oneness and purpose, Congress has an obligation at the moment to avoid those contentious issues that divide, rather than unite, us."

In place of a committee markup, Bingaman will deliver a legislative package to Daschle. The majority leader plans to add the legislation to the Senate calendar for a vote prior to Congress adjourning, Bingaman said.

Prior to Bingaman's announcement Daschle told reporters that he hopes there will be time this session to bring the energy bill to the Senate floor for a vote.

"A lot of my colleagues are hoping we will be able to address [an energy bill]," Daschle said.

Democrats Dodge ANWR Vote. The move comes on the heels of Republican pressure to move ahead with an energy bill and to vote on an amendment to allow drilling in ANWR.

DRAFT AGENDA
Alaska Highway Natural Gas Policy Council
October 31, 2001, 9:00 a.m. to 4:30 p.m.
Sheraton Anchorage Hotel

9:00 – 9:10 a.m.	Introductory Remarks Council Co-Chairs
9:10 – 10:00 a.m.	Consideration of Ownership Committee recommendations
10:00 – 10:50 a.m.	Consideration of Federal Committee recommendations
10:50 – 11:10 a.m.	Break
11:10 a.m. – 12:00 noon	Consideration of Alaska Hire Committee recommendations
12:00 – 1:15 p.m.	Lunch
12:45 p.m.	Keynote Remarks Governor Tony Knowles
1:15 – 2:15 p.m.	Consideration of Access Committee recommendations
2:15 – 2:30 p.m.	Break
2:30 – 3:30 p.m.	Consideration of Environmental Committee recommendations
3:30 – 4:30 p.m.	Closing Remarks/Meeting Wrap-Up Council Co-Chairs

Subject: Draft Subcommittee Reports Attached

Date: Sun, 28 Oct 2001 18:15:11 -0900

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Attached please find four draft Subcommittee Reports for the Gas Policy Council. The Council will meet at 9 am Wednesday, October 31 at the Sheraton to vote on the recommendations contained in each of the attached reports.

The Environmental Considerations Subcommittee is still working to finalize its recommendations. We will forward you their report as you as it is available.

If you have any trouble opening these attachments or would like copies

DRAFT
Committee Report
Federal/International Action Committee
Charlie Cole, Chair

Introduction

Members of the Gas Policy Council were extensively involved in decisions on state policy and in the development of proposed legislative changes. A substantial product of the Federal/International Action Committee were recommendations for changes to federal law to address key concerns of the state of Alaska in the development of a natural gas pipeline.

The committee supports modifications to modernize ANGTA and believes such modifications would be beneficial to an Alaska gasline project. The committee endorsed ten key policy goals that should be included in any new gasline legislation.

The ten policy goals developed to guide drafting of the legislation were debated by the full Council and ratified in concept by a majority of its members on September 25, 2001. Several changes were made as a result of points raised by Council members during the September 25 debate.

If Congress moved forward with new legislation as suggested by the producers, a principal concern of the Council was that Congress should take steps early to reaffirm the southern, or Alaska Highway, route as the sanctioned route for a natural gas pipeline, as a previous Congress did in 1977 when it ratified the President's choice of the southern route under the Alaska Natural Gas Transportation Act. Such a step would focus the attention of industry and federal agencies on regulatory and permit approvals for a project along this route.

This committee also notes that a southern route provides several advantages over other alternatives. Among these is use of the pipeline corridor for other purposes, including the possibility of constructing a railroad or other utilities over time. In addition, a southern route could facilitate access to highly mineralized areas which are located in close proximity.

A second concern of the Council was the probability that with a new initiative in Congress, an Alaska gas pipeline would be subject to Federal Energy Regulatory Commission jurisdiction on issues important to Alaska without a defined role for the state with the FERC. Such issues would include tariffs on intra-state shipment of gas, and access to and from a pipeline. The proposal for a Joint Board that would give the Regulatory Commission of Alaska joint jurisdiction with FERC on issues affecting Alaska grew out of this concern.

Other concerns of the Council involved provisions to encourage hiring of residents of Alaska for a gas pipeline project, and the hiring of Native Alaskans.

It was recognized by the Council that the pipeline project will be substantial and that, for all practical purposes, qualified Alaskan workers wishing to work on the project will be employed. Still, an explicit encouragement to hire locally will be a strong inducement for companies and unions to train Alaskans for pipeline-related construction and operating jobs. The skills developed in the Alaskan workforce as a result of training and employment will thus be a lasting legacy of the project.

The Council also considered the importance of pipeline access and the need for future open seasons to facilitate pipeline access for new discoveries. Failure to provide for additional capacity either at startup or through future open seasons could create a "monopoly" on pipeline capacity, discouraging exploration by non-owners. Any new gasline legislation must address this issue to protect the interests of the state of Alaska.

Other policy points guiding development of proposed legislation are detailed later in this report.

The committee recognizes the Governor's strong advocacy of the 10 Principles, as reflected in his recent testimony before the Senate Committee on Energy and Natural Resources and in other forums. It would appear that the State's policy position is well understood by decision makers in Congress and the Federal Executive Branch.

With this in mind, the committee believes that it would be useful for the State administration to continue its efforts with the commercial parties to develop a market driven solution to transport Alaska natural gas to market via the Alaska Highway route.

Close coordination and communication between the State, the North Slope producers and the pipeline companies could facilitate the establishment of a consortium of companies with the financial capability to build the pipeline.

In our opinion, current discussions among the parties concerning economic feasibility and reestablishment of the previous pipeline partnership underscore the need for such coordination at this time.

Background on ANGTA

Congress enacted the Alaska Natural Gas Transportation Act (ANGTA) in October 1976, after finding that the national interest called for the expeditious construction of a transportation system to bring Alaska natural gas to markets in the lower 48 states. The

primary goal of ANGTA was to "provide the means for making a sound decision as to the selection of a transportation system . . . by providing for participation of the President and Congress in the selection process, and . . . to expedite its construction."¹

To achieve that goal, the Federal Power Commission (the precursor to the Federal Energy Regulatory Commission ("FERC")), held hearings and prepared a "Recommendation to the President," which recommended two possible overland routes through Alaska and Canada. The President then selected the southern route, the Alaska Natural Gas Transportation System (ANGTS), as the preferred alternative. Congress approved the President's selection by a joint resolution in November 1977.

ANGTA establishes the framework under which federal agencies (including the FERC) are to review and approve the ANGTS project. ANGTA supplements, but does not supersede, the Natural Gas Act – which is the law that normally governs approval of natural gas pipelines, and requires a certificate of public convenience and necessity before interstate natural gas pipelines are built.

However, because ANGTA was designed to expedite construction of an Alaska gas pipeline, it contains numerous provisions that speed up administrative and judicial review. For example, ANGTA directs that any applications under it shall take precedence over similar applications and shall be expedited by federal agencies.² ANGTA also provides that a Federal Inspector be appointed to coordinate all federal activities and enforce federal requirements.³

In addition, ANGTA contains provisions dealing specifically with access to facilities and in-state access to gas. ANGTA provides that there shall be no discrimination against any shippers based on the degree of ownership in the system. It also provides that the State of Alaska is authorized to ship its royalty gas on the system and withdraw its gas for use within Alaska.⁴

Finally, ANGTA limits judicial review of any agency action to issues of whether the agency violated constitutional rights or statutory authority – effectively limiting the scope of environmental challenges to a project constructed under ANGTA.⁵

Because no project has been constructed under ANGTA since its enactment 25 years ago, there may be outstanding issues regarding its current application. For example, the

¹ 15 U.S.C. § 719a.

² 15 U.S.C. § 719g.

³ This provision was repealed in 1992. Pub. L. 102-486, Title XXX § 3012(a), Oct. 24, 1992, 106 Stat. 3128.

⁴ 15 U.S.C. § 719k.

⁵ 15 U.S.C. § 719h.

creation of legislatively designated areas—such as parks or wildlife refuges—may require re-routing portions of the project. This raises the question whether the project approved by the President has been altered so substantially as to render the findings in ANGTA ineffective. In addition, a competing project may be proposed under the Natural Gas Act, raising the issue of whether the preferential treatment required under ANGTA has already been provided, or whether an ANGTA project must be constructed before any other project designed to bring Alaska gas to the lower 48 states can be approved.

Summary of the "Alaska Natural Gas Pipeline Act of 2001"

The "Alaska Natural Gas Pipeline Act of 2001," set forth by the Alaska Gas Producers Pipeline Team, provides a streamlined administrative process and limited judicial review for non-ANGTA gasline projects. The legislation is designed to eliminate outstanding legal issues regarding whether non-ANGTA gasline projects may proceed absent the repeal of ANGTA.

Section 2 of the bill, "Congressional Findings," states that it is in the national interest to provide "as much regulatory certainty and expedition as practicable" for approval of one or more pipeline systems from Alaska to the lower 48.

Section 3 of the bill, "Congressional Purpose," states that the purpose of the bill is to expedite federal decision making, create an Office of the Federal Pipeline Director to coordinate federal agency decisions, and expedite and limit judicial review concerning both the Act and the approval process for any Alaska gasline project.

The bill defines "Alaska Facilities Gas Project" to mean any natural gas pipeline system that carries Alaska gas to the lower 48. It does not specify a preferred route.

Section 5 of the bill amends the Natural Gas Act to set out an expedited approval process for an Alaska gasline. It directs the Federal Energy Regulatory Commission ("FERC") to issue approval within 18 months of an application if: there is an agreement to ship with a party that controls Alaska natural gas; rates can be established according to FERC's usual procedures; and if there is compliance with all environmental laws.

The bill states that the lead agency for preparing an EIS shall be the FERC, and that the environmental impact statement ("EIS") process shall be expedited and the final EIS issued within 18 months after an application is filed.

Section 7 of the bill establishes the Office of the Federal Pipeline Director. This office appears to have a function analogous to the Office of the Federal Inspector, created under ANGTA. The Federal Pipeline Director will coordinate all federal activities related to the pipeline project. It will be a "one window point" for filing and issuing all necessary

permits and is responsible for coordinating and expeditiously completing all environmental reviews and studies.

The bill directs federal agencies to coordinate and expedite review of the gasline project and gives the Federal Pipeline Director the authority to remove discretionary requirements from federal permits if they would impair or prevent the expeditious construction of the pipeline.

Section 9 of the bill limits judicial review to claims challenging the Act itself, constitutional claims, or claims that an agency is acting outside of its jurisdiction. Lawsuits must be brought within a shortened time frame, with jurisdiction in the U.S. Court of Appeals for the District of Columbia.

Section 10 provides that, if any provisions of the Act are invalidated, the remainder of the provisions will be unaffected.

Background on Canadian relations

First Nations

The Kaska First Nations located in Northern British Columbia and the Yukon continue to negotiate land claims and self-government agreements with the Government of Canada and the Province of British Columbia. While these negotiations are expected to continue for the foreseeable future, speculation is that when the time is right, the Kaska will be open to a side agreement on any proposed pipeline running through their territory.

The eight First Nations who have land claims along the proposed route of the Mackenzie Valley pipeline have been negotiating with producers since late spring of 2001. Early in October of 2001, seven of the eight groups came to an agreement on ownership sharing of any pipeline built through their territories. This agreement would grant 30% ownership to the First Nations Bands. The eighth, the De Cho, refuse to sign the agreement. While the Minister of Indian Affairs and Northern Development has been quoted as saying that one Band cannot hold a veto over any project, the De Cho believe that they have the right to refuse construction on lands they claim.

Position of the Government of Canada on Arctic Gas Production and Transportation

The Government of Canada has affirmed that in relation to this project, all departments and agencies will maintain route and project neutrality. In the spring of 2001, the Prime Minister set up a Cabinet reference group to study the current state of Canada's energy policy. The main issue of study was whether to express a preference for one route over another. A number of Cabinet Ministers expressed support for either the over-the-top route or a two-pipeline route with the construction of the Mackenzie Valley line happening first. After careful consideration of all available information and a careful review of the regulatory implications of each option, the Cabinet reference group

recommended to the Prime Minister that the original position of route and project neutrality be maintained.

Provincial and Territorial Positions

Of the four non-federal jurisdictions involved in the issue, only the Yukon Territory is firmly supporting the Alaska Highway route. While they have not been overly aggressive in the past, they intend to become more aggressive in promoting the route with the Canadian Federal Government. The Yukon Government has commissioned an economic study of the benefits to Canada of constructing and operating the Alaska Highway route and it is expected that this study will be released to the public in January of 2002.

The Northwest Territories is aggressively promoting the Mackenzie Valley line either in conjunction with an over-the-top segment or as a stand-alone line. Assuming the latter is chosen by producers, the Northwest Territories is demanding that this line be built before an Alaska Highway gasline. They are very active with the Federal Government asking for financial incentives to ensure the line's construction.

The other two jurisdictions involved, British Columbia and Alberta, have remained route and project neutral. Premier Klein of Alberta has said that regardless of what line is built, he will not allow a "bullet line" to cross his province. He demands that Albertans share in the long term economic prosperity created by a line to the lower United States. Principally, he is referring to gas liquids and would like to see the petrochemical industry in his province benefit from them.

While it would seem logical for the Government of British Columbia to be supportive of the Alaska Highway route, this government has only been in power since June 2001 and this issue has yet to be critically examined by the Premier and his Cabinet.

Recommendations

The committee endorsed ten key policy goals that should be included in any new federal gasline legislation. The 10 principles and corresponding legislative provisions are outlined below.

Key principles

1. Find that the Alaska Highway natural gas pipeline is in the national interest.
2. Mandate the already permitted Alaska Highway route as the preferred route.
3. Provide opportunities for new pipeline participants, such as existing producers, pipeline companies, and major Alaska companies.

Corresponding Legislative Provisions

- The 1976 Alaska Natural Gas Transportation Act (ANGTA) that established a process selecting the ANGTS project following the Trans-Alaska Pipeline and the Alaska

Highway through Canada to the lower 48 should be the framework for any new gasline legislation.

- The legislation should provide for updating and modernizing the process provided in ANGTA for the expeditious environmental review and approval of a pipeline application for the Alaska Highway route.
- A finding that an Alaska Highway route would make an important long-term contribution to the nation's energy supplies and independence.
- A finding that an Alaska Highway route would have less potential environmental impacts and related delays in construction.

Key principles

4. Provide a mechanism for Alaska communities and businesses to obtain access to natural gas from the pipeline.

Corresponding Legislative Provisions

- FERC should require each project sponsor to demonstrate how the sponsor plans to meet reasonable projections of in-state local consumption needs, including the needs of Fairbanks, Cook Inlet, and rural Alaska. In addition, the sponsor should allow for possible future construction of a pipeline to tidewater for the export of LNG.
- The Regulatory Commission of Alaska should have concurrent jurisdiction with FERC to set just and reasonable rates for the shipment of natural gas over the Alaska section of the gasline for in-state users.
- The Regulatory Commission of Alaska should have exclusive jurisdiction to set just and reasonable rates for any lateral pipeline connected to the Alaska section of the gasline that serves in-state users.

Key principles

5. Provide access to the pipeline for new natural gas discoveries that will keep Alaska's oil and gas industry healthy through new leasing, exploration and production.

Corresponding Legislative Provisions

- FERC should require each applicant to make reasonable plans and procedures, including additional open seasons if necessary, for the expansion of the Alaska section of the gasline as new fields of natural gas are developed on the North Slope and throughout Alaska.
- FERC should be authorized to order expansions of the gasline in the future under reasonable, non-discriminatory terms.

Key principles

6. Provide for Alaska hire and Alaska Native hire.
7. Provide for the use of Alaska businesses.

Corresponding Legislative Provisions

- To the extent allowed by law, Alaska residents and contractors should be employed when they are available and qualified. In turn, contractors would be encouraged to employ and train Alaska residents.
- Recruitment should be accomplished primarily by advertising in-state and using Alaska's job service organizations to notify the Alaskan public.
- The project sponsors must, whenever feasible, enter into construction contracts with Alaska firms and fabricate modules in Alaska.
- The gasline sponsors should be required to enter into an agreement to provide for pre-employment recruitment, on-the-job training, and employment of Alaska Natives.

Key principles

8. Provide for a project labor agreement for the construction and maintenance of the pipeline, and for worker training.

Corresponding Legislative Provisions

- The project labor agreement should require all contractors and employees to agree to a total ban on strikes, lock-outs and other disruptive activities for the life of the agreement.
- The agreement should be designed to ensure a steady supply of skilled labor and a contractually binding means of resolving worker grievances.

Key principles

9. Provide a priority for the use of American and Canadian steel.

Corresponding Legislative Provisions

- Only steel manufactured or produced in the US or Canada should be used in the construction of the Alaska section of the gasline unless its use is inconsistent with the public interest or the cost is unreasonable. Factors to be considered in evaluating the public interest should include quality, availability and delivery times.

Key principles

10. Provide for economic incentives to give investors in ANGTS additional levels of confidence.

Corresponding Legislative Provisions

- Accelerated depreciation on gasline investments.
- An investment tax credit for an approved ANGTS project.
- A tax credit for producing gas from the Alaska North Slope tied to a price floor.

DRAFT
Committee Report
State Pipeline Ownership and Tax Structure
Bill Corbus, Chair

Recommendation:

The Committee believes the pipeline is economically feasible for certain investors and should be undertaken with private financing. We recommend against direct state investment unless there is clear evidence of economic benefits to Alaska that cannot be achieved through other regulatory or political mechanisms.

Recommendation:

The Committee encourages exploration of creative financial structures to facilitate all or part of a gas pipeline and/or in-state gas infrastructure, provided such entities finance their activities through private markets.

Recommendation:

The Committee recognizes that state tax policy is one of several tools that could play a role in influencing pipeline development, but reserves a decision. It is premature to decide how to use this tool until there is more definition of a project and the nature of its ownership.

Conclusions:

- * When the Committee began its work early in 2001, there appeared to be certain problems that could be resolved by partial state ownership in a gas pipeline, and that it could be an important advantage for Alaska. However, through the process of gathering information and holding meetings, the Committee has determined that most if not all of these could be resolved through other means, other tools the state has at its disposal. For example, access to and from a pipeline can be facilitated through the state Regulatory Commission of Alaska working with the Federal Energy Regulatory Commission, and through stipulations in a state right-of-way lease across state lands.
- * The Committee believes a natural gas pipeline from Alaska would be good investment, but there are other, equally good investment opportunities for public funds that entail less risk. The state has a policy of diversifying investment of its assets (the Permanent Fund is an example) to reduce risk.
- * From information gathered during hearings, the Committee has concluded that, absent majority or total ownership of a natural gas pipeline, an ownership interest gives the state no right to capacity in the pipeline. Capacity in a contract carrier pipeline is obtained through the nomination process during an "open season."
- * The Committee is not persuaded that partial ownership of the pipeline raises any conflict of interests for the state (i.e. a state "ownership" interest vs. a state responsibility to regulate the pipeline) that cannot be resolved.

* The Committee investigated alternative sources of financing, including the Permanent Fund, Constitutional Budget Reserve and the ability of various public authorities to issue revenue bonds. The Committee believes that private sector companies can raise needed funds based on adequate coverage and financing reserves. State participation would not enhance the acquisition of funds, would not necessarily guarantee lower financing costs and might unduly interfere with a straightforward private sector funding. The State's participation would include a vote on a tariff but its interest would not be proportionately large and it would not guarantee a desired outcome.

* Absent a compelling public interest for partial state ownership, ownership of the pipeline is best left to private industry, and to firms which are experienced in oil and gas and the pipeline business.

* The Committee suggests that Alaskan-owned businesses, such as Alaska Native corporations, have the opportunity to invest in a natural gas pipeline project.

* Regarding alternative financing mechanisms, the Committee has been told by the producers' group that an investment in a gas pipeline might not meet the rate-of-return criteria for the producing companies. If so, alternative financing mechanisms, such as through a public authority, might facilitate others, such as pipeline transmission companies, becoming involved. A public authority may have advantages in terms of exemption from federal income tax, or jurisdiction by the Federal Energy Regulatory Commission.

* Regarding tax policy, the producers are seeking simplification and clarity in natural gas tax and royalty administration.

* The Gas Policy Council itself has endorsed the Governor's proposals for federal tax incentives, such as accelerated depreciation, an investment tax credit and a gas price volatility protection mechanism, a tax credit that becomes effective if prices fall below a certain point. The Committee reaffirms this endorsement.

* The Committee feels that if a viable proposal for a pipeline is put forward and the producers do not respond in a reasonable period of time, the state should use tools that it has available to facilitate the project moving forward.

* House Bill 393, enacted by the Legislature to facilitate construction of a liquefied natural gas project (and since lapsed) contained a mechanism for a "contract" between the state and a sponsor of a gas pipeline project that would encourage stability in taxes on a gas project. While there are legal limits to the Legislature's ability to guarantee future tax policy, such a contract would carry an important moral commitment, and would be worthy of consideration for an Alaska Highway gas pipeline.

DRAFT
Committee Report
Alaska Hire/Buy/Build Subcommittee
Mike Navarre, Chair

Recommendation:

The Committee believes that Alaska hire language, similar to language from the BP/Arco Merger "Charter Commitment," should be sought for the Alaska Highway Natural Gas Pipeline and facilities. (*Note: charter language is attached*). It should be specifically stated that the quarterly report to the Department of Labor should include all contractors and subcontractors of the company or sponsor.

Recommendation:

The Committee believes additional funding should be made available for vocational education training and should be coordinated with existing workforce training efforts now underway. Additionally, efforts should be increased to notify interested Alaskans of training opportunities available.

Recommendation:

The Committee believes every effort should be made to ensure that needed gas production facilities are constructed at sites in Alaska.

Recommendation:

The committee recommends the state's Department of Community and Economic Development undertake a study to determine the socio-economic impacts of the gas pipeline along the Alaska Highway route. The Department has already begun implementation of this recommendation. A draft "scope of work" for this study is attached.

Conclusions and narrative:

The committee held several hearings regarding the constitutionality of local hire laws. The record in Alaska on local hire litigation is not encouraging. We believe it will be difficult to construct local hire legislation that will withstand challenges under the U.S. and Alaska Constitutions (equal protection & privileges and immunities clauses). Additionally, a successful Alaska hire provision is complicated by the national and international scope of the project. Voluntary, cooperative efforts with industry seem to hold the most promise and should be pursued.

The number of jobs will be significant and will exceed the available capacity of Alaskan workers. The committee heard testimony that there is already a crisis situation being created because of the aging workforce in the oil industry, without factoring in the effect of a large-scale project like the gasline. There are

coordinated efforts already underway, by industry, unions, native and tribal organizations, the Denali Commission, the University of Alaska and state agencies to address the training of Alaskan workers, and those efforts will require additional funding. The Alaska Human Resources Investment Council has developed a white paper that details a comprehensive approach to workforce training. It is attached as part of this report.

In addition to assuring labor stability, a project labor agreement will facilitate the further ramping up of union training programs, bringing more Alaskans into apprenticeship and skill upgrade programs. An ancillary benefit of the PLA is the legality of geographic preference provisions of collective bargaining agreements.

Committee members heard testimony from rural residents along the pipeline route expressing interest in job opportunities. We believe that issue is best addressed through notification, to interested Alaskans, of available training and through registering of interested workers and their skills. Construction training in rural Alaska has increased to an unprecedented level in the past two years through initiatives such as the Alaska Works Partnership, the Tanana Chiefs/Laborers/Operators Cooperative Agreement, and the Denali Training Fund and other efforts funded by the Denali Commission. Continued support of these initiatives, which have resulted in training and employment of hundreds of rural Alaskans in construction, is essential if residents of communities along the pipeline and in areas of the state suffering economic dislocation due to fisheries problems, are to share in the economic benefits of the project. The Department of Community and Economic Development is already working with Native non-profits to create accurate job banks, focusing on rural areas and villages.

The committee also obtained information regarding module related jobs for gas treatment facilities and compressors. The opportunity is tremendous and construction of modules, at Alaskan sites, should be vigorously pursued. It is estimated that the module related jobs and opportunities will be bigger than the Alpine, Northstar, Badami and MIX projects combined.

ALASKA HIRE COMMITMENT LANGUAGE
(from BP / ARCO merger charter)

Alaska Hire Program

- Within constraints imposed by law, extend existing voluntary program to employ Alaska qualified residents and contractors.
- Advertise available positions locally and use Alaskan job service organizations to notify the Alaskan public of employment opportunities.
- Use best efforts to contract with Alaskan firms and fabricate modules in Alaska where feasible, taking into account commercial, health and safety and environmental conditions and requirements to ensure maintenance of the companies' operational standards.
(use specified criteria in determining feasibility).
- Encourage contractors to employ and train Alaska residents to extent permitted by law.

Reporting

- Submit to Director, division of Oil and Gas an annual report detailing the specific measures taken/planned by companies and their contractors/sub-contractors in support of Alaska Hire Program above.
- Submit a quarterly report to the Department of Labor regarding employment of Alaska residents.

**Department of Community and Economic Development
Alaska Gas Pipeline Socio-Economic Impact Study
Scope of Work (DRAFT).**

The Department of Community and Economic Development is currently undertaking a study to determine the socio & economic impact of the gas pipeline along the Alaska Highway route. There are currently two segments of the report. In order for the State of Alaska to anticipate future needs arising from the gas pipeline project, it will be necessary to look at both the positive and negative impacts associated with the construction and the operation.

Segment 1

The first segment is an analysis of the impacts to state departments (specifically DCED, DHSS, DNR, DOL, DPS, DOE). The Department is currently investigating this section internally. After completing a preliminary analysis of potential impacts to state agencies, the report will be disseminated amongst the agencies so that the departments can tailor more specific questions that will need to be addressed.

Segment 2

The second segment is the potential economic benefits the gas pipeline would have for the state of Alaska and perhaps in more detail the communities along the proposed Alaska Highway route. An independent third party contractor will investigate this segment.

Identify potential economic opportunities created by the gas pipeline along the highway route during construction and also during the operational phase. For the construction phase, the study would examine past pipeline projects to see which sectors benefited from the construction activities as well as what types of business developed in the region during the construction phase.

The study would also include an analysis of what types of businesses might expand or relocate to Alaska as a result of accessibility to large supply of natural gas. These projects might include a petro chemical facility, an increase in mining activity, and transportation infrastructure. Other benefits that could be examined include the potential for cheaper utility to rural areas as well as an increase to the local tax base for communities along the pipeline.

Once the scope of work can be finalized, an RFP will be created based on the finalized scope of work.

DRAFT

DRAFT
Recommendations and Conclusions
Access for In-State Gas Use and Future Opportunities
Ken Thompson, Chair

Purpose: The Access for In-state Gas Use and Future Opportunities Committee will address key issues and make recommendations on state policies to enable fair and transparent pipeline access for in-state gas use and for the creation of a broader natural gas business within Alaska upon commercialization of North Slope gas.

Goal #1: Assess current supply/demand for in-state natural gas use and assess potential demand for expansion of current use as well as conceptual new uses.

Recommendation:

A long-term clean energy plan and vision needs to be developed for Alaska, providing for substantially increased use of natural gas for residential and industrial use and for power generation.

Recommendation:

The State should take a long-term, broad and strategic view of its entire natural gas resources. This should include areas on the North Slope, including non-producing areas, in interior basins and in south Alaska. There is a significant potential gas resource base in Alaska much larger than the 35 TCF proven natural gas reserves in existing fields on the North Slope.

Recommendation:

The State of Alaska should undertake more intensive, updated geologic and geophysical studies of the natural gas potential of current nonproducing areas, including Interior and Southcentral Alaska basins. This should include a more thorough assessment of basin geology and natural gas generation and migration utilizing the most modern technology tools, as well as a more thorough assessment of the producible methane gas potential from coal seams within Alaska. In recent years new tools, such as in satellite imagery and soil sampling techniques, have been developed. Another gas resource that should be assessed is gas from gas hydrates on the North Slope and in Interior basins which are very sizeable and could be developed in future decades as technology advances.

Recommendation:

The State should evaluate incentives and policies to spur the exploration by private companies for natural gas, to better delineate the natural gas resources not only on the North Slope but elsewhere throughout the State. Strategies and plans should be implemented to attract additional companies interested in natural gas exploration, who now utilize new technologies, to the North Slope, Cook Inlet, the Interior basins and elsewhere in the state.

Recommendation:

A major gas pipeline should traverse Alaska if the State is to fully exploit its longer-term resource from all basins over 50-plus years and to also gain access to future multiple markets over the long-term. In addition such a pipeline could ensure long-term, reasonably priced supplies of energy to the Railbelt and other areas of the State thereby encouraging economic development.

Recommendation:

The State should facilitate favorable policies and incentives to encourage development by the private sector of a broader natural gas infrastructure within the State that meets the long-term clean energy demand of Alaskans at reasonable market prices.

Conclusions:

* Natural gas supply in Southcentral Alaska is decreasing while demand for natural gas in home and commercial use as well as for electrical demand is increasing. Additional reserves of natural gas will be needed to meet future demand.

* The natural gas demand in Southcentral Alaska in 1998 was 589 million cubic feet per day (MMCFD) and is estimated to have grown 1 - 2.5% per year over more than 30 years. Approximately 166 MMCFD is for local utilities; 75 MMCFD for residential and commercial space heating use and 91 MMCFD for electric power generation. 360 MMCFD is for industrial use, 214 MMCFD for LNG export and 147 MMCFD for ammonia-urea manufacture. 46 MMCFD is for fuel to operate oil and gas production facilities.

* Unless new significant gas reserves are developed, a shortfall in natural gas deliverability for peak winter demand is predicted for Southcentral Alaska by 2006-08. This deliverability shortfall may be offset by gas storage, by curtailment of industrial use or by bringing new reserves on line. However, replacement of the deliverability will add higher cost resources, substantially increasing natural gas and electricity bills for consumers and businesses in Fairbanks, Anchorage, the Mat-Su Valley and the Kenai Peninsula.

* By 2009 without significant new sources of gas, the continued operation of the LNG plant and/or the ammonia/fertilizer plant is at risk. The export license for the Kenai LNG facility expires in 2009. It is conceivable that the export of LNG plant would not be authorized beyond 2009 and rising gas prices may make it difficult for the ammonia-urea plant to compete in international markets

*In the long term, conventional natural gas (excluding coal bed methane) in Cook Inlet will probably be unable to meet the needs of the Cook Inlet region even with the cessation of all industrial uses. A long term solution to this pronounced shortfall in deliverability would be gas from the North Slope. Depending on the delivered price of North Slope gas, this may also allow the continued operation of the industrial plants, thereby saving over a thousand total jobs and maintaining property taxes and state revenues

* By 2018 in Southcentral Alaska, other fuel alternatives, heating oil and coal, may have to be relied on. In the case of fuel oil and coal, there are clean air environmental consequences for citizens in Anchorage, the Mat-Su Valley and on the Kenai Peninsula.

* Current natural gas purchases by residential and commercial users in the Anchorage area total over \$100 million per year. The deliverability shortfalls starting as early as 2006 could cause natural gas prices to increase affecting business growth and corporate taxes to the State as well as affecting cost of living for residents.

* The only known proven reserve, longer-term natural gas supply solution for consumers in the areas around Anchorage will be North Slope gas which can potentially be delivered to the Anchorage area at competitive market prices via a spur line off a main trunk line.

* The most competitive priced and cleanest fuel for consumers in Fairbanks may be North Slope gas that can be delivered to the Fairbanks area through an offtake "hub" or tap in the main gas pipeline.

* Along the pipeline route from the North Slope through Interior Alaska 14 large mineral prospects within 20 miles of the gas pipeline have been identified. These mineral prospects are currently not economic with the largest cost for development being energy cost. Testimony was given that some of these mineral prospects may be commercially viable if a reasonably priced natural gas supply was available.

* The natural gas resources in interior basins and in South Alaska have not been fully explored and delineated, but earlier screening studies have indicated the presence of natural gas. Little exploration or development has taken place because of lack of transportation to market and perceived geologic risk. In some areas, very little is known about basin geology and natural gas generation and migration, yet natural gas has been recognized as present.

* Alaska has the United State's largest volume of coal beds, but little work has been done to quantify the methane gas potential from coal seams. In the Lower 48 over the past fifteen years coal seam gas production has become a major supply source near locales where pipeline transportation is available.

* Potential reserves of methane gas trapped as gas hydrates in shallower geologic formations on the North Slope or Interior basins could be very large. Recent studies in the Lower 48 and in Canada indicate trillions of cubic feet of entrapped natural gas as hydrates. Numerous research and technology studies are underway by the Department of Energy and private companies to better assess the gas hydrate resource base and technologies needed to commercialize this huge resource in the future. Alaska needs to better quantify its very large gas hydrate resource base on the North Slope and in other basins of Alaska and stay abreast of technology improvements.

* Interestingly, exploration companies new to Alaska such as Forest Oil, Andex Resources, Lappi Resources, Evergreen Resources and others have shown interest in the Interior basins for new conventional gas exploration using new technologies and for coalbed methane. Four new exploration licenses totaling 4.8 million acres are underway as well as more extensive leasing of coalbed methane leases. This new exploration should continue to be encouraged through favorable State policies and incentives. If these gas resources prove to be of large size over the next 50 years, a pipeline option that offers access to markets outside the State will be necessary as in-state markets are somewhat limited in size.

* There is not a long-range energy plan for the State that positions for the marketing of natural gas from different basins, including the prolific North Slope. A pipeline traversing Alaska offers the best option to allow assessment and future marketing from all basins across the State into future multiple markets globally.

Goal #2: Assess how natural gas or natural gas products can meet the clean and economical energy needs of communities along the pipeline routing and in rural Alaska.

Recommendation:

The State should sponsor a comprehensive economic and environmental study of assessing fuel switching in certain and rural interior communities from diesel to cleaner burning propane to provide information for the likelihood of economic natural gas "hub" propane processing facilities.

Recommendation:

The State should sponsor a comprehensive economic and environmental study of assessing broader electrical power distribution to certain interior and rural communities to provide information for the likelihood of economic power generation plants near natural gas "hub" offtake points.

Recommendation:

The State should encourage private investors to initiate an economic study of creating one or two "gas hubs" for gas distribution, natural gas liquid processing, and power generation near Fairbanks and/or Delta Junction in order to foster a broader clean energy natural gas, propane and electrical distribution system within Alaska once a pipeline is endorsed across Alaska.

Conclusions:

* Because a North Slope gas pipeline will likely be heavy-walled and high-pressure, and will likely transport large quantities of natural gas liquids, any "tap" on the pipeline for local access to gas will be very expensive and may require facilities to remove the natural gas liquids. It is possible that only one or two "hubs" for gas offtake, for local natural gas use or gas-based industrial development, may be economically viable.

* To other communities without large populations, affordable and clean energy from the gas pipeline might best be distributed from gas-fired power generation at the offtake hubs, or through bulk distribution of propane more widely across interior communities and rural Alaska. Large quantities of propane, a well-known natural gas liquid fuel source, will be moved through the pipeline in large quantities and can be removed at "hub" natural gas processing facilities.

* In an economic analysis of fuel-switching in Interior Alaska, the local cost of replacement or conversion of oil-burning stoves and generation equipment must be included and the positive economics on the environment of cleaner burning natural gas, propane or electricity be assessed.

Goal #3: Assess the costs or benefits of the state taking its royalty share "in kind" for facilitation of in-state access and use.

Recommendation:

The State should retain its right to take its royalty share of gas on the North Slope "in kind" or "in value". This flexibility creates competition to maximize wellhead value for the State by either the producers or other firms such as energy trading companies interested in marketing the State's share of gas. The producers have requested a long-term commitment by the state and are asking the State to decide up front to take either "in-kind" or "in-value". The council feels the flexibility to switch on six months notice is very important, creates marketing competition and will ultimately maximize resource value. The State should not negotiate away its right to take its royalty share of gas "in-value" or "in-kind".

Recommendation:

The state could maximize the value of its natural gas royalty resource with a mixed portfolio of "in-value" and "in-kind" sales, with in-kind royalty marketed by energy trading companies such as Duke Energy, Enron, Williams Energy or major companies like them. The state should put its royalty "in-kind" gas out for bid and seek bids from multiple parties for contract terms and price. Such contracts should ask for a "floor price" equal to or exceeding the average netback wellhead price achieved by the three major producers or from "in value" sales as "insurance" that the energy trading companies are working in their marketing to beat the producers gas sales realization.

Recommendation:

When there are out-of-state sales using an energy trading company, the energy trading company will reserve the capacity and the liability associated with that capacity, and that liability will not fall back on the state.

Recommendation:

The State may choose to direct market some portion of its gas to in-state consumers using State staff, but it is recommended that sales to customers in outside markets be handled by professional energy trading firms considering the complexity of and rapid change in those markets. This would also allow those firms to absorb the risk of nominating pipeline capacity and buying hedging instruments to lessen risk on pricing of contracts.

Recommendation:

By keeping some portion of its royalty share of natural gas "in-kind", the State may be able to make some contract deals with consumers in-state at more favorable terms than the producers as the State might realize added dollar benefits through jobs and corporate taxation of value added processing such as natural gas liquids processing, petrochemical manufacturing, power generation, etc. that may not otherwise be economically viable to entrepreneurs within the State. However, there should not be a subsidy in sales of royalty-in-kind gas. The state should receive a netback price for royalty gas equal to or greater than the market-based "netback value" of gas on the North Slope.

Recommendation:

To the extent practical, the State of Alaska should enforce its "higher of" clauses on natural gas royalty as this could add value and ensure producers work hard in their marketing to obtain the best value in their sales of natural gas. When the State elects to take any share of its royalty gas "in value", existing lease terms and statutes allow the State to receive royalty payments and production taxes on the "higher of" actual proceeds or market value. Other states, as well as the U.S. Minerals Management Service, are aggressive in ensuring all producers pay this "higher of" price for royalty and relevant taxes and receives such payments from the same producers that produce on the North Slope.

Recommendation:

Because of the complexities of the natural gas industry and the differences with the oil industry, the State should form a Natural Gas Services Group with people experienced in the natural gas industry, shipping, marketing, and trading so that the State becomes even more sophisticated in understanding deals and transactions that are often involved in the natural gas business. The group would provide an oversight function on sales of royalty gas out-of-state, but could also negotiate and manage in-state sales much like the Division of Oil and Gas now manages sales of royalty oil.

Recommendation:

For more cost effective development of in-state gas infrastructure resulting in more economical transportation of state royalty gas within the State, the State should encourage entities to examine the port authority concept of tax advantaged financing for a gas "hub", spur lines and other distribution facilities.

Conclusions:

* Current North Slope oil and gas leases, and state statutes, allow state royalty production share to be taken "in kind", i.e. physically take the oil or gas and market the products itself or arrange for other parties to purchase the gas at market value contracts, or to take "in value", i.e. allow the producers to sell the products and pay the State their realized value of wellhead price after deduction of certain transportation costs. The state has the option to switch between taking its royalty share "in-kind" and "in-value" every six months. Current state law requires any "in-kind" sales, however, to obtain values equal to or higher than "in-value" sales.

* The current North Slope producers have complied with the "in kind" or "in value" lease terms and statutes in other states and on federal offshore leases for decades and have instituted internal procedures that allow them to process the selection of "in kind" or "in value" promptly. Other states and the federal government also have internal processes for administering the switch between "in kind" or "in value" as does the State of Alaska for its royalty share of oil. The producers' arguments that Alaska must decide up front on "in kind" or "in value" to ease marketing and sales administration or to bring more certainty to gas transportation or marketing are not valid considering the same producers' decades of experience administering such programs for transportation and marketing elsewhere successfully.

* The natural gas industry in the U.S. is very sophisticated in gas trading and marketing. There are energy trading companies which may be able to market the state's royalty gas for a higher netback price than would be paid by the producers if the gas were taken in-value. If so, the state's leases include a "higher of" clause which means producers would have to pay royalties and taxes on the higher of their actual netback wellhead price or the

actual netback wellhead price of an energy trader. This, in a way, creates competition and options to achieve the best possible wellhead netback value.

* In testimony from the General Land Office of Texas, Texas has similar "higher-of" clauses in their state leases that they enforce. In 2000, enforcement of the "higher-of" clauses with producers paying royalties and taxes on the highest actual netback wellhead price achieved on various leases resulted in additional revenues of \$17 million. Alaska's royalty gas sales will be ten times higher than Texas' volume of royalty gas sales.

* Alaska may achieve higher prices on some of its royalty gas by allowing energy trading companies to market the State's "in kind" share. The State of Texas takes 53 percent of its royalty gas in-kind and 47 percent in value, and claims to achieve higher prices on much of its royalty-in-kind sales by achieving better negotiated pipeline tariffs, higher customer prices, or integration for power generation.

* However, the flexibility in taking royalty-in-kind is important for other reasons as well as price. First, royalty sales will allow the state to periodically test the market, to assess whether it is getting fair market prices from producers. Second, allowing energy trading companies to market royalty gas will create more competition by their accessing different customers than the producers and broadening the market exposure of Alaska's natural gas.

* While Texas is able to market its royalty gas with a small staff of state employees, Alaska should "outsource" its sales of royalty gas to the Lower 48 or other outside markets through an experienced gas trading firm. Because large volumes of Alaska royalty gas may be marketed in several of the Lower 48 gas markets or outside markets initially, a thorough understanding of and experience in those markets will be required.

* On the other hand, it may be more appropriate that the state negotiate directly for sales within Alaska of in-kind royalty gas as is now done with royalty oil, because of the better understanding of local conditions. A section within a new Natural Gas Services Group could perform this function.

* The concept of a public authority owning a segment of a natural gas pipeline within Alaska may present significant benefits for transportation of state royalty gas to in-state users. The tax advantage of a public authority, for example, would allow a lower tariff for transporting gas within the State and resulting savings could help generate more business activity by providing natural gas prices at lower prices to consumers. The netback price, however, should remain at market values.

Goal #4: Determine the "best practices" for methodologies to achieve transparency in netback pricing valuation at the wellhead and transportation to assure fair and

favorable pricing for in-state gas business creation and expansion as well as for taxation and royalty calculations.

Recommendation:

The state should keep a natural gas price netback valuation methodology based on actual sales proceeds, or sales contracts, and not change to a formula linked to average prices in gas trading hubs or some other general formula at least for the first several years of major gas sales. The State's right under lease terms and statutes to obtain actual realized prices for its gas and natural gas liquids should not be negotiated away.

Recommendation:

With the growing natural gas liquids (NGLs) business in the U.S., the State should keep a natural gas liquids price netback of gas-line liquids based on actual sales proceeds, or sale contracts, of the liquids and not accept a value for the liquids based on a BTU adjusted basis of the gas stream unless there is clearly a higher value obtained by BTU-based sale. The State should be very sophisticated in its assessment and knowledge of the business of NGLs, as revenues from NGL sales will be a substantial part of revenues from the overall gas stream.

Recommendation:

Alaska statutes should be reviewed and updated to require information on sales spot transactions, sales contracts, actual transportation costs, and other information be made known to the State, much as statutes in Texas and other locations provide for. When updating these statutes the process should be clarified in a way that assesses the "lessons learned" on the Alaska oil valuation disputes, and provide for more timely resolution of any differences in valuation.

Recommendation:

Alaska statutes should be reviewed and updated to require information on "affiliated sales" by producers be made known to the State, much as statutes in Texas and other locations provide for.

Conclusions:

* After several years of North Slope oil production disputes arose on netback pricing valuation that resulted in major hearings and extended litigation. The state was able to resolve these issues after several years of production once access to oil sales contracts, invoices, and transportation charges allowed the state and the producers to agree on a formula for purposes of calculating royalty. The experience with production made both the state and producers confident that the formula tracked market values, or actual proceeds of oil sales. This history may or may not be of value in regard to gas price valuation. Certainly it is in both the State's and the producer's interest to avoid replication of the lengthy disputes on royalty and severance taxes experienced with the first decade of North Slope oil production

*In contrast to oil, there have been no sales of North Slope gas, nor are gas sales contracts in place or other similar information available. For the first several years of natural gas production, the state should certainly rely on existing measures of royalty value in the lease, which include value based on sales proceeds. The state should, however, review the oil valuation disputes and see if additional clarification of information, data, definitions, etc. is required to achieve a better mutual understanding by the producers and the State to lessen points of future disagreement. An agreement on an alternative formula for royalty valuation on gas may never be needed to maximize value to the state. In the future there could be sufficient production experience to allow agreement on a formula for valuation if needed. Billions of cubic feet of natural gas are sold from various states and federal leases under the actual netback pricing mechanism. While there have been disputes, there have rarely been pricing formula agreements adopted in lieu of an actual netback pricing approach.

* Natural gas hub spot prices could be too easily affected, at certain times and at certain locations, by market forces external to Alaska. This concern of hub posted prices for oil was evidenced by the Federal Trade Commission forcing a sale of oil trading hub facilities in the Cushing area because of the concentration of ownership of facilities at that trading hub location by BP, Amoco and ARCO upon their mergers. While the FTC did not claim unfair trading affecting oil hub posted prices would or was taking place, the FTC did feel too much concentration of power at such trading hubs could affect posted prices. It may be possible that concentration of interests and gas trading spot volumes at certain gas trading hubs periodically in the future could potentially skew hub prices similar to the FTC concern. Alaska should simply use the maximum, actual realized price as fair market value.

* Information on sales spot transactions, sales contracts, actual transportation costs, and other related information will ensure that reliable data is provided so the State can accurately calculate actual realized wellhead netback gas price. Such information is provided by the North Slope producers on other states' leases where required and on many federal leases. Companies have internal record keeping and software systems in place to timely provide such information for accurate calculation of netback gas prices.

* Having information on "affiliated sales" will ensure the State has knowledge when a producer sells natural gas to an affiliated subsidiary company for additional value added marketing, processing or manufacturing. Having such knowledge of affiliated sales can help the State screen that a fair market value is being obtained for the gas versus a value being obtained that is less than market while the affiliate captures additional value downstream.

* Testimony to the Subcommittee showed that Texas bases its royalties on actual proceeds, and requires producers to report to the state, on a monthly basis, information on

sales contracts, points of sale and transportation costs. Texas General Land Office staff has developed computer software to track these transactions and to ensure the accurate calculation of lease netback for purposes of producers, in turn, calculating accurate royalty and tax payments. The companies that report these transactions in Texas include all three of the major gas producers on the North Slope. Texas has offered to make its computer models used in monitoring transactions available to Alaska.

Goal #5: Recommend policies that assure clear and transparent rules for access to natural gas into and out of the gas pipeline for Alaska businesses and customers.

Recommendation:

The State must develop a clear and sophisticated understanding of the "open season" rules governing access to a contract carrier pipeline, and devise strategies to facilitate access to the pipeline for firms exploring for or developing new gas discoveries on the North Slope or Interior basins.

Recommendation:

The state should incorporate in any federal legislation the right to gas access in-state. This right is provided in ANGTA but not provided in the producers' recently proposed federal legislation.

Recommendation:

The state should first seek federal legislation that gives the RCA authority to set tariffs for the transportation of intra-state gas used in state similar to that authority given to the RCA for tariff review on the TAPS oil line. The state RCA should review applications for pipeline access within the state to ensure fairness in pre-determined fees and terms based on reasonable rates of return for investors who ship to in-state consumers.

Recommendation:

Failing to achieve RCA, obtaining sole authority in-state, the state should seek through federal legislation the creation of a Joint Board between the Regulatory Commission of Alaska and the Federal Energy Regulatory Commission that would have authority to set tariffs for the transportation of intra-state gas used in state. This joint board should participate in review of applications for pipeline access within the state to ensure fairness in pre-determined fees and terms based on reasonable rates of return for investors who ship to in-state consumers.

Recommendation:

Alaska should consider including a "fairness" clause in the granting of state right-of-way approvals across state lands to guarantee fair access, similar to provisions developed by Texas for pipeline rights-of-way approved across state lands. Such a clause will give the

state valuable leverage in negotiating fair access rules. The clause could also provide an avenue for appeal to the RCA in the event of disputes.

Recommendation:

The state should complete a thorough socio-economic study of various approaches to in-state natural gas pricing of in-kind royalty gas.

One approach is that the sales price of in kind royalty gas or gas liquids to in-state users, whether private or state, be based on the market netback price of gas on the North Slope (which is determined by subtracting actual pipeline transportation costs from actual realized market sales prices in the Lower 48 or other outside markets) adjusted for intra-state tariffs actually incurred for the transportation of the gas to the in-state access point, or hub, and then transportation costs to the consumer with allowance for an reasonable rate of return on investment. Price of gas or gas liquids to in-state users should not be based on comparisons with alternative fuels, such as diesel. Providing that the intra-state tariff is determined on a prorated basis and not the "postage stamp" methodology, this policy will create a supply of reasonably priced, clean energy for communities in Interior Alaska, and ultimately Southcentral Alaska if a spur line is built. These more affordable natural gas prices would passed along to consumers who purchase from a regulated utility but may not be passed along to consumers who purchase from a non-regulated company. A problem with this approach is that the State receives a potentially lower netback value than if the price is determined through competition with other fuels. This may favor the consumers in that area at the cost of lower State revenues. On the other hand, such an approach could mean more affordable natural gas to a large number of customers who purchase from regulated utilities, potentially enhancing economic development and quality of life for businesses and consumers.

Another approach is that the sales price of in kind royalty gas or gas liquids to in-state users should be based on being competitive with the pricing of alternative fuels. as that may create higher netback prices resulting in higher royalty and tax revenues to the state. This would potentially increase the revenue received by the State but would not significantly lower the costs of consumers using this in-kind gas or gas liquids. However sellers other than the State could compete for these higher netback markets and so drive the price down well below the alternative fuels.

Conclusions:

* Some existing, large pipeline companies in the Lower 48 have built pipelines with spare capacity as a speculative investment, allowing for future growth in volumes and revenues. Some pipeline companies do not invest in speculative capacity. Producers also

tend not to invest in speculative, spare capacity but tend to construct to immediate capacity needs.

Without spare capacity in the pipeline, it is very important that the State have a clear understanding of the "open season" rules and how to position for new entrants being allowed to produce into the pipeline.

* It is recognized that with a thick-wall, high-pressure pipeline, access taps and liquids processing facilities will be expensive. Points for gas offtake might be limited economically and operationally to only one or two distributions "hubs" along the pipeline route in Alaska.

* With a limited number of "hubs" for offtake, it may be more economical for several Interior and rural communities to obtain the clean energy not by direct natural gas use, but by benefiting from potentially economic electricity generation and natural gas liquids (propane) distribution from the centralized "hub" location(s).

* To fairly govern gas taken off at an in-state distribution hub(s), general access terms should be developed in advance by the RCA (or the Joint Board of RCA and FERC) that are clear and understandable. Similar general terms have been developed to govern contracts at gas trading hubs in the U.S., United Kingdom and the European Union.

Goal #6: Assess pipeline sizing and the pipeline "contracted volumes" structure for growth of in-state use and/or potential future export markets to Asia and the West Coast, or expansion of deliveries to the Lower 48.

Recommendation:

The state should investigate ways of working with pipeline transmission companies as investors to build in excess capacity, to provide space for transporting new gas that will be discovered on the North Slope or Interior basins.

Recommendation:

The State should evaluate innovations in using part of its "in kind" royalty share in contract sales to energy trading companies who can bid for shipping capacity which then may be used in a creative way in the future to ship gas from new discoveries while the State elects at the time of new discoveries to change and sell the originally nominated royalty gas volumes "in value".

Recommendation:

The state should seek an order by FERC or federal legislation for periodic open-season nomination periods, to allow for additional capacity to be built for new gas, when

triggered by requests from existing or potential producers, transporters, shippers, customers, or the state.

Conclusions:

* Failure to provide for additional capacity either at startup or through future open seasons could have the effect of creating a "monopoly" on pipeline capacity by existing producers, discouraging exploration by others who are not owners of the pipeline.

* Strategies for natural gas pipeline open season nominations and shipping arrangements become very complex. A new Natural Gas Services group could have such expertise in-house or these skills could be out-sourced to experienced gas trading firms.

* Because of current lease terms and statutes, the producers must allow to have enough capacity and construction size to ship the entire volume of the State's royalty share of gas "in value" if the State were to elect at any time to have its royalty share sold direct by the producers.

Goal #7: Evaluate conceptual options for future value-added projects during the fifty-year life of gas reserves for in-state use and/or export to Asia and the U.S. West Coast.

Recommendation:

No one can rule out with certainty the viability of value-added processing of natural gas in Alaska over the next 50 years. Alaska should have a natural gas pipeline that allows this option to remain open. The previous recommendations regarding access, reasonable tariff and pricing, and capacity expansion will keep these options open.

Recommendation:

Gas and gas product markets are highly cyclical in price and somewhat cyclical in demand, and somewhat regional in nature thus the State should facilitate a pipeline option that will allow access to multiple markets in the future.

Recommendation:

As markets change, the state should take a proactive role in encouraging investors to consider the possibilities for liquefied natural gas (LNG), gas-to-liquids (GTL), expanded uses of natural gas liquids (NGLs such as propane, butane), and downstream processing such as petrochemicals.

Conclusions-General:

* Original investors in the Trans-Alaska Pipeline System, the producers, estimated the life of the North Slope oil fields at 25 to 30 years. Twenty-five years have passed since startup of the TAPS line, and these investors are now applying for a 30-year extension to

the rights-of-way for TAPS, so that oil developed since the pipeline startup can be shipped to market.

* The same circumstance may develop for North Slope gas, as exploration continues on the North Slope. Accordingly, the state should position itself for a 50-year life for a new natural gas industry and encourage development of a system that will access multiple markets. Only a gas pipeline following the southern route will be able to access additional markets through a spur line to an LNG plant on the southern Alaska coast.

* Oil and gas are commodities, and all commodity markets experience supply/demand and price cycles. If Alaska has access to multiple markets for gas, to the Lower 48 through an all-land pipeline, to the U.S. West Coast and Asia through LNG shipments, and into the growing petrochemicals industry through sales of gas and natural gas liquids, the state will benefit because the commodity cycles may be different in these markets at different times as has been past history. In the future, there could be a more uniformly priced global gas market, however, there will likely remain cycles in volume demand or demand trends by regions.

* There is also the longer-term potential for a gas-to-liquids industry, with plants in Alaska manufacturing clean-burning liquid fuels directly from natural gas, and for development of new industries related to the petrochemicals industry. These may be important future "value-added" industries for the state over the long-term.

Conclusions-LNG

* Both Cambridge Energy Research Associates and the gas producers have provided information to the Committee that the cost of delivering LNG to Asian markets is currently not competitive with LNG supply from other sources, such as Indonesia, Malaysia, Australia and the Middle East.

* Yukon Pacific Corp., the Alaska Gasline Port Authority and a citizens' group have presented information that they believe LNG exports from Alaska is currently competitive. Yet none of these organizations have secured substantial financial backing or presented firm contracts for sales of LNG.

* Despite this, no one has presented information that rules out LNG in the future. Asian nations may want to secure large-scale supplies of LNG from Alaska for purposes of energy security, to not be dependent on one or two regions such as the high-risk Middle East for the majority of import needs. Therefore, it is in Alaska's interest to maintain the flexibility to be able to supply LNG to export markets, or to U.S. West Coast markets, in the future.

Conclusions-GTL:

* Large-scale gas-to-liquids projects, the making of clean-burning liquid fuels from natural gas, could be an option for North Slope producers if they do not proceed with a gas pipeline project. These liquids could be shipped down the existing trans-Alaska oil pipeline. Testimony from the producers and information presented at a recent international conference on gas-to-liquids, held in Girdwood, indicate that large-scale application and commerciality of such a remote resource of gas as the North Slope reserves using GTL technologies may be 10 years in the future, if ever, versus competitive sources of gas elsewhere that could use the GTL technologies.

* There is sufficient potential for growth of North Slope gas reserves, and the expectation is that there will be sufficient reserves established for both a conventional gas pipeline and gas-to-liquids plants, once it can be shown that Alaska GTL plants can be commercially viable on a large scale.

* A possible negative for a stand-alone GTL project, without a gas pipeline is that it would lock Alaska into one market for its gas, the West Coast fuels markets. It may not be cost competitive to serve other markets with GTL fuels from Alaska because of shipping distances. However, if a gas pipeline is built, GTL could be a potential value-added product that reaches a different market, the future demand for clean-burning fuels on the U.S. West Coast.

Conclusions-NGLs

* Information presented at the Girdwood GTL gas conversion conference indicates major breakthroughs in cost-reductions of processing natural gas liquids through related technologies. Costs of processing NGLs today is seen as much less than was the case a few years ago. This could serve to enhance the viability of a gas pipeline that also carries NGLs to market.

* The NGL business in the U.S., mainly in propane and butane, is a very large multi-billion dollars industry and a key component of the integrated natural gas industry. The producers are studying the construction of a large NGL extraction plant in Alberta.

* A gas access and distribution hub(s) built near Fairbanks or Delta Junction could facilitate expanded production and sale of NGL products in the state, for distribution to Interior or rural communities. Fuels from NGLs have the potential for becoming an economic and clean-burning alternative source of energy for Alaska communities. The Williams Companies and other firms in Fairbanks are now assessing investment opportunities and potential for uses of NGLs.

Conclusions-Petrochemicals:

* A previous assessment of a petrochemical industry for Alaska, done by Dow-Shell, found that a petrochemical industry would not be viable in Alaska at the time that study was done. However, changed circumstances have affected several assumptions used in

the study. Dow-Shell assuming that a separate, small-diameter gas liquids pipeline would be built from the North Slope, and envisioned an industry based on manufacturing complex petrochemicals.

* Today there is a proposal for a natural gas pipeline that could also carry NGLs, so there is no need for a separate pipeline. Also, one new study underway of using NGLs, by Williams, envisions manufacturing a simpler petrochemical product than that envisioned in the Dow-Shell study.

* Williams' study is considering the making of polypropylene, one of several petrochemical products in the olefin family, and shipping the product via the Alaska Railroad to Anchorage for shipment to markets in Asia. Olefins are fundamental feedstocks for the rapidly growing plastics industry. It is a business involving \$41 billion in annual sales, with significant supply shortfalls expected in 2006. Williams has completed an initial screening study and is now engaged in a more detailed analysis of its study.

* All three major producers on the North Slope have recently expanded their olefins business in the Lower 48. All three of the major producers have extensive separate businesses in olefins in the U.S. and Canada. For example, ExxonMobil is ranked as the number 3 producer of ethylene in North America, while Phillips-Chevron is number 4, and BP is ranked number 7.

Goal #8: Determine strategies to promote and attract investment for in-state distribution and value-added processing.

Recommendation:

The state should develop and periodically update a formal marketing plan to attract investors in Alaska who may be interested in in-state gas distribution or development of value-added industries. Assisting this could be an additional function of a new Natural Gas Services group within the Department of Natural Resources.

Conclusions:

* It should be recognized that Alaska businesses, such as Enstar and Fairbanks Natural Gas Company, have already voiced interest in developing more in-state distribution.

* While the scale of in-state processing may not be attractive to the major producers, in-state value added businesses may be of interest to Alaska Native Corporations and other Alaska companies once a gas infrastructure exists.

DRAFT
Committee Report
Environmental Considerations Committee
Peg Tileston, Chair

Goals:

- To define and address key environmental issues, both natural and human, associated with the construction of a natural gas pipeline.
- To make recommendations for policies and procedures necessary to ensure that the design, construction, and operation of the natural gas pipeline will proceed in an environmentally sound manner.
- To identify potential environmental benefits of a natural gas pipeline.

Introduction and Background

The proposed Alaska natural gas pipeline project is comparable to the Trans-Alaska Pipeline System (TAPS), which was built in the mid-70s to transport crude oil from Prudhoe Bay to the Valdez Marine Terminal. The gas pipeline under consideration is proposed to be large-diameter (up to 52 inches), high-pressure, chilled, completely buried (except for above ground crossings of the Yukon River and possibly the Tanana River), and supported by a number of compressor stations. In addition, a large conditioning plant will be required on the North Slope to treat the natural gas before it enters the pipeline. Furthermore, the proposed Highway route would be international, crossing portions of the United States and Canada and thus requiring trans-boundary coordination of the pipeline's daily operation, maintenance, and emergency response capabilities. Except where noted the comments in this report deal solely with the Alaska segment of the proposed gasline.

Much has been learned from the TAPS experience over the last 27 years. When the State of Alaska and federal agencies undertook oversight of the design and construction of the TAPS project, they embarked on a new frontier and there was limited understanding of the impacts and problems associated with a project of that magnitude. Delays caused by litigation provided industry and agencies with an opportunity to review and improve TAPS engineering design and construction planning. This review resulted in successes, but there were also unanticipated failures. Careful planning and design, as well as continuing vigilance in monitoring and enforcement are essential to reducing environmental concerns.

Oversight and regulation of TAPS have been enhanced over time due to a commitment to continuous improvement of the oversight process by industry, government and the public. In the early 1990s, the Joint Pipeline Office (JPO) was established to provide a coordinated, cooperative federal-state structure for oversight of the line. This has proven to be an effective inter-agency oversight mechanism. A similar joint office, the Gas

Pipeline Office (GPO), has been established for the natural gas pipeline, and it is important that it be adequately funded and staffed with highly qualified personnel to provide the needed agency liaison and coordination of the permitting standards and process.

The impacts of a project of this magnitude will be extensive, particularly during the construction phase, and must be considered not only in the context of the natural environment but also as it will affect the human environment. Quality of life in communities can be degraded in numerous ways ranging from reduced services, traffic congestion, crowded schools and health services, reduced recreational opportunities, and inflationary pressures. Rural residents depending on subsistence may experience increased industrial and recreational activities in traditional hunting and fishing areas. On the other hand, pipeline construction will create jobs and increase short-term economic opportunities, and the completed pipeline could supply natural gas to communities that presently depend on less efficient liquid petroleum products for energy, altering lifestyle and environmental patterns ranging from fuel consumption to air quality over the long term.

The charge for the Environmental Considerations Committee of the Natural Gas Policy Council is to make recommendations to assure that the project follows Governor Knowles' policy of "doing it right." The committee has determined that its most effective contribution is to recommend needed policies and procedures, many of which should be put into place as early as possible during engineering design and prior to the start of construction. Every effort must be made to ensure that best technology and best environmental practices are implemented in order to make the project as environmentally benign as possible, and to make sure that the net impact on human lives will be positive. The following recommendations to decision-makers are presented with these goals in mind.

Recommendations and Supporting Rationales

1. Endorse the Alaska Highway gas pipeline route as the environmentally preferred pipeline route that minimizes the potential adverse environmental effects and maximizes potential environmental benefits to Alaska.

An Alaska Highway route would limit the gasline to an existing corridor, minimizing impacts to the environment as well as to fish and wildlife. It would also allow Alaska communities access to a cleaner, more efficient fuel. In addition, a highway route following the TAPS line would make oversight of both lines more efficient and effective. At hearings of the Gas Policy Council, Alaskans voiced overwhelming support for the environmentally preferred southern route.

Any frontier route would require a "start from scratch" approach, including collection and analysis of physical, biological, and social data and determination of required technology.

2. Recommend that the GPO conduct a thorough review of "lessons learned" from TAPS design, construction, and operation. This review should include public comment and public participation. Use "lessons learned" to develop procedures for the gas pipeline that ensure past mistakes are avoided and successes repeated.

A natural gas pipeline following the TAPS/Alaska Highway corridor will have many environmental concerns similar to those of the earlier project. Certain differences need to be identified and addressed, such as the effect of a buried, chilled pipeline crossing beneath streams, geologic and hydrologic data for areas where TAPS is not buried, and design and operational differences between a low-pressure, hot oil line and a high-pressure, cold gas line. In addition, Canadian and other high-latitude gas pipelines should be studied for lessons learned.

A rigorous environmental review should be required and could be done either by a supplemental environmental impact statement (EIS) building on the ANGTS EIS or a full EIS done in an expedited manner using information from the ANGTS EIS. The outcome of either process should spell out for public review the full range of alternatives, environmental pros and cons associated with them, and mitigation measures that should be taken to avoid or minimize adverse impacts.

3. Adequately fund and staff a natural gas pipeline office that is housed in one place to facilitate communication, coordination, and cooperation among all affected state, federal, and Canadian agencies.

Lack of timely and complete communication among agencies can have severe consequences on any project, but can be particularly difficult in one of this size. A facilitated review of the JPO operation by all the involved agencies to note procedural changes they might recommend to improve effectiveness and efficiency would be beneficial. Acquiring personnel with the necessary technical and scientific expertise may be difficult for both federal and state agencies when competing with industry, which will be hiring for the same positions and will have considerably higher salary scales. Every effort should also be made to include the considerable number of borough and local agencies concerned with the various project alternatives, along with Alaska Native corporations, tribes, and villages that will be affected by a pipeline right-of-way (ROW).

4. Establish an open and available data and information process for the public, agencies, and industry.

Frustration and suspicion take hold when individuals, organizations, and communities are unable to get information on issues of concern in a timely and appropriate manner. Such a process should start at the beginning of the project and make available all non-proprietary material. Meaningful involvement by affected communities is important. Effort should be made to include all stakeholders, not just decision-makers. Websites, e-mail addresses, and information repositories, such as local libraries, borough offices, and central sites such as the Alaska Resource Library & Information Services (ARLIS) should be used as effectively as possible and adequately funded. An information clearinghouse such as the Exxon Valdez Oil Spill Library (which is now consolidated in ARLIS) could be an appropriate approach.

5. Establish mandatory training for all personnel involved with the gas pipeline project.

Timely, appropriate, and sufficient training is vital for all personnel associated with a major project. Such training should start with applicable federal, state, and local laws and regulations, agency mandates and responsibilities, enforcement options and penalties for noncompliance, best practices, and appropriate technologies. Government and industry should coordinate to ensure commensurate levels of training for the public and private sectors, including all contractors and subcontractors. Sessions to update personnel as the project progresses should be included, along with required orientation for those joining it.

6. The state should take a long-term view of the gas pipeline to minimize environmental concerns.

In view of the likely long-life of this project, the state should encourage a long-term view be taken in design, construction, operation, and maintenance in order to mitigate environmental risks over the entire life of the project.

7. A records management system for compiling and maintaining complete and updated documentation should be in place at the beginning of the project and maintained and updated throughout the life of the pipeline in accordance with professional document control standards. The state must have copies of all documents.

The TAPS experience has shown that older engineering drawings, including "as-builts"

and documents confirming original facility configurations and placements, have not always been readily accessible by pipeline managers and regulators when needed. Establishing a professionally designed and maintained document control system will help to ensure that accurate records from every phase of pipeline development remain rapidly retrievable under unforeseen future circumstances. This process will undoubtedly be aided by recent advances in technology.

8. Assure that effective and adequate monitoring and enforcement systems are in place at the start of the project and continue throughout the life of the pipeline.

Adequate funding will be needed to ensure that a sufficient number of appropriately trained agency personnel are available for monitoring and enforcement throughout pipeline construction and operation. Agency personnel without a working knowledge of pipeline construction, operation, and maintenance will have little credibility with their industry counterparts. Training of agency personnel associated with all aspects of the pipeline should be integral to the project. Such training should emphasize the prevention and early detection of problems, and understanding of regulations, codes, and penalties. Enforcement of regulations and codes is essential but will not occur without trained personnel who are actually available on site.

9. Direct the GPO to establish a comprehensive citizen's involvement plan. This effort may include the creation of a citizen advisory council with representatives from communities affected by construction of the pipeline.

A determined effort should be made to aggressively involve and engage affected communities during the planning and construction phase through a coordinated federal/state effort. If necessary as determined by the federal/state plan, a citizen advisory council should be formed and adequately funded to receive and evaluate information and respond to pertinent issues. If established, the council would also evaluate their role following construction of the pipeline.

The public involvement process should also include a full review, including stakeholder involvement, of proposed federal grant and state lease right-of-way provisions and stipulations.

10. Provisions should be incorporated into ROW lease agreements to ensure that adequate DR&R funding will be available for the Alaska segment of the natural gas pipeline.

The actual DR&R provisions will depend on ownership of the pipeline and should take into consideration the long-life of the asset.

11. Perform a full security review and develop a comprehensive and detailed security plan early enough to influence the pipeline design and alignment process.

Heightened security concerns throughout the United States should be reflected in the engineering design and alignment of the natural gas pipeline, which will be a significant part of America's domestic energy supply. Any aspect of the design of pipeline facilities and structures that would be particularly vulnerable to sabotage, such as compressor stations, bridge crossings, and above-ground valve housings, should receive attention from a security standpoint early in the design process, and not as an afterthought. This concern applies also to the alignment, which may present opportunities for modifications or adjustments that will minimize the potential for harm.

12. Continue to ensure that environmental scientists and permitting specialists work side-by-side with design engineers and construction planners from the earliest stages of the project through to its completion.

It is essential that environmental safeguards be built into the design of the project, not added as an afterthought to satisfy regulatory requirements and stipulations. Preliminary engineering design products will be used to support major permit applications with long lead times and must contain fully integrated environmental features at that early stage. This can best be accomplished if environmental and permitting specialists work on the same teams and in the same facilities as the engineers.

13. The State of Alaska ROW lease should require long-term environmental surveillance and monitoring, and annual reporting. This function should continue throughout the life of the pipeline.

14. The GPO, in cooperation with the federal government, should continue to coordinate the trans-boundary aspects of construction, operation, and maintenance of a gasline, including operations control and emergency response.

Although it may cross land belonging to two nations, the gas pipeline will be a single integrated system. Emergencies, whether structural, operational, or environmental, will not respect the international boundary. The U.S. and Canada must establish integrated control

protocols that can regulate the pressure and flow of gas through the pipeline as a single system and thus respond quickly and effectively to emergencies. This will require open communications, shared data, and a close working relationship between personnel of both nations. It may be necessary to establish an international commission to coordinate this effort. The state should look to other international pipelines for models in handling the trans-border oversight aspects of construction, operation and maintenance.

**BRISTOL BAY NATIVE ASSOCIATION
P.O. BOX 310
DILLINGHAM, ALASKA 99576
(907) 842-5257**

Bristol Bay Alternative Energy Task Force

Resolution 2001 - 01

ALASKA' PROPOSED NATURAL GAS LINE

WHEREAS, the Constitution of the State of Alaska states in Article VIII, Section 2., that the legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people; and

WHEREAS, despite Alaska having an oil pipe line, home heating and gasoline costs in the Bristol Bay region are extremely high, for example: Dillingham residents are paying \$2.29 per gallon for #1 home heating fuel and \$2.59 per gallon for gasoline; Aleknagik residents are paying \$2.60 and \$2.75 respectively; Iguig residents are paying \$2.94 and \$3.63 respectively; Nondalton residents are paying \$3.05 and \$3.30 respectively; and

WHEREAS, the majority of Bristol Bay communities are solely dependent upon diesel generators for electricity and pay among the highest electric rates in the state, as much as 2 to 4 times more than Anchorage, Matanuska, and Kenai residents; and

WHEREAS, high energy costs in the Bristol Bay region has a direct impact on the cost of living, transportation, maintaining public buildings; and operating water and sewer systems; and

WHEREAS, one of the cornerstones of economic development is to have access to cheap electrical power, and high energy costs currently hinders the economic development efforts of rural Alaskan communities; and

WHEREAS, with natural gas being cheaper and cleaner burning than diesel oil, Bristol Bay residents would like to have access to natural gas for the purposed of providing electricity and heating their homes; and

NOW, THEREFORE, BE IT RESOLVED by the Bristol Bay Native Association's Bristol Bay Alternative Energy Task Force that Alaska's State Legislature, the Governor's Office, and Alaska's Congressional Delegation, ensure that all Alaskan communities be provided access to natural gas from the proposed North Slope gas line, or the proceeds therefrom be used to inflation proof Alaska's residents escalating energy costs.

Signed: Terry Hoeffler *TH*
Chairman

CERTIFICATION:

I, the undersigned Recording Secretary of the Bristol Bay Native Association, do hereby certify that the foregoing resolution was duly passed the majority vote of BBNA's Bristol Bay Alternative Energy Task Force at a duly called and noticed meeting this 16th day of April, 2001 and that a quorum was present.

Signed Andrew Holm
Recording Secretary



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RECEIVED

August 15, 2001

Ken-59145**CC: GOV/COS****AUG 20 2001**

Office of the Governor
Attn: Natural Gas Policy Council
PO Box 110001
Juneau, AK 99811-0001

OFFICE OF THE GOVERNOR

*Thank you, received
Erika W.*

The Juneau Chamber of Commerce's Board of Directors support the Alaska Highway route for the natural gas pipeline because it has the potential to provide significant economic benefits for the greatest number of Alaskans.

During the construction phase, the highway route would enable Southeast Alaska port communities (Haines Skagway, Juneau, Ketchikan, Hyder) to serve as staging areas and sources of supplies for the project itself and construction crews.

However, it is critical for the Natural Gas Pipeline Policy Council, in its formal recommendation to Governor Knowles, to specifically include spur lines from the main pipeline to the Railbelt area and at least one port in Southeast.

The primary source of heating and electric energy for the Railbelt area is natural gas from the Kenai Peninsula. Recent estimates indicate natural gas resources for this area could run short as early as 2008. It is imperative for the continued economic health and welfare of the Railbelt area that additional natural gas supplies be made available via a spur line from the proposed Alaskan Highway Natural Gasline.

Haines and Skagway could easily be developed as spur line delivery ports to deep-sea vessels. Haines is the shortest route to tidewater of any port along the Alaska Highway route and the Southeast Conference is on record supporting such a development for Haines. In addition to providing Haines

with year-round jobs for that economically depressed community, location of a pipeline spur to Haines or Skagway would provide another source of energy to Southeast Alaska communities.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jamie Parsons', with a stylized flourish extending to the right.

Jamie Parsons

Executive Director



Copper Valley Electric Association, Inc.

P.O. Box 45 • Glennallen, Alaska 99588 • Telephone: 907-822-3211 • Facsimile: 907-822-5586 • Valdez: 907-835-4301

Enter (Debra) a thank you from us

August 27, 2001

Ken-59413

CC: GOV/COS

E-mail: wilkinson@cvea.org

RECEIVED

SEP - 4 2001

Office of the Governor
Attn: NGPC
P. O. Box 110001
Juneau, Alaska 99811-0001

OFFICE OF THE GOVERNOR

SUBJECT: Governor's Gas Line Committee

The purpose of my letter is to write in support of a gas line project that would benefit the maximum number of Alaska residents. I believe that project includes a gas line to Delta with separate lines following the Alaska Highway and to tidewater in Valdez.

CVEA is a non-profit, member-owned electric cooperative. We serve 3,500 customers in the City of Valdez and the Copper River Basin, and our service area, which is geographically the size of West Virginia, includes 156 miles of the pipeline corridor along the Richardson Highway. The region is vast, and providing reliable electric service in some of the most difficult climatic conditions in the world is a challenge to say the least, it is also very expensive.

CVEA is not interconnected electrically to other regions of the state. We produce electricity at four power generating stations within our service territory. The fact that we operate and maintain four generating stations accounts in large part for the high cost of electricity for the region, which today in Valdez is 16.4¢ per kilowatt hour, not quite double that of the Railbelt area.

In the mid-1990s, in an effort to reduce the high cost of electricity to the region, CVEA pursued developing a transmission line project to interconnect our utility with the Railbelt Energy Grid. The purpose of that project was to access less expensive Railbelt energy.

In 1996, CVEA set the proposed intertie project aside in part due to the realization that it did not complement a possible gas line project. In fact, an LNG project has far greater energy potential for the region including the potential to make Valdez or the Copper River Basin an exporter instead of an importer of energy.

CVEA's Mission: Be the energy supplier of choice.

Goals and Objectives: Reduce power cost to Customers, Increase energy sales, Develop new income producing products and services, and Build member relations through Customer satisfaction and grassroots support.

Testimony • Governor's Gas Line Committee
August 27, 2001
Page 2

A LNG facility produces an enormous amount of heat, and according to the Port Authority Consultant, Mr. Boynton, the proposed project produces on the order of 280 megawatts of usable heat. This heat can be harnessed to produce steam, which in turn can drive turbines to produce electricity. Depending upon the capital cost of the project and the cost of the heat, electricity produced at the LNG facility could be very cost effective compared to electricity generated with Cook Inlet gas. That energy could be delivered to the Railbelt region cost effectively via a high voltage transmission line.

The Valdez/Copper Basin regions are poised for economic development as evidenced by construction of the Princess Hotel near Copper Center and the new National Park Service visitor center, both of which are scheduled to open in mid-2002. These projects, coupled with the strategic transportation corridors along the Glenn, Richardson, Alaska and Marine highways, are all indicators the region has tremendous potential for future economic growth.

CVEA is excited about the future of the region and our ability to deliver cost effective energy solutions to fuel future prosperity. A gas project through Glennallen to Valdez, capable of serving west coast and world markets not to mention the 800 miles between the North Slope and tidewater, would be a major cornerstone in developing a sustainable economy for the state of Alaska at a critical time when timber, fishing, and even the oil industry are in decline. In addition, a spur line to Anchorage along the Glenn Highway would augment declining gas reserves in the Cook Inlet region.

I would like to close on a personal note. I am a 42 year resident of the Great Land. When I moved to Anchorage with my family in 1959, Alaska's largest city had less than 20,000 residents. I remember the bumper sticker "I drove Tudor Road and survived." Since that time the State has benefited from tremendous growth and prosperity; however, I am uncertain of how bright the future is, particularly if our resources are extracted to benefit others. Alaska's resources should be developed to benefit Alaskans. Developing a gas project aimed at maximizing corporate profits while ignoring sustainable, long term economic prosperity for Alaskan residents makes little sense to me. As the Council completes its very important work, I urge you to carefully consider what is in the State's long term best financial interests and the interests of 630,000 Alaskans who are proud to call the Last Frontier home. I urge you to support the Alaska Gas Line Port Authority in developing a gas line project that ensures long term prosperity and a bright economic future for Alaska.

Sincerely,



Robert A. Wilkinson
Chief Executive Officer

Testimony before Governor's gas line committee
August 23, 2001

- My name is Robert A. Wilkinson and I am CEO of Copper Valley Electric Association
- I am here today to testify in favor of a gas line project which would benefit the maximum number of Alaska residents. I believe that project includes a gas line to Delta with a with separate lines following the Alaska Highway and to tidewater in Valdez.
- CVEA is a non-profit, member owned electric cooperative. We serve 3,500 customers in the City of Valdez and the Copper River Basin and our service area which is geographically the size of West Virginia includes 156 miles of the pipeline corridor along the Richardson highway
- The region is vast and providing reliable electric service in some of the most difficult climatic conditions in the world is a challenge to say the least, it is also very expensive.
- CVEA is not interconnected electrically to other regions of the State, we produce electricity at 4 power generating stations within our service territory. The fact that we operate and maintain 4 generating stations accounts in large part for the high cost of electricity for the region which today in Valdez is 16.4¢ per kilowatt hour, not quite double that of the Rail belt area
- In the mid 1990's in an effort to reduce the high cost of electricity to the region, CVEA pursued developing a transmission line project to interconnect our utility with the Rail belt energy grid. The purpose of that project was to access less expensive Rail belt energy.
- In 1996, CVEA set the proposed intertie project aside in part due to the realization that it did not complement a possible gas line project. In fact, an LNG project has far greater energy potential for the region including the potential to make Valdez or the Copper River Basin an exporter instead of an importer of energy
- An LNG facility produces an enormous amount of heat and according to Mr. Boynton the proposed project produces on the order of 280 MW of usable heat. This heat can be harnessed to produce steam which in turn can drive turbines to produce electricity. Depending upon the capital cost of the project and the cost of the heat, electricity produced at the LNG facility could be very cost effective compared to electricity generated with Cook Inlet gas. That energy could be delivered to the Rail belt region cost effectively via a high voltage transmission line.

- The Valdez/Copper Basin regions are poised for economic development as evidenced by construction of the Princess Hotel near Copper Center and the new National Park Service visitor center both of which are scheduled to open in mid 2002. These projects, coupled with the strategic transportation corridors along the Glenn, Richardson, Alaska and Marine highways are all indicators the region has tremendous potential for future economic growth.
- Copper Valley Electric Association is excited about the future of the region and our ability to deliver cost effective energy solutions to fuel future prosperity. A gas project through Glennallen to Valdez, capable of serving west coast and world markets, not to mention the 800 miles between the North Slope and tidewater would be a major cornerstone in developing a sustainable economy for the State of Alaska at a critical time when timber, fishing and even the oil industry are in decline. In addition, a spur line to Anchorage along the Glenn Highway would augment declining gas reserves in the Cook Inlet region.
- I'd like to close on a personal note. I am a 42 year resident of the Great Land. When I moved to Anchorage with my family in 1959 Alaska's largest city had less than 20,000 residents. I remember the bumper sticker "I drove Tudor road and survived." Since that time the State has benefited from tremendous growth and prosperity however I am uncertain of how bright the future is, particularly if our resources are extracted to benefit others. Alaska's resources should be developed to benefit Alaskans. Developing a gas project aimed at maximizing corporate profits while ignoring sustainable, long term economic prosperity for Alaskan residents makes little sense to me. As the Council completes its very important work I urge you to carefully consider what is in the State's long term best financial interests and the interests of 630,000 Alaskans who are proud to call the Last Frontier home. I urge you to support the Alaska Gas Line Port Authority in developing a gas line project which ensures long term prosperity and a bright economic future for Alaska.
- Thank you

THOMAS R MARSHALL JR
1569 BIRCHWOOD ST
ANCHORAGE ALASKA 99508
U.S.A.

September 4, 200

Mr. Ken Freeman
Natural Gas coordinator
State of Alaska

Ken,
Here's a copy of the requested "notes
on the length of time North Slope
gas reserves will fill a gas
sales line at a 4 BCF/D rate.

An arithmetic error was made in
the governor's statement at last
Thursday's RDC noon luncheon that
35 TCF proven reserves could fill
the pipeline for 30 years at
a 4 BCF/D rate. It could fill the
line for 24 years.

$$\text{i.e. } 4 \text{ BCF/D} \times 365 \text{ Days/year} = 1.460 \text{ TCF/y}$$

$$35 \text{ TCF} \div 1.460 = \underline{\underline{23.97 \text{ yrs.}}}$$

However, there are not 35 TCF of booked
proven reserves on the North Slope.
There are 30.93 TCF including 5 TCF
undeveloped reserves in the Pt. Thomp
area. Reference P.12 Year 2000 annual report
STATE Division of Oil + Gas.

$$30.93 \text{ TCF would fill the pipeline at a 4 BCF} \\ \text{rate for } 30.93 \div 1.46 \text{ TCF/y} = \underline{\underline{21.2 \text{ years}}}$$

However, all the above reserve figures do not include lease fuel gas deductions including fuel gas sold to gas deficient fields or estimated gas line transmission fuel

$$\frac{1}{3} \text{ TCF} \times 30 \text{ years} = 10 \text{ TCF}$$

and estimated fuel requirements to hot water flood or steam flood the 30 to 40 billion barrels in place of heavy oil and bitumen at Ugnu and West Sak oil fields, should that prove feasible.

$$\frac{1}{6} \text{ TCF} \times 30 \text{ years} = 5 \text{ TCF}$$

Total estimated fuel gas needs 15 TCF

Recap: North Slope proven reserves 31 TCF
 Total estimated fuel gas - 15 TCF
 North Slope gas available for pipeline 16 TCF

$$16 \text{ TCF} \div 1.46 \text{ TCF/yr} = \underline{\underline{10.96 \text{ years}}}$$

Conclusion:

North Slope natural gas reserves minus total estimated fuel gas needs would fill a sales gas pipeline at a 4 BCF/d rate for 10.96 years.

These figures are intended to demonstrate the need for more exploration on the North Slope including the 102 area of ANWR.

Also disappointments may be avoided down the road when the bankers put their pencil to risk financing for a pipeline.

Respectfully,

Thos. H. Marshall, Jr.

c.c. Governor Tony Knowles
Mr. Robert Stiles - R.D.C.

SEP 14 2001

MON

Ken-59586

OFFICE OF THE GOVERNOR

9-10-01

Dear Tony Knowles,

I just want to get my two cents worth in about the new pipeline going through Canada.

We have many dear Canadian friends but going through the Government we have had problems constantly with the Canadians. Over the Salmon deadlock. We have traveled many times going through Canada and have had trouble on 3 occasions. Now going through the border involves tobacco; guns, liquor and whatever their next items they want to regulate.

So if the Canadians get a bug senseless they could shut the line down or jack up the price of going their part of the line. I just

do not trust their government.
So please reconsider not
going through Canada and
seek other options.

Thank you
Lorraine Sonnabend



Ms. Lorraine Sonnabend
655 Holiday Dr.
Wasilla, AK 99654

To: Erika McConnell

From: Governor's Office

Jun 12 2001 10:46 AST Page 2/4

I have no
word processor!

Mandy Garmand
P.O. Box 11-1143
Anchorage, AK 99511-1143

Ken-57887

RECEIVED
JUN 12 2001

GOV. KNOWLES

Re: Gas line Development
Gov. Knowles
P.O. Box 110001
Juneau, AK 99811-0001

Dear Gov. Knowles:

I am an Alaskan citizen of 16 years, and have been doing a pretty substantial amount of researching on the effect ~~of~~^{the} carrying out of the gas line construction will have on our economy, environment, and community. I am writing to you today because I would like to ~~give~~^{show} you some information you cannot acquire from research papers, debates, or polls. I would like to offer you, and would be honored if you would accept, my personal feelings and opinions on the

much of an environmentalist, but
pertaining to this issue I would
not oblige to being referred to as so.
Nature is one big network of
main reaction and events happening
for reason. When men interfere
w/ this cycle, the outcome is often
a severity. There are so many
environmental issues surrounding
this proposal that I see the
construction as playing w/ fire.
We do not fully understand the
balance of nature, therefore we
have no business stepping in
and interfering, not knowing
what the outcome will be. In
the end, the land is what
provides us, and what it we could
not survive. Therefore, it should
be our main concern. The key
is balance and sacrifice. Some times
money must be sacrificed to
do the right thing, the safest
and most secure for our future
generations - my generation.
Mandy Eavand

subject matter.

As a member of the younger generation of our state and country, I have developed a great concern ~~is~~ for the future of our States well-being. I have read about many environmental issues as well as economical, many political as well as social, and have learned a number of things. I realize our country may be facing a shortage of natural gas and that a gas line would really lead our economy to flourish. I also know that there are several environmental issues we face, some seemingly harmless to some that we ~~face~~ detrimental. I have taken all of this into consideration and have come to one final conclusion.

My concluding thoughts on the issue are this: ~~we need to do~~ the land we live on is most important. I have never been

Erika Brandner, 1200 Airport Heights
June 1, 2001
Re: Gas Line Development
Governor Knowles
P.O. Box 110001
Juneau, Alaska 99811-0001

Ken-57888

Dear Governor Knowles:

As you are well aware, the opening of ANWR is a hot topic, at present. This ongoing debate stems from a more generalized, larger scale debate, however, and concerns none other than the implementation of a natural gas line in the North Slope Borough of Alaska. The economic benefits that would ultimately spring from the implementation of a natural gas pipeline in the North Slope Borough are enormous. Presently, Alaska contains the largest oil and gas reserves of any state in the U.S. Oil has been flowing through TAPS for over 20 years. The natural gas on the North Slope, amounting to approximately 30 trillion cubic feet, has never been commercially tapped. Geologists project that this estimate may amount to a grand total of 100 cubic feet of natural gas reserves. With several companies vying to develop a master plan regarding the most viably economical means of marketing these reserves of gas, prospects for gas line construction appear promising within the next five years. In short, the most prominent benefits of a future gas line include a new source of revenue for the state of Alaska, the creation of jobs both in Alaska and nationwide, the opportunity for employment, lower energy costs, and other indirect and longer term benefits for the aboriginal peoples and local communities of Alaska, the availability of natural gas to municipalities, and, lastly, the opportunity for Alaska to partake in the relief of the exponentially growing demand for natural gas by the world market.

The proposed routes for a multibillion-dollar natural gas pipeline from the North Slope include the shorter, cheaper Mackenzie River Valley route through Canada's Northwest Territory versus the Alaska Highway route, which would route the gas to Fairbanks and smaller Alaskan communities that rely on coal and heating oil. Although the Northern route would indubitably be more cost efficient and could result in higher wellhead values on the North Slope, such a route may result in a more unsatisfactory trade off as opposed to the Highway route, which is speculated to bring profound socioeconomic benefits to the state of Alaska. The companies that compose the North American Natural Gas Pipeline Group are currently spending \$75 million to gauge whether or not a gas line is feasible (Joling, 2001). It currently appears that the costs of the Mackenzie River Valley route outweigh the benefits of the Highway proposal. In short, the proposed Highway route ensures that Alaskans will have access to enough natural gas to meet in-state demands, allow for in-state distribution for residential and commercial use, open the door to manufacturing value-added natural gas products, such as fertilizer, provide jobs during construction, operation, and maintenance phases and through support services, and, ultimately, the route would add an immense long-term property value to state and local governments. In addition, as you yourself have mentioned, the permits for this route are already in place and the plan is covered by a bilateral agreement between Canada and the U.S.

The multiplier effect of billions of dollars of investment within Alaska's borders would prove immense with the construction of the Alaska Highway pipeline. For example, state revenues of billions of dollars, access by communities to an affordable clean energy source, spin-off industries from gas liquids utilization, and the economics for the LNG and GTL projects would be born out of pipeline construction. All these amount to a staggering list of economic benefits and opportunities if the gas line follows the Highway route. Indeed, not only would a future gas line encompass a new source of revenue for Alaska and natural gas that would be used to supply small, Native communities such as the NSB, but job opportunities for indigenous Alaskans, Canadians, and individuals worldwide would benefit and Alaska would have the opportunity to partake in a large percentage of the supply of natural gas to demanding markets, especially that of the Asian market. In short, the cons of constructing a gas line through the NSB are far surpassed by the potential economic benefits of implementing a natural gas line, under the Highway route, from the NSB to smaller communities across Alaska.

Sincerely,

Erika Brandner

Erika Brandner

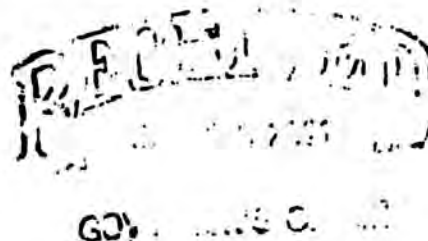
Ken-57886

Amanda Jorgenson
721 Bounty Dr.
Anchorage, AK 99515

June 3, 2001

Re: Gas Line Development

Governor Knowles
P.O. Box 110001
Juneau, AK 99811-0001



Governor Knowles,

During the last several months it has been brought out that you wish to continue the gas pipeline, which was an idea back in the 1970's that was discontinued because of high costs. I was wondering how this pipeline could benefit Alaska and the United States, other for the thirst of America's natural resources.

I am environmentally active and fail to understand the point of the construction of this pipeline. The construction the first time, in the 70's, was billions of dollars. The bloated carcass of the potentially largest and costliest privately financed construction project in history was reluctantly laid to rest. Did the shelf that this abandoned idea came from happen to land on your shelf? It is said that history repeats itself if one does not learn from it...is that where we are headed? If we, Alaska, end up continuing the construction of this gas pipeline, how much would we need to spend, how much of our money will go towards this? I can understand certain points of drilling and the constructing of pipelines, but why can we not save our most needed resources for when America is in dire need of it? Unless we need it right now, just to make gas prices go down. Perhaps there are other reasons that I have failed to acknowledge but that is all I have heard from the Bush Administration. If I could possibly be enlightened with the answers, I could possibly change my viewpoint of this situation.

I thank you for your time to read this letter. I hope to understand America's need to get all of our resources at this exact time. My opinions may be bias, but that is why I chose to write, to be enlightened. I thank you again.

Sincerely,


Amanda Jorgenson

suggestion

Subject: suggestion

Date: Wed, 11 Jul 2001 22:00:18 -0800

From: Norma Roehl <jjroehl@gci.net>

To: gasline@gov.state.ak.us

Greetings:

I would like to make a suggestion concerning the natural gas route from the North Slope. Maybe the route I'm thinking would cost considerably less than going the Beaufort Sea/Canadian route.

My friend & I attended a meeting in June & she had an Alaskan map, -I looked at the area & wrote the trails down, so here is the route. The road used to be called the "Government Road", I don't know the exact date, possibly 1930 or 1940 and I don't know if the "Government Road" is the same as the following locations. Possibly the road is still there, and would need clearing.

This is the Title on the map:

RS 2477 Project
Historic Transportation Routes
July, 1995

Trail Names

254:	Wiseman-Chandelar
27:	Beaver-Caro
189:	Snowshoe-Beaver

Pipeline to trail 254 going to #27 trail from Beaver to trail 189.
Connecting to existing road between Livengood & Fairbanks.

Fairbanks to 480 - Little Gerstle River - Sheep Creek towards Northway Junction.

Thank you and please let me know the decision concerning this route.

Norma J. Roehl
P.O. Box 3757
Palmer, AK 99645

E-mail: jjroehl@gci.net

Dear Gov. Knowles: In the news media I often see your and seemingly just about everyone else's support for a pipeline out of the state or within the state to ship out of the state. I'm not for or against that although it serves certain interests not the state as a whole. I used to live in Sterling and the pipeline to Anchorage ran the whole length of our ten acre property. We could not tap into it even with 5 other families willing to join us. We contacted the company that owned the pipeline and they said a tap to so few people was not cost effective. People who lived in the right-of-way before the line was put in did get a tap because they made it a condition of access. Before and after living in Sterling we have lived in Bethel for 20+ years. As with most of Western Alaska, (With the exception of Barrow that I know of.), we have no "natural gas" access. We are probably a small % of the states population but are stuck in high cost area and cannot look forward to economic development on any reasonable scale as long as costs are so high. Access to natural gas would do a lot to change that for future generations. The average cost of utilities in Barrow is about 1/2 of what they are in Bethel and the surrounding area. I know it would not be cost effective for the oil companies but it would be of tremendous benefit to the people of this area.

Sincerely,

Leonard Revet lrevet@unicom-alaska.com

Subject: [Fwd: GTL'S vs. TAGS]

Date: Thu, 11 Oct 2001 13:45:19 -0800

From: Debra Ceffalio <Debra_Ceffalio@gov.state.ak.us>

Organization: Alaska Office of the Governor

To: Erika B Mcconnell <erika_mcconnell@gov.state.ak.us>,
Kenneth J Freeman <ken_freeman@gov.state.ak.us>

fyi

govmail wrote:

> Thank you for writing to Governor Tony Knowles. I have routed your
> message to the appropriate person in the Office of the Governor who
> is most knowledgeable about this issue. Your ideas, concerns, and
> recommendations are valuable to us, and we appreciate that you have
> taken the time to write. Again, thank you.

>

> Mike Thomas wrote:

>

> > Date: 10/9/2001
> > Response: checkbox
> > Email: poc@gci.net
> > Name: Mike Thomas
> > Address: 310 K Street, Suite 200
> > City: Anchorage
> > State: AK
> > Zip Code: 99501
> > Subject: GTL'S vs. TAGS
> > Message: Dear Governor Knowles:

> >

> > I am writing to implore you to take the lead on
> > developing Alaska's resources. A gas pipeline
> > is not the answer, and likely won't ever be.
> > The sooner we realize that the better off we
> > will be.

> >

> > GTL's are the answer. The capital expenditure
> > is significantly less, and the return much, much
> > higher. It is a technology that can be put in
> > place now.

> >

> > Please take a moment and go to www.angtl.com.
> > Please then take the lead in getting support for
> > the development of this industry here in
> > Alaska. We are in danger of squandering the
> > opportunity to encourage investment in Alaska
> > for this technology and wasting even more
> > natural gas.

> >

> > Thanks,

> >

> > Mike Thomas

--

Debra Ceffalio
AK Highway Natural Gas Policy Council
Office of the Governor
phone 907.269.0345 - fax 907.269.0349
www.gov.state.ak.us/gascouncil

Subject: Gas Pipeline

Date: Wed, 03 Oct 2001 08:48:38 -0800

From: cvedc <cvedc@alaska.net>

To: gasline@gov.state.ak.us

Sir; We here in the Copper Valley believe that anything less than the Port Authority Project would hurt all of Alaska! For once please consider Alaska first and do not bow to the oil companies wishes. With the port Authority project you can build a pipeline to the south 48 and do for all Alaska too. Thank you for your time.

Sincerely, John Downes, CVEDC

**Foothills Pipe Lines Ltd.
Information Brief**

Routing Comparison of the Alaska Highway Pipeline and the Over-the-Top Project

Introduction

This brief discusses the relative complexities of installing a natural gas pipeline along two different routes from the North Slope in Alaska to a common receipt point at Gordondale, Alberta. The two routes are the already-sanctioned Alaska Highway Pipeline Project (AHPP) and the Over-the-Top/Mackenzie Valley Project (OTT). **Figure 1 Northern Pipeline Routing Options** shows the locations of the two routes. **Figure 2 Comparison of Key Statistics** summarizes key statistics for the two routes including length, terrain and construction parameters.

From the map and summary, as well as an examination of physical relief (**Figure 3 Northern Terrain Relief Map**), it is apparent that the AHPP encounters more mountainous terrain, river crossings, and rock. However, it is insufficient to compare the routes solely on these characteristics because many features that are more challenging than mountains and rivers characterize the northern terrain and influence the project configuration and cost. These would include factors such as transportation access and climate. There are other conditions that both routes face in common, for example permafrost as shown in **Figure 4 Northern Terrain – Extent of Permafrost**.

The brief includes additional comparative figures and tables to facilitate the discussion of variables that impact routing, construction, and timing. When the ultimate measures of capital cost and on stream date are considered, the AHPP emerges as a preferred route by a significant margin.

Terrain

(a) Physical Features

The AHPP route traverses approximately 400 kilometers of mountainous terrain and 35 major river crossings. The presence of mountainous terrain and river crossings does not constitute "route stoppers" for the AHPP. Pipeline technology involving rock blasting and ditch rock has been widely employed in mountainous terrain throughout the world, including British Columbia. None of these conditions of terrain along the AHPP present any challenge to the limits of present-day technology, except perhaps to provide an opportunity to perfect more efficient and cost-effective techniques.

The OTT route is characterized by an offshore crossing through the Beaufort Sea of about 500 kilometers or over 20% of the route. To understand the formidable challenge of this routing segment it is important to understand the physical setting as shown in **Figure 5 Over-the-Top Marine Routing Alternatives**. For analytical purposes, the sea bottom adjacent to the shore can be subdivided into three zones: foreshore, nearshore, and

offshore. Each of these has separate characteristics and limitations. Our investigation of these limitations, as discussed in a following section, suggests that the most feasible location for a submersed pipeline would be in the offshore zone up to 60 kilometers from shore and in water depths up to 60 meters.

Offshore pipeline technology has been successfully employed at much greater depths throughout the world. However, little experience is available to draw on related to possible installation in the foreshore and nearshore zones of the Beaufort Sea where risks exist due to extension of permafrost and ice scour that is known to occur in this region. The risk of ice scour that is caused by ice grounding on the seabed requires that pipelines be buried with sufficient cover to avoid being damaged. These risks confine the underwater segment to the offshore zone. However, in this zone pack ice conditions make it difficult to locate compressor stations; this is a major limiting factor on design throughput and pipe sizing. The resulting need for larger diameter pipe and operating pressure up to 3000 psi to achieve higher flow rates poses further challenges both to the limits of pipe metallurgy and offshore pipeline technology. Thus, at a design pressure of 2,050 psi, dual lines are required for crossing the Beaufort Sea.

The offshore and land portions of the OTT dictate that different types of equipment and crews be utilized for construction. The offshore portion will likely involve the development of special-purpose equipment (such as off-shore lay barges) that may be employed just once. Unless the equipment can be utilized elsewhere, the project capital may have to absorb the full cost of this equipment. A further implication of the offshore terrain will be the need to develop special-purpose equipment to conduct maintenance and repair for the operations phase of the project.

The impact of terrain is reflected directly in the unit cost of pipeline installation. The cost increases with increasing complexity of terrain. Typically the cost is measured in diameter-inch-miles. The cost of installing a high-pressure pipeline in mountainous rocky terrain is estimated to be \$25,000 per diameter-inch-mile. The following table compares the cost of installing pipelines in various terrains. The costs shown are inclusive of logistics costs.

Comparative Cost of Pipeline Construction

Terrain	Cost per diameter-inch-mile ¹
	in \$US
Prairie (recent)	10,300
Prairie (Alliance Pipeline US)	13,400
Mountain - Rock (recent)	25,000
Permafrost (estimate)	34,800
OTT Offshore (estimate)	73,200

1. Adjusted for equivalent wall thickness and pressure

(b) Impact on Construction Timing

The terrain also dictates when actual construction installation of the pipeline can occur. The AHPP route can be constructed utilizing a combination of 40% summer and 60%

winter construction. While the terrain varies along the route, more continuous access gives the construction schedule the advantage of ample flexibility to maximize the utilization of crews and equipment along winter and summer sections with minimal downtime between seasons.

Along the OTT route the offshore and onshore segments have much different construction seasons. In the offshore zone construction is limited to a very narrow construction period when open water operations can be conducted in the Beaufort Sea. Historically there is a 50% probability of a 40-day open water period and a 15% probability of a 60-day period. For the remainder of the year, ice conditions in the offshore zone are unstable and unusable as a suitable platform from which to lay pipe. Permafrost and wet areas dominate the onshore portion. These considerations require that construction be conducted when the ground is frozen during the winter months between December and mid-April. Therefore, overall construction access for the OTT route will cause significant downtime between seasons, with a corresponding increase in construction time and cost. In the worse case scenario of extreme weather, a short open water period or none at all, the risk exists of losing an entire construction season along the offshore segment.

Transportation Access

An important determinant for any major infrastructure project relates to logistics, specifically access to transportation for marshalling materials, equipment, workers, and supplies to construct and later operate the project. In fact, lack of adequate transportation has held back many projects in the North. **Figure 6 Regional Transportation Access** depicts regional transportation access for the routes. Much of the transportation infrastructure is seasonal in nature as illustrated in **Figure 7 Regional Transportation Access by Season**.

The AHPP enjoys favourable year-round access along its entire route. Along the initial northern stretch from Prudhoe Bay to Fairbanks it parallels the existing TransAlaska crude oil pipeline and the Dalton Highway. The remainder of the route parallels the Alaska Highway. Year-round transportation access is of major importance to the rapid installation of the AHPP, and the subsequent operations life.

The OTT is much less favourably situated with respect to transportation infrastructure. On the offshore portion of the route, icebreakers can be employed to extend the transportation season beyond the window of open water access in the Beaufort Sea. On the overland portion access is also seasonal. There is no all-weather road paralleling the route. Winter roads are a partial solution during winter months from December to mid-April. In the summer months from mid-June to mid-September the Mackenzie River has an established barge system that can be utilized. Even with this seasonal access, additional entry to the actual pipeline right-of-way will have still to be developed to facilitate construction. The poor transportation access will also make the operations phase more difficult.

Construction Schedule

Figure 8 Comparative Construction Schedule provides a comparison of the project schedules. The construction schedule for the projects is influenced by the combination of transportation access and seasonal construction periods. The main implications are in the mobilization stages and actual construction periods. Each mobilization requires a suitable break-in period until the crews achieve efficient productivity.

For the AHPP route, favourable year-round transportation accesses and summer construction windows combine to minimize the mobilization stage and construction period. The ratio of summer-to-winter construction helps to minimize downtime and remobilization costs. The actual construction can be completed in a period of less than 24 months.

The OTT route transportation access and seasonal construction restrictions impose major challenges. The mobilization effort is more difficult and extended. Three construction seasons are required to complete both the onshore and offshore segments. Between seasons crews and equipment are idled. The crews have to be re-mobilized three times. The equipment remains stranded for the summer, as it can not readily be deployed on another project. The actual elapse time for construction is over 30 months. The protracted construction period also means that capital is tied up for a significantly longer periods of time during which it is accruing interest with a resulting increase in the final unit cost of shipping gas on the system.

Economics

Foothills Pipe Lines and TransCanada Pipelines have compared the economics for the two routes as part of an assessment of several alternative pipeline routings for North Slope gas. The analysis involved a consideration of various environmental and technical risk factors. The assessment relied on data and investigation furnished from three outside consulting firms. The analysis grouped constraints into categories by critical, serious, and minor. **Figure 9 Routing Comparisons** is a graphical comparison of the incidence of critical and serious constraints for the various routes considered. The following table summarizes the numbers for the two routes included in this brief.

Number of Constraints by Pipeline Route			
Constraint	Impact	AHPP	OTT/MVP
Critical	<i>Route Stopper</i>	0	7
Serious	<i>Cost Adder</i>	1	28

Figure 10 Over-the-Top Constraints provides a listing of the critical and serious constraints for the OTT. These constraints impact on the specific routing of an offshore line and development of the OTT project. It should be noted that the one serious constraint which AHPP faces is shared in common with the OTT, namely the state of Aboriginal Land Claim settlements in Canada.

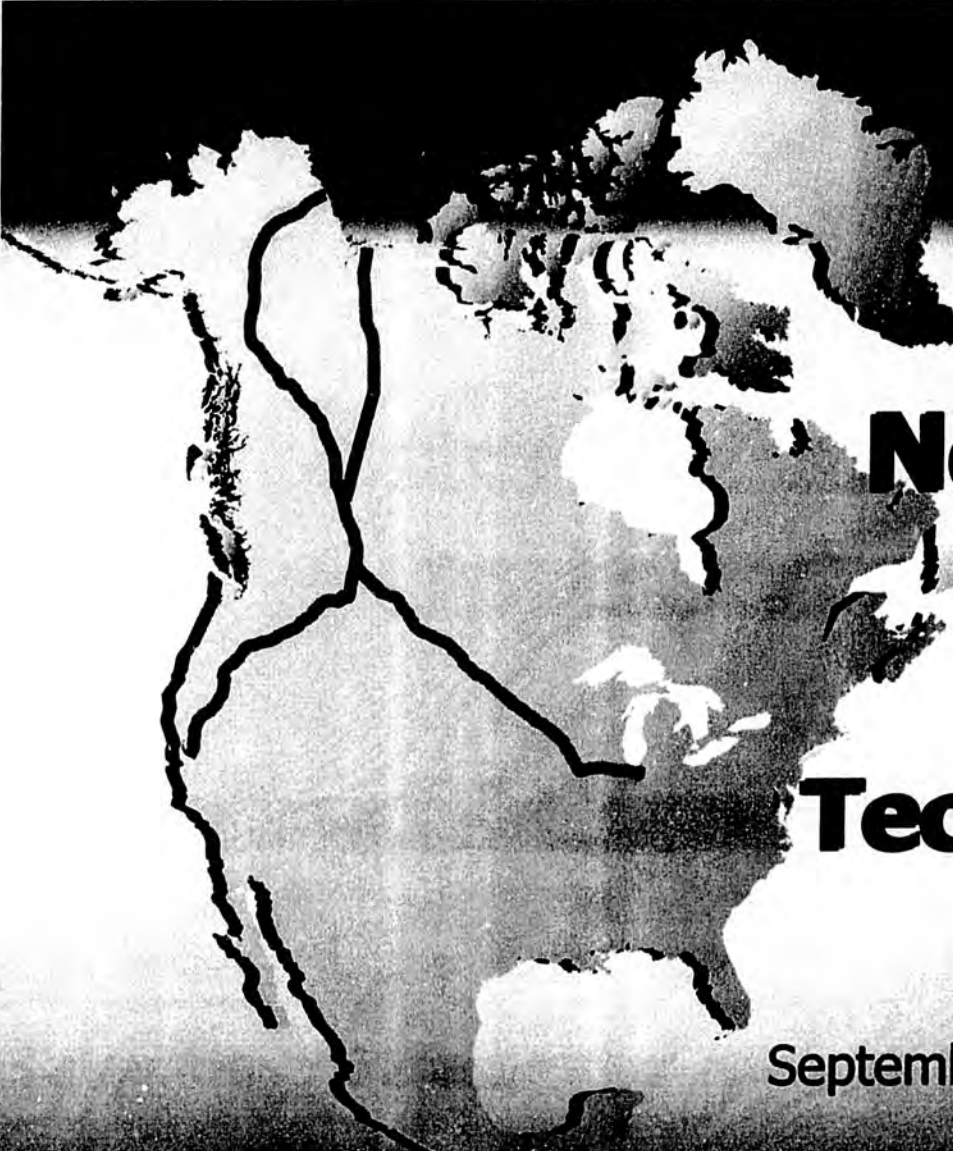
Foothills and TransCanada relied on this analysis to estimate the capital cost of the OTT for comparison with the AHPP. The capital cost build up included the environmental and technical factors as well as the comparison of terrain and access discussed earlier in the brief. In order to evaluate the two routes on a comparable basis, taking into account the functionality of the OTT route to capture throughput from the Mackenzie Delta, the analysis compares the OTT versus the two-pipeline option of separate AHPP and Mackenzie Delta pipelines.

Comparative Capital Cost by Pipeline Route

	AHPP and MVP two-line option	OTT/MVP
Throughput (Bcfd)		
North Slope	4.0	4.0
Mackenzie Delta	1.2	1.2
Years to Start-up	6-7 (AHPP) 8-9 (MVP)	9-10
Capital Cost (\$Billion – US)	12.8	13.0

The analysis concluded that the capital cost of the two routes is nearly equivalent, after accounting for the degrees of uncertainty associated with both routes. The OTT has associated with it a greater degree of uncertainty and a much longer timeframe before the flow of first gas. The later start-up for the OTT is due in large part to the construction difficulty and partly to the Greenfield nature of the project. The AHPP enjoys a significant head start due to existing legislation and regulation.

It should also be noted that the capital cost estimates include components of interest during construction and escalation for inflation, both of which will be much more pronounced for the OTT due to its longer schedule. An extended schedule also defers the start date for flow of revenues to the various stakeholders. An assumed flow of 4.0 Bcfd at a price of \$3.00 per MMBtu translates to annual revenues of \$US 4.4 Billion. Stated in other terms, each month of delay postpones over \$US 360 million of revenue flow.



Northern Routing Options

Technical Comparison

September 2001



Foothills Pipe Lines Ltd.

Figure 1

Northern Pipeline Routing Options

Prudhoe Bay to Gordondale

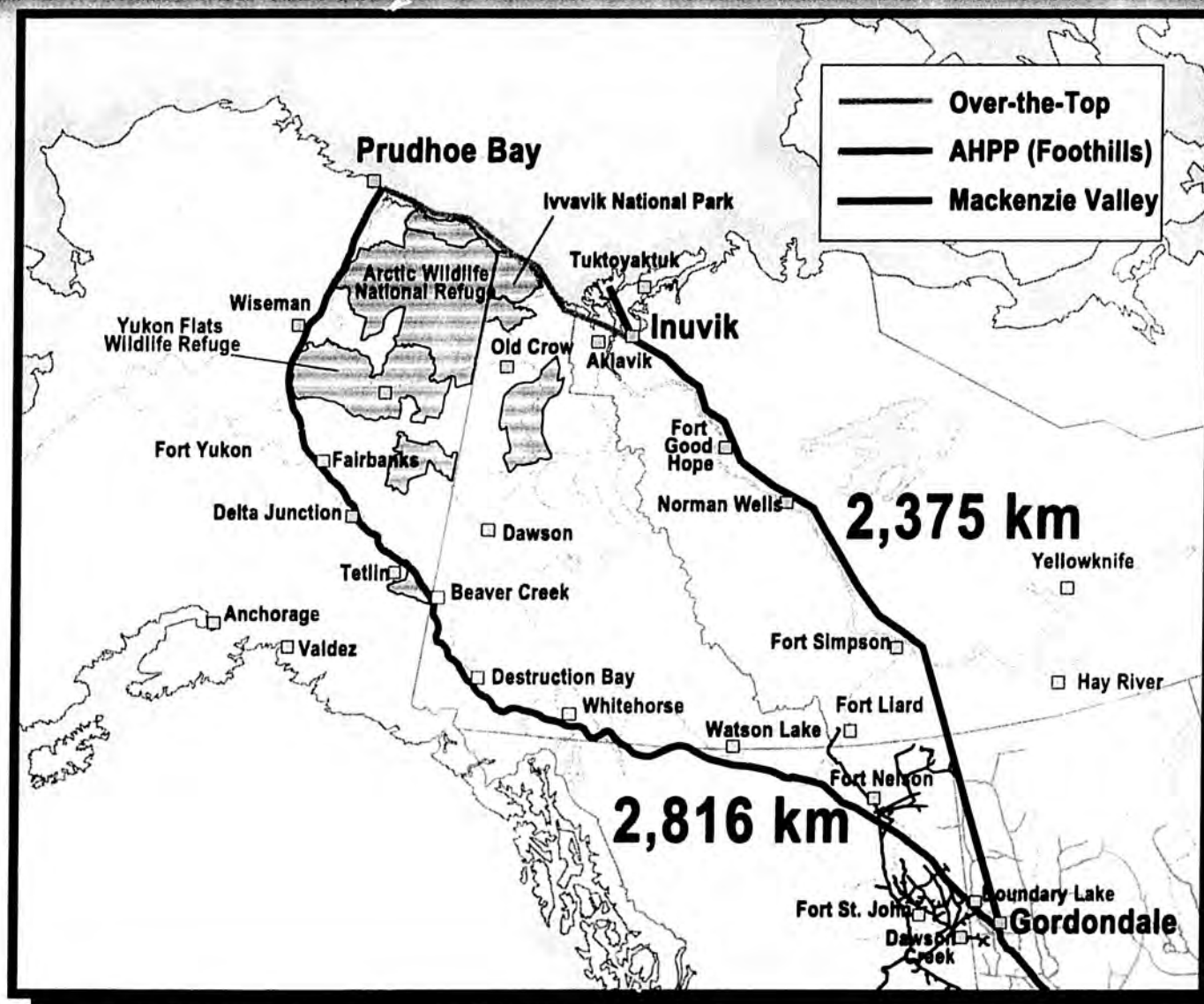


Figure 2

Comparison of Key Statistics ANGTS/Over-the-Top Prudhoe Bay to Gordondale

	AHPP	OTT/Mackenzie Valley
Length (km)	2816	2375
Offshore (km)	0	500 (21%)
Major River Crossings	35	8
Ditch Rock (km)	419	96
Mountainous Terrain (km)	400	0
Winter Construction (km)	1694 (60%)	1875 All onshore (79%)
Summer Construction (km)	1122 (40%)	500 All offshore (21%)
Project Schedule (years)	6.5	10.5
Construction Schedule (years)	2	3
Road Access	Alaska Highway Dalton Highway	Liard Trail Mackenzie Highway (Winter Only) Dempster Highway Alaska Highway Dalton Highway
Ports	Prudhoe Bay (Seasonal) Skagway Valdez Whittier	Hay River (Barge - Seasonal) Prudhoe Bay (Seasonal)
Rail	Fort Nelson Fairbanks	Fort Nelson Hay River

Figure 3
Northern Terrain Relief Map



Figure 4

Northern Terrain - Extent of Permafrost

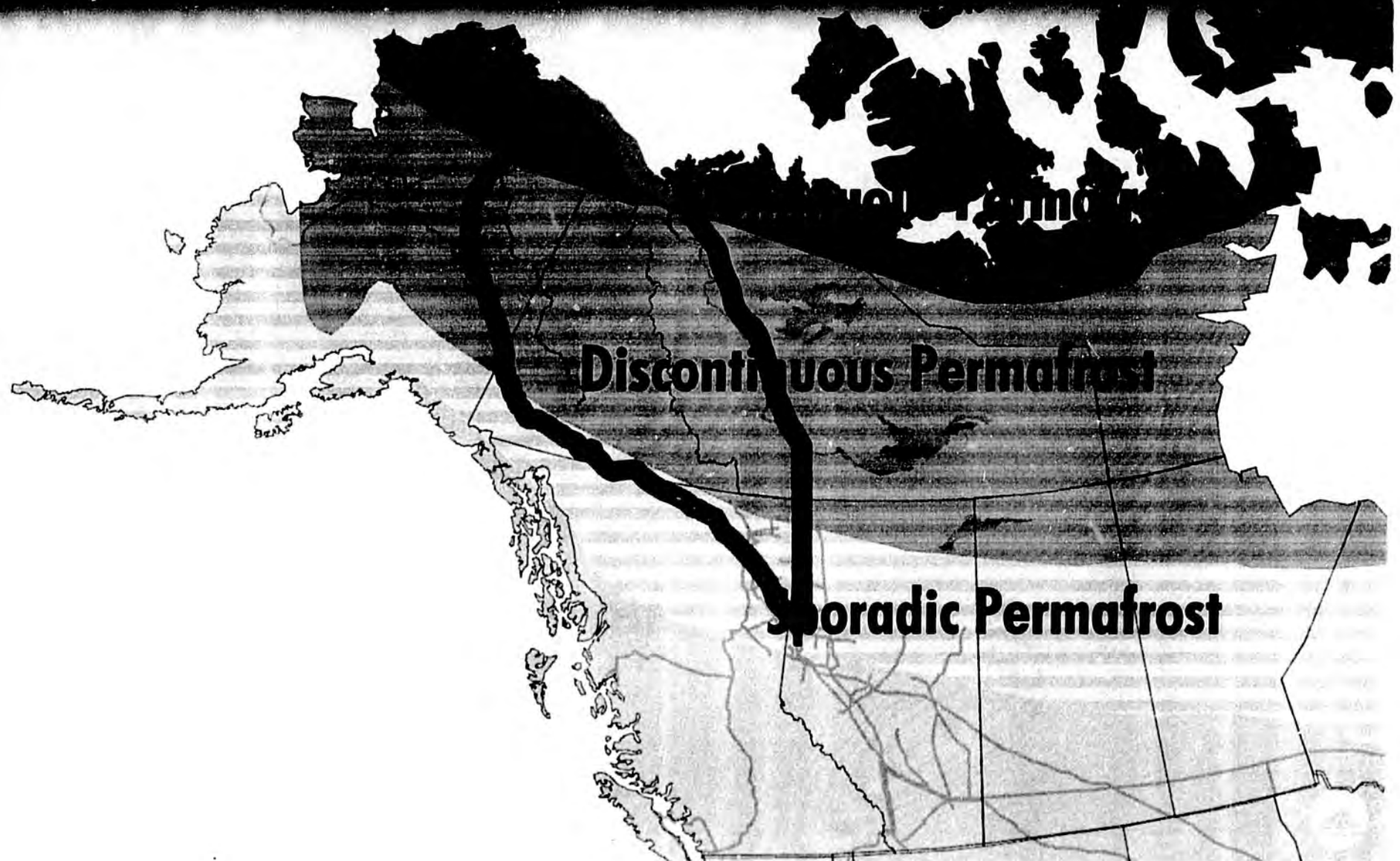


Figure 5

Over-the-Top Marine Routing Alternatives

◆ Foreshore

- ▶ Tidal zone
- ▶ Bottom fast ice
(0-2 m depth, 0-2 km offshore)

◆ Nearshore

- ▶ Floating land fast ice
(2-10 m depth, 2 -10 km offshore)

◆ Offshore

- ▶ Stamukhi zone
(10 - 30 m depth, 5 - 25 km offshore)
- ▶ Pack ice zone
(>30 m depth, 25 - 50 km offshore -
>60 m depth, 60+ km offshore)

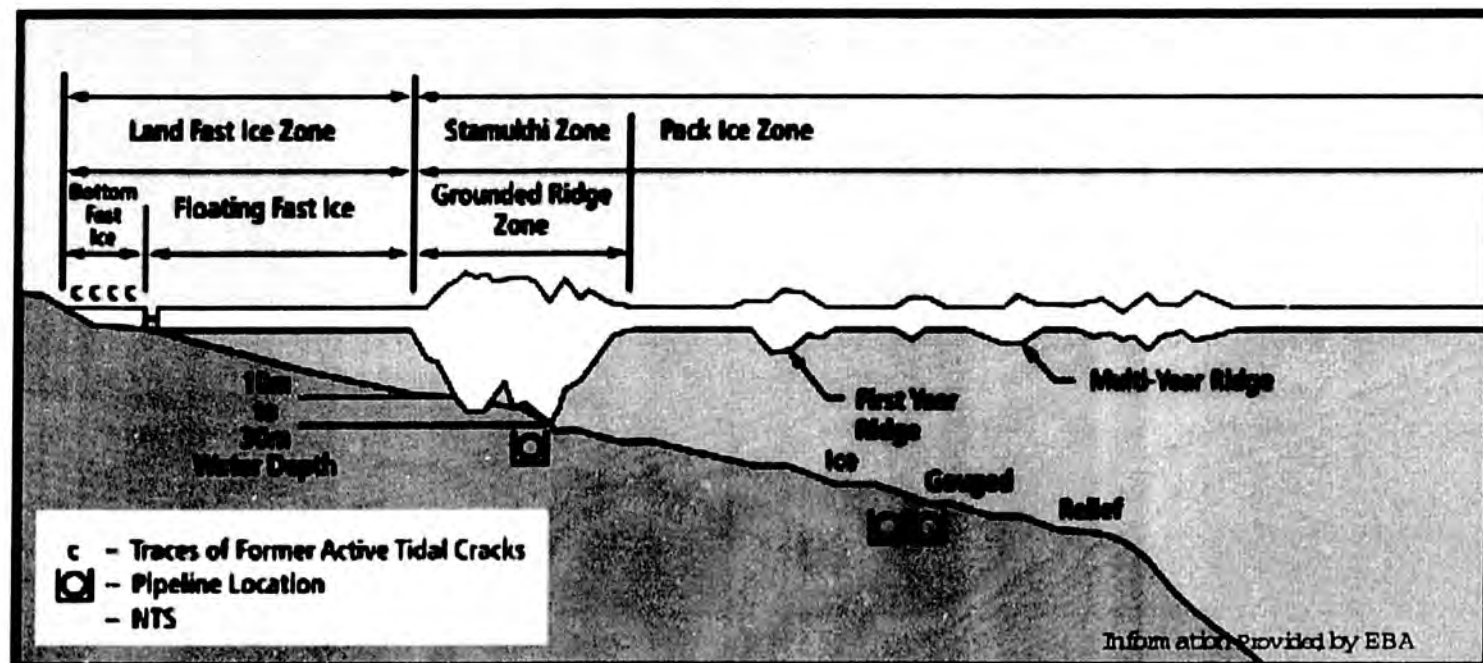


Figure 6

Regional Transportation Access

- ✈ Airports
- ▬ Barges
- Highways
- Ports
- Railways

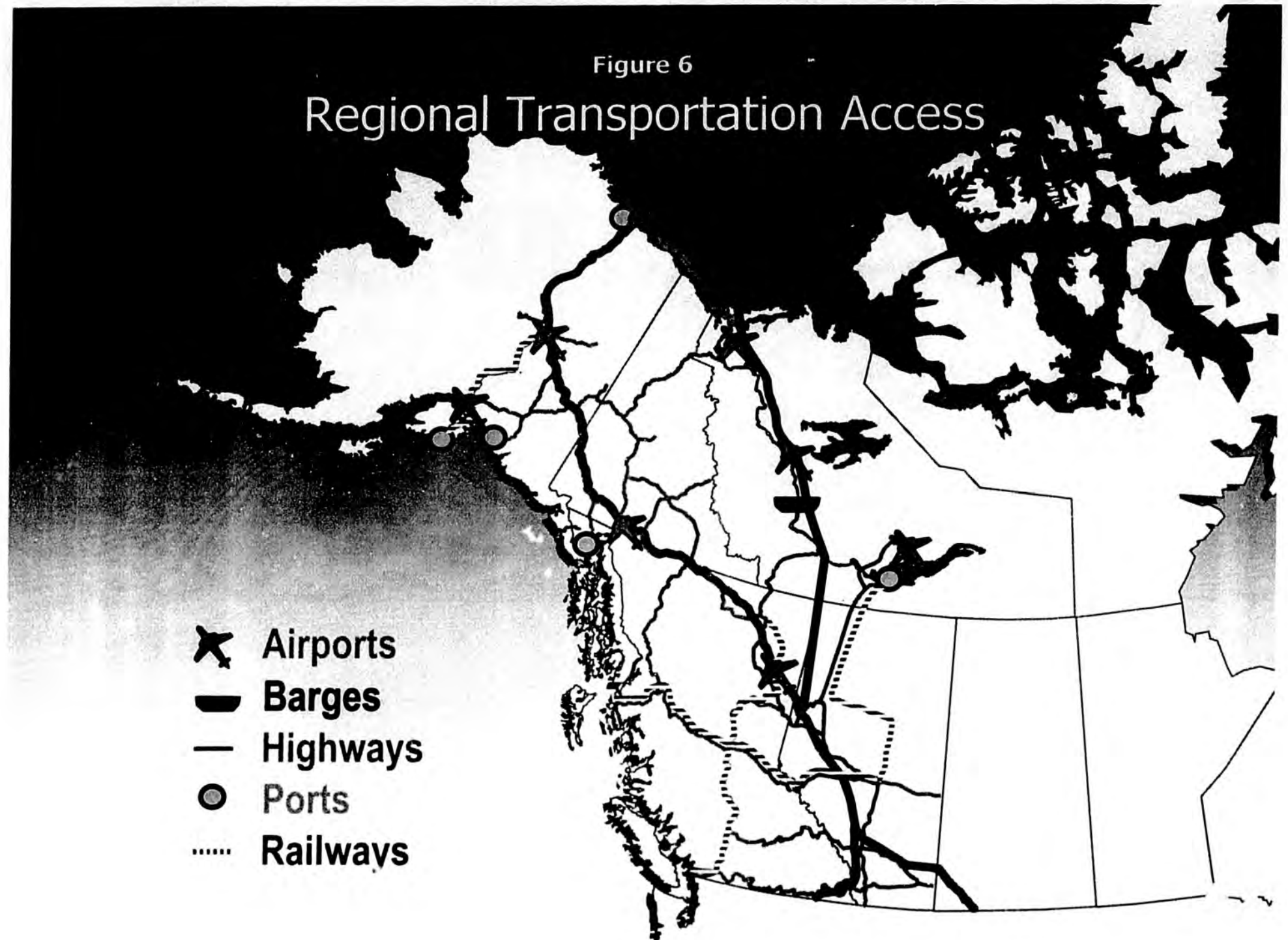


Figure 7

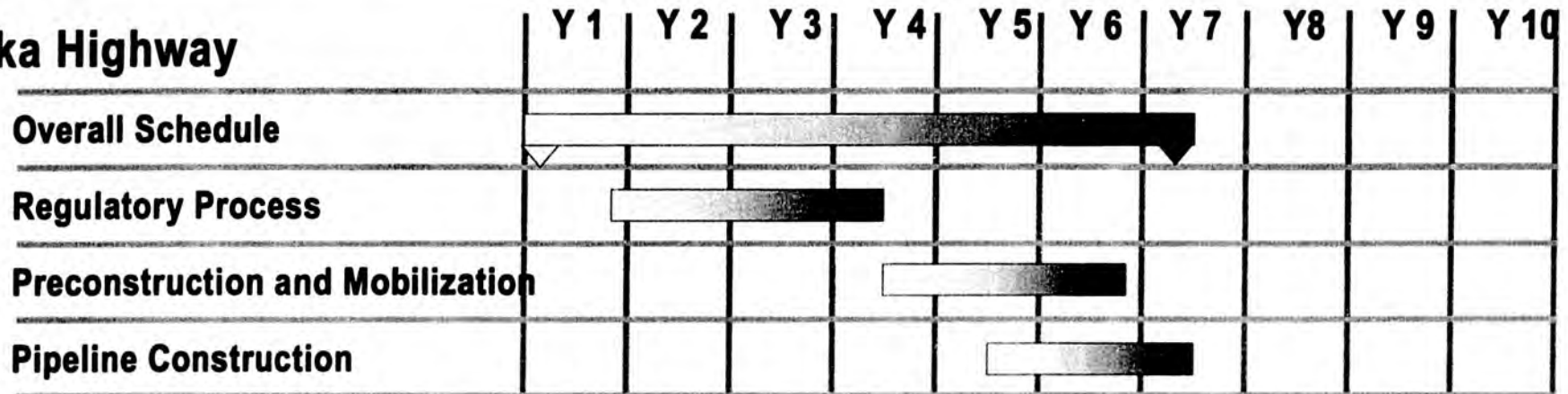
Regional Transportation Access by Season



Figure 8

Northern Pipelines Comparative Construction Schedule

Alaska Highway



Over-the-Top/Mackenzie Valley

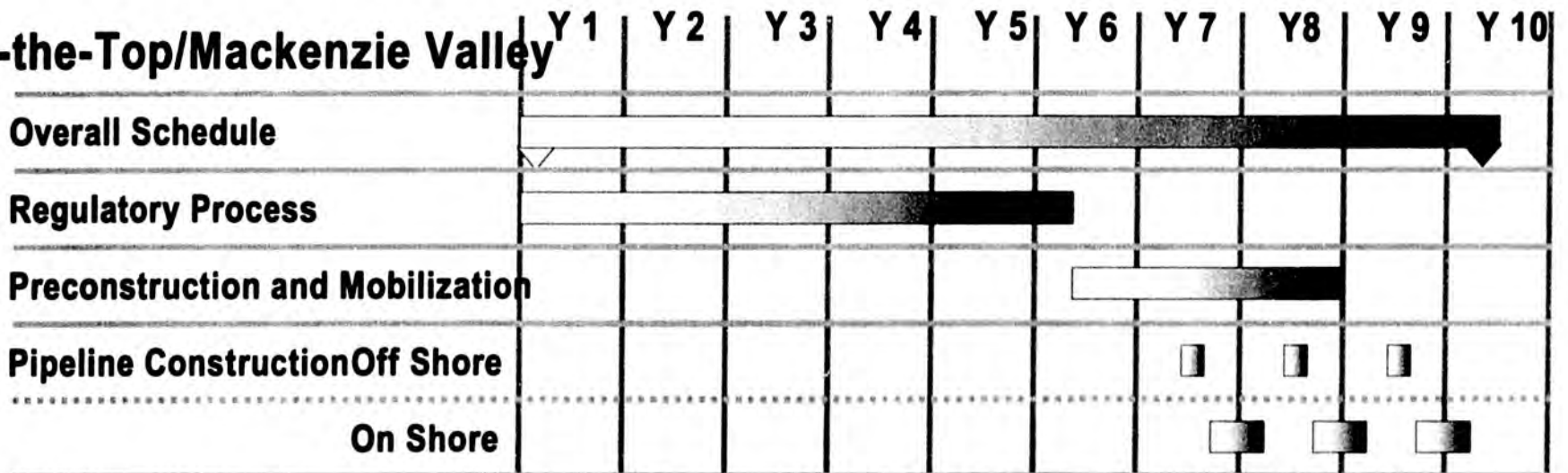
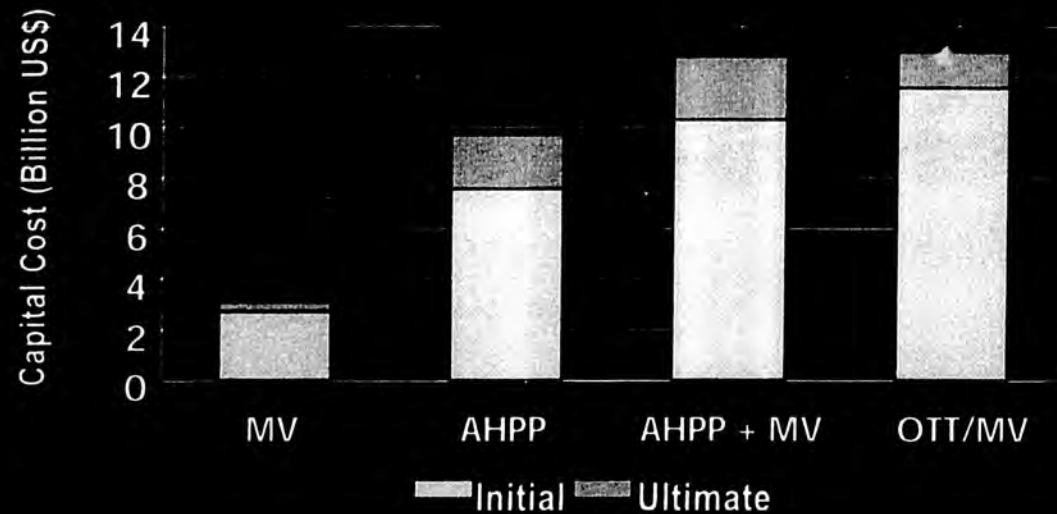
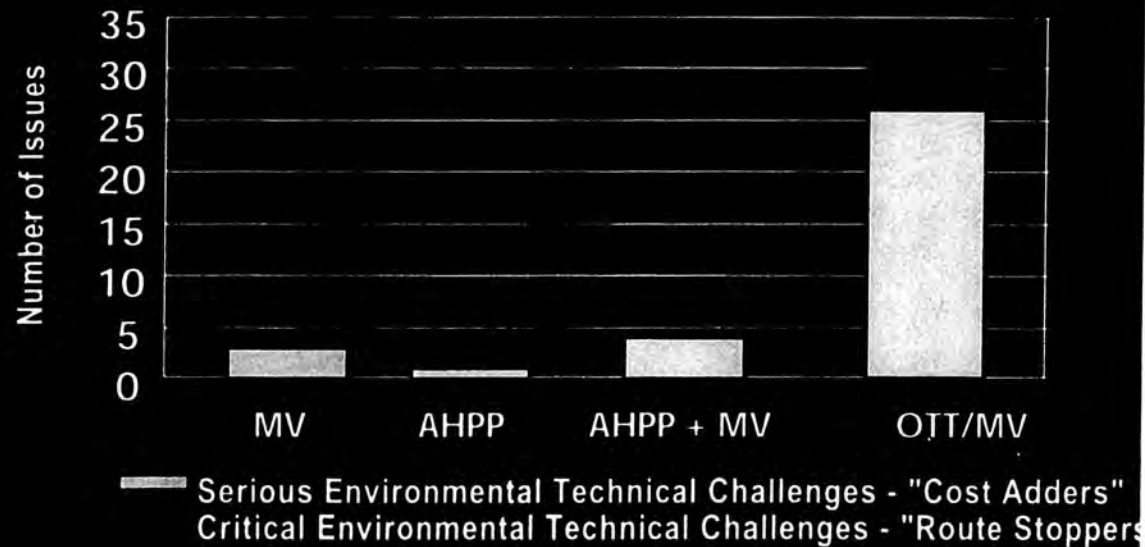


Figure 9
Routing Comparisons

Capital Cost



Risk Profile



MV - Mackenzie Valley
 AHPP - Alaska
 OTT - Over-the-Top
 (Prudhoe Bay/
 Mackenzie Delta)

Figure 10

Over-the-Top Route Constraints - Environmental

Critical	Serious
• Environmental/Technical Challenges • Route Stoppers	• Route, timing, construction impacts • Cost Adders
Environmental 1. State, Congressional, Presidential approvals for foreshore ANWR activity 2. Nesting Habitats on Barrier Islands (Alaska) on near shore route 3. No Development Zone: Ivavik National Park (Yukon) 4. No Development Zone: nearshore Herschel Island Territorial Park	Environmental 1. Prudhoe Bay Boulder Patch – arctic kelp 2. Barrier Islands – ringed seal and migratory birds 3. Herschel Island – bowhead whale, August feeding and September/October Alaskan hunt restriction 4. Mackenzie Estuary – beluga whale – zone 1 & 2 5. Eastern North Slope – management zone D ➤ Wildlife, fish, waterfowl constraints ➤ Preservation of traditional native use 6. Kendall Island Bird Sanctuary 7. Inuvialuit beluga whale hunt (June/July) 8. Polar bear dens, on-ice management 9. Evolving regulatory process could increase uncertainty 10. International boundary dispute/Jones Act 11. Evolving regulatory process could increase uncertainty 12. Detailed protection plans for protected areas 13. Unresolved land claims*

Figure 10

Over-the-Top Route Constraints - Technical

Critical	Serious
• Environmental/Technical Challenges • Route Stoppers	• Route, timing, construction impacts • Cost Adders
Technical 1. Coastal erosion and storm surge for both foreshore and nearshore route 2. Camden Bay seismicity for offshore route 3. Barrier Islands migration for foreshore and nearshore routes	Technical 1. Stable ice platform 2. Ice scour and pipe depth 3. Ice ride-up and rubble fields 4. Strudel scour and river deltas 5. Shore permafrost 6. Landfall transitions 7. Restricted land access – winter 8. Restricted open ice window 9. Supply logistics 10. Accessibility for maintenance and operation 11. Trench backfill requirement (Northstar) 12. Leak monitoring requirement (Northstar) 13. Mackenzie trough 14. Gravity-based structures 15. Umbilical trenching



Foothills Pipe Lines

FAX TRANSMITTAL

STATE OF ALASKA
OFFICE OF THE GOVERNOR

TONY KNOWLES
GOVERNOR

FRAN ULMER
LIEUTENANT GOVERNOR



file
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PO BOX 110001
JUNEAU, AK 99811-0001

Telephone: (907) 465-3500
Fax: (907) 465-3532

Date: September 12, 2001

To: Rick Halford

Fax No.: 694-0549

Pages: 7

From: Tony Knowles
Governor

TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

September 12, 2001

Dear Rick,

Thanks for all of your efforts in moving the gas project forward. They have been essential to our progress so far. I especially appreciate the meeting we had at my Anchorage office prior to your public meeting in Valdez where we discussed the state's draft legislation in response to the proposed legislation authored by the producers. I incorporated our discussion into the "10 point" plan I presented to the Resource Development Council and then sent to Senators Murkowski and Bingaman. I have enclosed a copy of that letter to you.

We are in the process of developing final legislative recommendations and I would appreciate your comments on any additions, subtractions, or modifications. If you could send those to Charlie Cole, the subcommittee chair of federal legislation, we will try to incorporate them into the final draft recommendations. This will be sent back to all Policy Committee members, producers, and pipeline companies for comment prior to presentation to the State Joint Pipeline Committee and then to Senator Murkowski and Senator Bingaman.

Sincerely,


Tony Knowles
Governor

Enclosure



TONY KNOWLES
GOVERNOR
governor@gov.state.ak.us

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JUNEAU

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September 10, 2001

The Honorable Frank Murkowski
United State Senator, Alaska
322 Senate Hart Office Building
Washington, DC 20510-0202

Dear Senator *Frank* Murkowski:

I write on a subject of pressing national and state interest, the need to facilitate a natural gas pipeline from Alaska to the lower 48 states. The Alaska Highway natural gas pipeline would be America's largest privately funded construction project, requiring an investment of as much as \$20 billion. With the national economy sagging, this single project would be an enormous shot in the arm to America's industry and workforce like nothing else on the horizon, creating thousands of good-paying, long-term jobs across our country.

If built, it would deliver approximately 35 trillion cubic feet of ready-for-market Alaska North Slope natural gas. It also would open the way for the exploration and development of an additional 100 trillion cubic feet of natural gas that other fields in Alaska may hold. In the 1970s, federal legislation was needed to clear the way for the fast and successful development of the Trans-Alaska Pipeline System (TAPS). Similarly, legislation now is needed to clear the way for an Alaska gas pipeline. What follows is a summary of the benefits to our nation and to Alaska from the Alaska Highway pipeline project and a description of the essential provisions of legislation that would enable its construction.

Today, natural gas plays an increasingly prominent role in our nation's energy supply and is the fuel of choice for the rapidly expanding U.S. electricity generation market. Rising consumer demand, national security concerns, environmental needs, and economic competitiveness require that we continue to find new sources of natural gas in North America. With Alaska's known reserves representing more than 20 percent of the United States' natural gas reserve base, Alaska's North Slope gas can provide much of the needed new domestic source of environmentally clean energy.

Building the Alaska Highway gas pipeline will also help stabilize and increase our nation's economic growth at a time when our economy is suffering. A project of this size

The Honorable Frank Murkowski
September 10, 2001
Page 2

will positively impact the nation's as well as Alaska's economy. Construction alone will rejuvenate the U.S. steel industry and provide jobs to thousands of Americans, including many Alaskans. It is expected that the Alaska portion of the pipeline project alone will require some 1.5 million tons of steel, with related costs from manufacturing to delivery estimated at \$900 per ton, producing about 2,000 steel industry jobs. Keeping that substantial amount of money in North America cannot help but benefit each country's economy.

Many jobs will still be required once the project becomes operational, resulting in economic benefits in the form of wages, federal and state taxes, royalties, and other revenues. Further, the availability of gas in the lower 48 and in Alaska can be expected to generate substantial new investment and employment. Economists tell us that such a project could have an economic multiplier effect of 4-6, that is, for every \$1 spent on the project, \$4-6 of money flow is stimulated throughout other sections of the economy. Conservative projections are that this project will generate 160,000 jobs over the life of the project and contribute \$300 billion to America's Gross Domestic Product.

To best achieve these national interests we need to have federal legislation, just as we did for TAPS, that brings these reserves to market in Alaska and the lower 48 states, and to do so as quickly as possible. We need to incorporate provisions that show a preference for American industry and American jobs. And we need to prepare for the future by allowing access of all natural gas developers to the pipeline. But Alaska also must benefit from delivery of North Slope gas to the U.S. market. We need federal legislation that would allow for the utilization and transportation of natural gas use for the benefit of Alaskans and that provides a preference for local hire, local businesses, and Alaska Natives.

Earlier this year I formed the Alaska Highway Natural Gas Policy Council, which held hearings across Alaska in order to solicit the views of Alaskans on the many complicated issues surrounding North Slope gas development and transportation. The council received many useful and thoughtful suggestions from various interested parties. It is fair to say a consensus exists among Alaska businesses, Alaska Natives, organized labor, environmental and civic groups and the Alaska Legislature that the following principles should be embodied in any new federal legislation authorizing and encouraging the construction of the Alaska portion of the Alaska Natural Gas Transportation System (ANGTS).

The Honorable Frank Murkowski
 September 10, 2001
 Page 3

1. Deliver Alaska Natural Gas to the Lower 48 States as Quickly and Safely as Possible

- **Alaska Highway Route.** Any legislation should reiterate that the Alaska Highway route—the route approved by the President and the Congress in 1977—remains the chosen route. That route can be completed quickly and, given the existing infrastructure, can be done with minimal additional impact on the environment. In contrast, other suggested routes, such as the so-called “over-the-top” route through the Beaufort Sea and then south through Canada, present enormous engineering and environmental challenges and have not undergone formal feasibility and environmental reviews and, thus, cannot be completed in a timely or environmentally friendly manner.
- **Expedited Process.** The legislation should also include an expedited approval process for the Alaska portion of the Alaska Highway pipeline corridor that parallels and builds on the process set forth in the 1976 Alaska Natural Gas Transportation System legislation.
- **Tax Incentives.** Legislation should provide for necessary tax benefits to ensure that this project, which is so important to national interest, is actually built. Provisions that would entitle the pipeline owners to take both accelerated depreciation and investment tax credits on the pipeline assets have been used successfully in the past to stimulate investment. In addition, consideration should be given to provisions which would reduce financial risk resulting from widely fluctuating gas prices—perhaps a tax or royalty credit when prices fall below a specified floor. Given the inherent uncertainty as to the economic feasibility of a project of this magnitude, such incentives should help tilt the scales in favor of construction of the project.

2. Build American Industry and Create American Jobs

- **United States and Canadian Steel Usage.** Subject to limited exceptions, legislation should require that only steel manufactured or produced in the United States and Canada be used for the construction of the Alaska portion of the ANGTS. The exceptions would be where the cost of United States and Canadian steel is determined to be unreasonable or where a finding is made that use of such steel is inconsistent with the public interest.
- **Use of a Project Labor Agreement.** Legislation should mandate the use of a project labor agreement wherein involved contractors and unions would agree to a total ban

The Honorable Frank Murkowski
September 10, 2001
Page 4

on strikes, lockouts, work slow downs, and other disruptive activities. Such a provision would further the goal of expeditiously constructing the pipeline and at the same time recognize the public interest in labor stability surrounding the construction, operation, and maintenance of the pipeline.

3. Future Access of Natural Gas Developers to ANGTS

- **Access for New Gas Discoveries.** It is necessary to mandate that, in the event of new discoveries on or around the North Slope or in Interior Alaska, and whether on federal or state lands, the owners of these discoveries will have access to the pipeline in order to market their gas. It is estimated that undiscovered gas reserves may be on the order of 100 TCF, or more. Legislation should give the Federal Energy Regulatory Commission (FERC) clear authority to require the owners of the Alaska portion of the Alaska Highway project to expand the capacity of the pipeline in order to accommodate all new discoveries. Absent such a provision, new gas discoveries could be left at the back of a long queue of gas awaiting shipment or, worse, indefinitely stranded in place because, unlike in most areas in the lower 48 states, one pipeline will be the sole source of available transportation.
- **Encouragement of New Pipeline Participants.** Legislation should also encourage the equity participation of all interested and financially viable energy companies, including North Slope producers and gas pipeline companies. Today, producer affiliation is no longer a valid reason to exclude a potentially significant source of needed equity capital. FERC's present open access and nondiscrimination rules and regulations are sufficiently evenhanded to allow equity participation by everyone regardless of whether or not they are affiliated with the North Slope gas owners.

4. Jobs for Businesses, Alaskans, and Alaska Natives

- **Alaska and Alaska Native Hire.** In order to provide much needed jobs and training for Alaskans, the legislation should require that the persons constructing the Alaska portion of the pipeline adopt programs to train and employ Alaskans, to the extent permitted by existing laws. Special emphasis should be placed on the recruitment, training, and employment of Alaska Natives who, after all, will be particularly impacted by the construction and operation of this new pipeline. To ensure that these provisions are properly implemented, periodic reporting requirements should be included in the legislation.
- **Alaska Businesses Hire.** Similar provisions just discussed with regard to Alaska and Alaska Native hire should provide that Alaska businesses shall be utilized to the

The Honorable Frank Murkowski
 September 10, 2001
 Page 5

extent permitted by law. The same rationale for employing Alaska residents applies to employing Alaska businesses.

5. Access to In-State Gas Resources

- **Alaska Access to Gas.** It is important for the social and economic development of Alaska that Alaska citizens and businesses have access to sufficient gas to serve their needs. It makes sense for Alaska—the source of huge quantities of gas—to have access to needed amounts of the commodity. Provisions in the legislation should ensure the owners of the Alaska portion of the pipeline make the necessary accommodations to ensure such access.

In conclusion, I hope these principles can serve as some useful guideposts in crafting legislation. We would be willing and honored to work with you and your staff to develop specific language implementing these principles.

Sincerely,


 Tony Knowles
 Governor

cc: The President of the United States
 The Honorable Dick Cheney, Vice President of the United States
 All members of Senate Energy Committee
 The Honorable Ted Stevens, U.S. Senator, Alaska
 The Honorable Don Young, U.S. Congressman, Alaska
 The Honorable Gale Norton, U.S. Secretary of Interior
 The Honorable Spencer Abraham, U.S. Secretary of Energy
 The Honorable Colin L. Powell, U.S. Secretary of State

Scott Heyworth
Testimony to
U.S. Senate Cmte.

Good Morning Senators:

I wish to thank Senators Bingaman and Murkowski for inviting me to testify.

My name is Scott Heyworth. I was born in Alaska and am currently serving as a Public Safety Commissioner for the Municipality of Anchorage under our Mayor George Wuerch, and a former Port Commissioner under then Mayor Tony Knowles. I am also the Chair of the Citizens Initiative for the All-Alaskan, All-American Gasline, which is the subject of my testimony here today.

I have been a member of the Anchorage Independent Longshore Union for 28 years.

All of my fellow union brothers and sisters mourn the losses of our fellow union Policeman and Firefighters, along with Military and Civilian casualties and strongly support the work of the construction crews, fire, medical, police, and rescue volunteers. As do all Alaskans.

Ladies and Gentlemen of the Committee:

We can have our corporate boardrooms, our economic forecasts about the various gas pipeline scenarios, our hearings, our jurisdictions, our political parties. Yet we also need to look at our rock bottom principles of Democracy, which brought forth this great Country, this Capital and this very room at this precise moment. One of those principles our forefathers fought and died for is the right of citizens to petition their government.

The Alaska State Constitution, Section 6, Declaration of Rights, reads as follows:

"The right of the people peaceably to assemble, and to petition the government shall never be abridged".

Giving oil companies Federal incentives, tax breaks, tax credits, and special interest considerations are not the answer to the United States' energy problems. Changing the ANGTA treaty is just one of the myriad problems. It is not an answer.

The answer is to build the one project you have heard so little about today, the All-American LNG route to Valdez paralleling the Trans-Alaska Pipeline System, which this committee has the jurisdiction over. Which would you rather have control of? A 3,000 mile gas pipeline in a Foreign Country, Canada, or two parallel 800 mile pipelines going down the exact same corridor in the United States of America? Isn't this simple, defensible, and in the best interests of all Americans?

Alaska's State Constitution, Article 8, Section 2, gives Alaskans a say in the commercialization of their State's natural resources. And Alaskans are strongly saying they want their Natural Gas to be commercialized in their state and therefore in America, not Canada. In March, May, and June of this year I commissioned three polls and they all show that the majority of Alaskans support the All-American route to Valdez by over a two to one margin. Our largest city alone, Anchorage is in favor of the All-American route by a 65% per cent margin.

Alaska's Lt. Governor, Fran Ulmer, recently certified our Citizens Initiative Petition. This allowed us to begin gathering signatures to place the initiative on the Nov. 6, 2002 ballot. The Petition to have the State of Alaska build and secure financing for this All-

American project is now circulating statewide. In the first 18 days since certification we have collected over 25% of the necessary signatures. The citizens of Alaska are signing it in record numbers. The response can only be deemed phenomenal. Alaskans have this issue patriotically figured out, despite being distracted with concerns over the threat of terrorism this country is now facing. Building a gas pipeline in America, not Canada, is their choice.

They support the one project that is already permitted, already engineered, is environmentally sound, and has signed project labor agreements with most Alaska Unions. It brings the most jobs to Americans, provides most revenues to our State treasury, provides in-state gas use of our own resource (something any Canadian route does not do) and provides gas to our own U.S West Coast cities where the real energy shortages are. El Paso Natural Gas has proposed 5 LNG receiving terminals on the West Coast, which could receive Alaskan LNG. There are no gas shortages in the mid-west or Chicago. Cheaper Canadian and domestic gas is closer to that area than any 3,900 mile gas pipeline from Alaska.

These are extraordinary times and it takes extraordinary vision to see past ancient political myths. It is time to reevaluate oil industry special interest legislation, sever our dependence on Mid-East natural resources, and protect America's Natural Oil & Natural Gas Reserves on the North Slope. We cannot build this gas pipeline through Canada just because it is economically beneficial for the Oil Companies.

We need to put America's energy interests first. Unlike the Governors' or the Producers' proposed legislation, the Citizens Initiative, which establishes a State Gas Authority, does not need any Federal legislation to build this All-American project because it will be a publicly owned entity.

Finally Senators, if anyone is advocating to open ANWR to lessen our dependence on Foreign and Mid-East oil & gas supplies, then I am sure, using the same logic, they would advocate to build the All-American gas line to Valdez to avoid going through a foreign country for security reasons. I believe Americans, today, understand this very simple concept.

THANK YOU

Bush, Congress at odds over pipeline route: Natural gas in Alaska

Peter Morton

10/03/2001
National Post
National
Page FP5
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WASHINGTON - Both the U.S. Congress and the administration of George W. Bush, the President, are anxious to tap into the vast natural gas reserves in Alaska, but are at odds over which route to pick.

The U.S. Energy Department told a Senate Energy Committee hearing yesterday that Alaskan gas is vital to the interests of the United States.

"The vast natural gas resources on Alaska's North Slope are one of the largest, most promising and most secure domestic energy supplies that could become available to America's consumers," said Robert S. Kripowicz, Acting Assistant Secretary of the Energy Department.

But Mr. Kripowicz refused to endorse either of the two major competing pipeline projects.

"We are committed to working with the private sector and with Canada to ensure that any commercially viable proposal to bring this natural gas to market is processed as expeditiously as possible," he told the committee.

Tony Knowles, the Governor of Alaska, pushed the committee to endorse the Alaska route, especially since the Alaska Natural Gas Transportation Act has already been approved in the United States. The Canadian equivalent, the Northern Pipeline Act, has already been approved by Parliament.

Mr. Knowles argued that the 2,900-kilometre pipeline from Alaska's North Slope to Alberta would create 160,000 jobs and be the least environmentally damaging of the two proposed lines. But, he said, the U.S. government must provide incentives in the form of a dramatically speeded-up depreciation and a 10% tax incentive to make the project economically viable.

Dennis McConaghy, co-chief executive officer of Foothills Pipe Lines of Calgary, told the committee the Alaska route would be virtually ready to go since it received framework approval in the mid-1970s.

The Alaska route suffered a major setback after a consortium that included Exxon-Mobil, BP PLC and Phillips Petroleum Co., said the US\$15-billion to US\$17-billion route would generate a return of up to 11%, which made it uneconomic.

The competing proposal is the Northern Gas Pipeline Project from Arctic Resources Co. of Houston. It wants to build a pipeline from the Alaskan North Slope through the Beaufort Sea, where it would connect with a Mackenzie Valley pipeline.

PRODUCERS, CONGRESS VIE ON ALASKA LINE[NL]'Chicken-and-egg problem':

ExxonMobil official [PARA]Washington-The three majors studying an Alaska natural gas pipeline urged the US Congress Oct 2 to quickly pass legislation streamlining the regulatory approval process and outlining tax incentives for the project. Without that kind of certainty, they said, it would be difficult to move forward with a multi-billion dollar pipeline designed to move Alaskan North Slope gas into Canadian and continental US markets.

But several members of the Senate and the Bush Administration suggested that without a formal application in place, legislation would be premature. "It gets to be a bit of a chicken-and-egg problem," Terry Koonce, president of ExxonMobil Production, acknowledged to the Senate Energy and Natural Resources Committee. ExxonMobil, BP and Phillips Petroleum are spending about \$100-mil to study if a pipeline is economically feasible and, if so, which of two routes under consideration to endorse.

The producers, which last month issued an interim report saying neither route looks feasible because of depressed gas prices, pressed the committee to take up a bill they wrote creating "thorough but expedited" permitting for the prevailing pipeline. The bill also would guarantee quick resolution of any legal disputes, create an Office of Federal Pipeline Director and outline tax incentives.

But Sen. Frank Murkowski (Republican-Alaska) asked producer officials why Congress should not wait until a formal application is filed. He expressed concern Congress essentially would be creating regulatory schemes in a vacuum because it would not know project details.

Joseph Marushack, vice president of Alaskan gas for Phillips, argued producers would be more comfortable with the project's viability, and be more inclined to continue the study, if Congress acted before a route is chosen. "We are trying to chip away at areas of risk," including cost, market conditions and permit processes, he said.

The industry proposal is for a route-neutral bill, a proposal opposed by Alaska, which supports the southern route, extending from Prudhoe Bay south through Alaska into the Yukon and British Columbia or Alberta. The other option, the so-called over the top or northern route favored by many Canadian leaders, would run from Prudhoe Bay under the Beaufort Sea and through gas-rich areas of the Northwest Territories.

Alaska Gov. Tony Knowles told the committee legislation should mandate the southern route, which at an estimated \$17-bil is about \$2-bil more expensive than the alternative. The producer consortium is expected to endorse a route in a few months. Lawmakers also were divided over requests by Alaska, and at least one producer, for federal incentives to build the line. Knowles and Phillips' Marushack endorsed a provision already proposed in the Senate and passed in the House to accelerate depreciation for gas pipelines at a seven-year rate rather than the typical 15 years.

Knowles also suggested Congress could adopt a 10% investment tax credit, while he and Marushack suggested a production gas tax credit tied to a floor price of gas as a way to provide investor confidence.

But Sen. Ben Nighthorse Campbell (Republican-Colorado) asked: "Why should there be subsidies for this gas and not for (gas produced in) the lower 48?" Knowles and Murkowski insisted federal incentives were not subsidies, and the size and natural interest in the project make it unique.

-Mark Davidson, Cathy Landry
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Firms may drop gas line claims

By SAM BISHOP

Fairbanks News-Miner Washington Bureau

WASHINGTON--Several companies may drop their multi-billion claim to earnings from a proposed natural gas pipeline to the Lower 48, an action that could remove a question mark hanging over the cost of the line's so-called southern route, a pipeline executive said this week.

Dennis McConaghy, co-chief executive officer of the Calgary-based Foothills Pipe Lines Ltd., told the Senate Energy and Natural Resources Committee that his firm is nearing an agreement that would wipe out the \$4.2 billion claim.

In the late 1970s, Foothills and a half-dozen companies joined efforts to build the Alaska Natural Gas Transportation System, McConaghy said after the hearing. That line, authorized by the U.S. and Canada governments, was to roughly follow the Alaska Highway.

Only two partners are active today. The rest withdrew after spending about \$250 million, McConaghy said. In withdrawing, the former partners reserved the right to recover their costs, plus interest, if the line were ever built, he said.

Today, the interest on that \$250 million has ballooned the total claim to \$4.2 billion. That's a substantial figure compared with the total pipeline construction costs, which major gas producers have estimated at \$15 billion to \$20 billion.

Sen. Frank Murkowski, R-Alaska, asked McConaghy about the claim, called a "contingent liability," during the hearing Tuesday.

McConaghy said he believes Foothills and its partner, TransCanada PipeLines Ltd., are within a month of virtually eliminating the claims. He said the former partners of the Alaskan Northwest Natural Gas Transportation Co. are "re-enlisting."

To re-enlist, he said, they must relinquish the claims.

Among the partners is Williams, which operates a refinery in North Pole. Others include Duke Energy, El Paso Corp., Sempra Energy, Enron and Pacific Gas and Electric.

Foothills' U.S. counsel, J. Curtis Moffatt with VanNess Feldman, said the \$4.2 billion claim has been given greater significance than it deserves by opponents of the southern route.

The implication by opponents has been that the former partners would have to be paid off with money obtained by raising the charges for transporting the gas through the pipeline. Moffatt said it has never been certain that would happen and that the payment is contingent on other factors.

Also, he said, the \$4.2 billion is merely a theoretical accounting sum that the active partners report to the Federal Energy Regulatory Commission. He said the number is likely to be "very near zero."

If Foothills does seek to repay partners by adding to its gas transport fee, Moffatt said, it would only be to the extent that the original partners' contributions were useful to the final project. Any such charges would have to be approved by FERC.

Moffatt said the former partners have no incentive to demand the money. Rather, their interests are in making the project happen, he said.

And those former partners don't have any desire to jump ship to the alternative northern route, Moffatt said. That line would carry gas east from Prudhoe Bay into Canada, where it would travel up the MacKenzie River valley into Alberta.

"After a long, detailed, litigated selection process and subsequent review by the president of the U.S. and Congress, the southern route was selected as superior, and we all believe that it still is," Moffatt said.

He described the former partners as "very sophisticated," and said they have vast experience in the details of siting and operating large gas lines.

Despite all this, Moffatt said, southern route opponents have gotten some mileage from the contingent liability question.

But Arctic Resources Co. President Bob Murphy, whose Houston-based company backs the northern route, said his estimates of the southern route's costs have never included the contingent liability.

"When we have looked at the relative economics of the southern route versus the northern route, and when we reached the conclusions we have reached, we did so on the assumption that the southern route would not be penalized by these past claims," he said.

However, he added, "were they to be penalized by past claims, I think our feelings would become even stronger."

The northern route is just cheaper, which is good for everyone--Lower 48 consumers, Alaskans and Canadians, he said. Arctic Resources puts the cost at about \$7.8 billion.

John Katz, head of Gov. Tony Knowles' office here, said the news from Foothills was good for the southern route.

"We think it's very important that the issue of the contingent liability of potentially \$4.2 billion be resolved as soon as possible," he said. "Otherwise it remains a significant obstacle to the ANGTS project."

Moffatt said teams from Foothills and the other gas pipeline companies are working in Calgary this week and Houston next week to recreate the partnership.

'Fiscal certainty' sought for gas line

By SAM BISHOP

Fairbanks News-Miner Washington Bureau

WASHINGTON--A Phillips Alaska executive, appearing Tuesday before a Senate committee, conditionally endorsed a southern route for a natural gas pipeline.

But the company and two other major gas producers remain opposed to a government mandate for that route. Executives for the three also reiterated that, so far, none of the proposed pipeline routes pencils out.

"This project is not economic regardless of the route selected," Phillips Vice President Joe Marushack said.

Marushack said controversy over route selection is obscuring the need for legislation to speed up federal agencies' reviews of the project. Such speedy review is needed, the companies say, so that potential earnings from gas sales would not be delayed.

Marushack said Phillips believes the best pipeline path from Prudhoe Bay is the southern route, passing through Fairbanks and then paralleling the Alaska Highway into Canada. The company is prepared to endorse that route if doing so would improve the chances of federal legislation, including changes to tax law, passing Congress.

Exxon Mobil and BP executives declined to endorse any route, and Marushack added several conditions to Phillips' support for a southern route:

- * Federal legislation, Marushack said, cannot require U.S. steel and cannot require project labor agreements with unions.
- * The legislation should create a "coordinated, streamlined regulatory process," such as that outlined by the major companies in a draft bill released earlier this year.
- * The bill should offer "federal fiscal relief that will ensure the appropriate sharing of risks and benefits."
- * The state of Alaska should provide "fiscal certainty."

Just which route a pipeline might take has been a significant sore spot in and out of the Capitol. The U.S. House passed legislation mandating the southern route in early August. The Senate has not agreed to the House language though.

Bob Malone, BP's regional vice president, said "the gas pipeline that BP will support will be the pipeline to which Alaskans, Canadians and the federal government can all agree."

However, he added, "no single party can be perceived to have monopoly rights to build a pipeline."

Foothills Pipe Lines Ltd. of Calgary holds rights of way to much of the southern route. Foothills obtained the rights after Congress approved a southern route in the late 1970s, and it says Congress ought not to open up the field to other projects.

Terry Koonce, president of Exxon Mobil Production Co. said cost is the major factor obstructing the line.

"It's important not to have any mandates, including route, that could increase the cost and possibly prevent any project from being built," he said.

A recent report from Phillips, Exxon Mobil and BP concluded that a gas pipeline would produce no more than a 10 to 11 percent return on equity, lower than what would be considered economical considering the risk. The companies own rights to about 35 trillion cubic feet of North Slope natural gas.

The producers said they continue to examine the possibility of a pipeline but have no immediate plans to apply for federal permission to build one.

On the subject of federal financial incentives, BP and Exxon Mobil agreed to disagree with Phillips. "Exxon Mobil prefers a level playing field that permits the market to operate unencumbered," Koonce said.

Ken Konrad, BP's senior vice president for Alaska gas, said after the hearing that BP isn't asking for any federal tax breaks or incentives. It just wants the federal regulatory process to be streamlined, he said.

In contrast, Phillips is backing two tax ideas. One would allow it to write the cost of the project off its taxes in seven years rather than the standard 15.

The other would give companies a credit on their federal income taxes during times of very low gas prices. Gas prices in the United States have fluctuated between \$2 and \$10 per thousand cubic feet within the last year.

"This price uncertainty and volatility poses substantial downside risk for the project," Marushack told the committee. He suggested that credits could initially kick in if gas prices fell to \$1.25 or less.

The three major oil companies presented a united front on several questions, though. They all endorsed creation of a streamlined federal regulatory process. The companies want legislation ordering that any pipeline application and any environmental impact statements be approved by the federal government within 18 months. They also want a federal pipeline office to

coordinate decisions. And they want any court challenges to the legislation to be prompt, limited in scope and only filed in the Washington, D.C., appeals court.

Neither did any of the oil companies like the idea of mandated use of U.S. steel or Alaska and union hire provisions. Those ideas are backed by Gov. Tony Knowles, who was the lead witness at Tuesday's hearing.

The oil companies were also unanimous in asking the state of Alaska to promise them stable, predictable tax policies.

Konrad, BP's Alaska gas vice president, said after the hearing that the companies don't want the kind of multi-billion dollar tax disputes that they've fought with the state of Alaska over oil. The gas project can't support such uncertainty, Konrad said.

Such disputes arose from disagreements over how much the oil was worth and thus how much the state deserved in royalties and taxes.

But gas is sold in a different manner and the prices are clearly set, Knowles said after the hearing, so such disputes shouldn't arise.

Knowles said he hadn't talked with oil companies about what sort of "fiscal certainty" they were seeking and doesn't plan to do so until the companies have committed to the southern route.

"Until it's decided what the route is, how can you talk about what kind of fiscal regime is going to take place?" Knowles said in a brief interview.

Republican Sen. Craig Thomas, from the gas-producing state of Wyoming, challenged Knowles to explain why Alaska gas should get special tax treatment. Knowles has proposed accelerated depreciation and investment tax credits for the Alaska gas line.

Knowles said incentives are justified because "there is real concern about whether we will be able to meet (the) demand."

Later, he noted that the state of Wyoming itself has investment tax credits for coal bed methane, heavy oil development and alternative energy sources.

"This is a commonly used tool for projects that are deemed in the national interest," Knowles said. Besides, he said, Wyoming gas will always have an advantage over Alaska's because Wyoming is in the middle of the national distribution system and its gas isn't burdened with the pipeline's projected \$2 per thousand cubic feet transportation charge.

September 24, 2001

Subject: Legislative Strategy Survey
North Slope Gas Development

Dear Alaskan Legislator

This is my initial contact with you to explain the interview and survey process I will be using as part of my contract work for the Legislative Council. I will be identifying areas of consensus on the major issues and alternatives related to legislative action on bringing North Slope gas to market.

I will contact your office this week to schedule an appointment (up to an hour long) at a time convenient for you over the next several weeks. My preference is to do the interview face-to-face in the privacy of the Anchorage Legislative office setting. If you aren't going to be in the Anchorage area during October, then we can work out an alternative, possibly a phone interview.

A week prior to the appointment I will get you a background paper for the discussion. Also, members of your staff are free to attend if you wish. My interview records will keep any comments anonymous and there will be no attribution of comments or positions in my written and verbal report to the Legislative Council.

Attached to this note are several lists: (1) Major Gas Development Issues; (2) Potential Benefits and Impacts of a Gas Development Project; and (3) Relevant Existing Alaska Statute References.

For this project my:

Phone and fax number is: (907) 561 - 4246

E-mail is: nsgas@worldnet.att.net

Snail mail is: 1336 Staubbach Circle, Anchorage, AK 99508

I look forward to talking to you!

Harold Heinze

Major State Issues Related to North Slope Gas Development

- Gas Pipeline Project Route(s)
- Access to Pipeline and Gas
- Gas Pricing
- Alaska Hire
- State Financial Involvement in a Project
- Federal & Canadian Interactions
- Port Authority Concept
- Stakeholder Groups
- Hydrocarbon Recovery & Reservoir Management

Potential Benefits

- Dollars to State & Local Governments
- Increased exploration activities
- Paychecks for Alaskans
- Gas to communities
- Gas for new business opportunities
- Expanded economy & higher incomes
- Greater recovery of oil & gas

Potential Impacts

- Social costs
- Public Facilities
- Quality of Life of Individual Alaskans
- Standard of Living
- Business and the Economy
- Environmental costs

Existing Key Alaska Statutory References

- Sections 1 & 2 of Article VIII (Natural Resources) of Alaska's Constitution defines the Legislature as the policy maker on resource issues
- The Right-of-Way Leasing Act, Chapter 35 of Title 38 (Public Land) of the Alaska Statutes, delineates the process and requirements for a gasline
- Oil & Gas Leasing (including sale of royalty gas) alternatives and regulations are mainly covered in Sections 180, 182, & 183 of Chapter 5 (Alaska Land Act) of Title 38
- Chapter 6 of Title 38 defines the functioning of the Alaska Royalty Oil and Gas Development Advisory Board
- Chapter 5 of Title 31 (Oil & Gas) defines the functioning of the Alaska Oil & Gas Conservation Commission
- The Alaska Stranded Gas Development Act, Chapter 82 of Title 43 (Revenue & Taxation), provides alternative fiscal terms to improve gasline economics

COMMONWEALTH NORTH

ADVERTISING ISSUES

Major advertising for the printing of the
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LOWELL THOMAS

Approved by the Commonwealth North Board
September 11, 2001

BACKGROUND

For over twenty years Alaska has known of the potential to develop significant reserves of natural gas on the North Slope. However, markets, divergent ownership interests, and project economics have not justified developing these reserves.

Recently, there have been three changes in the situation: the alignment of ownership of North Slope oil and gas interests among the major producers, the development of new technologies that create greater efficiencies, and the price of natural gas have combined to increase the prospective marketability of the gas.

Developing this potential, from concept to construction, from construction to delivery, and from delivery to sales, would create significant value for Alaska. The goal of this study is to inform our members, policymakers, and other interested parties and engage them in an examination of the issues and how Alaska's interests can be optimized and protected.

The report analyzes the issues, identifies a process for addressing them, and recommends policy principles that can guide the State in answering the question: How can the best interests of the people of Alaska be realized in the commercialization of the North Slope natural gas resources?

INTRODUCTION

• Since its inception in 1979, Commonwealth North has studied and published reports on North Slope resource issues. Summaries of the following reports are available on its web site www.commonwealthnorth.org

1. "Solutions to the National Energy Crisis: Why Not Alaska?" November 1979
2. "North Slope Natural Gas: Transportation Alternatives and the Promise of a World Scale Petrochemical Industry" March 1980
3. "Moving North Slope Natural Gas to Market: A Positive Alternative" November 1981
4. "An Alaskan View of ANWR" October 1989

• In this report the Study Group focused on significant public policy issues that are within the power of the State of Alaska to address. The Group avoided making specific "how to" recommendations that are the purview of those who will have to make design decisions and from recommending a specific project or route(s).

• The report organizes its findings in six categories followed by recommendations:

1. Alaska North Slope (ANS) Natural Gas Supply
2. Markets for ANS Natural Gas

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Founding Co-Chairmen
Former Governor
Walter J. Hickel
and the late Governor
William A. Egan

October 3, 2001

Dear Legislator:

Please find enclosed your copy of *"Bringing Alaska's North Slope Gas to Market: Framing the Issues,"* a study co-chaired by Richard Barnes and UAA Chancellor Lee Gorsuch.

The report was unveiled at a Forum on September 25, 2001. The topic of commercializing Alaska's natural gas continues to draw widespread attention and our Forum was no exception. The unveiling event drew an audience representing our diverse membership along with policymakers, industry and media who were all present to hear about our work.

Special thanks to the study group members for their long hours and patient deliberation, and to all the individuals that testified and provided critical information to the group. It was no easy task to synthesize the complexity of this topic. The dedication of the study group resulted in a report that will help concerned Alaskans better educate themselves on a difficult and evolving issue.

In addition to the Legislature, the report will also be provided to our membership, the Governor's Gas Cabinet and the Alaska Highway Natural Gas Policy Council, relevant individuals in the U.S. Senate and U.S. Congress, statewide media and other constituencies working on the issue. The report is also available on our home page: www.commonwealthnorth.org along with the PowerPoint presentation used at the unveiling event which outlines the findings and recommendations of the study.

Please feel free to contact me if you have questions or comments about the report, or if additional copies are requested.

Sincerely,



Duane Heyman
Executive Director

Enclosure

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Executive Director

Duane Heyman



4. ANS Gas Delivery Options

5. The Decision Making Process

6. Stakeholders in the Commercialization of ANS Gas

7. Alaska's Interests in Commercialization of ANS Gas

Recommendations

• Commercialization of ANS gas is dependent upon a viable system that delivers the gas to its market(s). A number of projects are under discussion that would construct a pipeline to satisfy some of these transportation needs. The State of Alaska has a vested interest in how these projects may be developed and implemented. Most notably the projects being discussed are described as:

1. The "Highway," or "Alcan" route. This pipeline would run south to the Fairbanks or Delta Junction area, then approximately follow the Alaska Highway until it connects with other Canadian gas transportation systems.
2. Variations of the Highway route include a "spur" or "Y" line that would run south from Fairbanks or Delta Junction into the South Central Alaska area. Depending on size and location, this could provide gas for local or export uses. The "hub" concept is based on a "Y" line with physical characteristics and business arrangements allowing for access to multiple users and multiple markets.
3. An "over-the-top" pipeline would run underwater eastward from Prudhoe Bay north of the Arctic National Wildlife Refuge coast and turn south overland into Canada until it connects with other Canadian gas transportation systems.
4. Liquefied Natural Gas (LNG). A pipeline to Alaska tidewater for liquefaction of natural gas in Alaska and shipping it to East Asia and American markets.
5. The North Slope Borough, the Fairbanks North Star Borough and the City of Valdez formed the Alaska Gasline Port Authority to utilize tax-exempt pipeline financing. Other project sponsors are also considering tax-exempt financing.

SUMMARY

From Alaska's point of view, an ideal ANS gas commercialization project might result in:

- High income to the State treasury
- Economic benefits from construction activity
- Many long-term project maintenance jobs

- In-state access to ANS gas for homes, business, electric utilities and industrial plants
- In-state ownership and control of a project

However, the Study Group has found that detailed analysis of the variables reveals a real-world set of constraints that are unavoidable:

- Market economics. This is the most critical element. Any ANS gas commercialization project must be economically viable. Any of the pipeline alternatives being discussed would be one of the largest industrial projects in the history of the world. Without a compelling economic rationale, management focus and massive financing simply will not be available.
- Any trade-off that reduces the highest financial rate of return must be weighed against its potential to make the project uneconomic. Such consideration applies as much to potential revenues to the Alaska treasury as it does to project proponents.
- World market forces, U.S. market forces, and international and domestic politics are all factors. No decision can be made in a vacuum solely from one point of view.
- The real challenge to Alaska's leaders is, and will continue to be, maintaining clarity of vision and purpose to realistically optimize the combination of financial and beneficial returns from any project without burdening it to the point where it is uneconomic.
- Alaska will need to design and develop a fiscal regime that maximizes the full economic benefits of gas development and minimizes the costs associated with a project of this magnitude.

FINDINGS

ALASKA NORTH SLOPE (ANS) NATURAL GAS SUPPLY

1. The ANS gas potential may be substantially greater than the 35 trillion cubic feet (tcf) of known existing reserves. If it is as large as some believe, in excess of 100 tcf, more than one major commercialization project may be feasible. To put these quantities in perspective, known existing gas reserves are sufficient to provide 10% of all U.S. gas needs for about fifteen years. 100 tcf could supply 10% of all U.S. needs for about forty years, based on American Gas Foundation forecasts.
2. Absent a commercially viable system to deliver ANS gas, the exploration and discovery of gas will be incidental to the exploration and development of oil. The current high level of activity and interest in exploration is in anticipation of a gas pipeline.
3. As oil reserves are depleted, ANS gas reserves will diminish in value as a means of enhancing oil recovery. ANS gas will become "stranded" unless a commercially viable delivery system is developed.

Markets for Alaska North Slope Gas

1. It appears that the potential for commercializing ANS gas has improved as a result of a generalized increase in the long-term price of gas, new demand from gas-fired generation plants across the country and prospects for increased demand in the future. However, the price volatility of the past year strongly demonstrates the commodity nature of the Lower-48 market.
2. Increases in gas prices, if sustained, not only make delivery of ANS gas more feasible, they also induce new, competitive gas supplies into the market e.g. the Mackenzie Delta, Nova Scotia, coal bed methane, an increased rate of drilling and imported LNG.
3. Export of Alaska LNG remains a potential option for commercial development of ANS gas. Since 1967 Cook Inlet LNG has been shipped to Japan. Current Asian LNG prices are strong, with demand growing. Projections for potential new demand around 2010 may create an opportunity to market Alaska LNG under long-term contracts.
4. The cost of supply to gas markets in the Lower-48 will largely determine which, if any, of the competing Alaska projects or routes can deliver gas at the most competitive price. While cost is important to serve the Asia LNG markets, political stability, diversification of supply and politics between the U.S. and market countries also have influence.
5. Long-term commitments will need to be in place to finance any commercialization alternative.

Alaska North Slope Gas Delivery Options

1. The various gas commercialization options, ranging from about \$8 billion up to \$20 billion, are among the largest and most costly industrial projects in history.
2. There are multiple gas processes (dry gas, liquefied gas, and gas to liquids) as well as multiple gas products and markets and delivery routes, each subject to market price competition.
3. Alaska (Phillips and Marathon) has been exporting Cook Inlet LNG to Asia for over 30 years through an existing delivery system.
4. Economy of scale is a major factor in the relative competitiveness of a particular process, project or route, particularly given the distance of ANS gas from a market. Different projects have different threshold numbers that need to be compared on a consistent basis for the State to see a clear picture of available options.
5. Depending on estimates of the total supply of ANS gas, construction of any one alternative has the potential to delay competing projects, possibly for a long time. If some 100-tcf estimates of ANS gas can be realized, more than one project might ultimately be financed and built. However, conflicting demands for labor and materials must be resolved. If very large ANS gas reserves cannot be proven prior to construction, there must be exploration success to justify a second project.
6. As compared to most pipelines, the ability to expand an Alaska pipeline is important. It should be capable of substantially expanding its initial throughput capacity to accommodate future discoveries and production of ANS gas.

The Decision-Making Process

1. Delivery of ANS natural gas to market is economically challenging but technically doable.
2. A challenging aspect of any project is crafting a solution acceptable to the major stakeholders.
3. Some ANS producers are using "Seven Lenses" of evaluation for the alternatives they are analyzing to categorize the various stakeholder interests:
 - a. Economics
 - b. Environment
 - c. Gas access
 - d. Jobs
 - e. Revenues to Alaska and Canada
 - f. Safety
 - g. Timing
4. "Open season," the Federal Energy Regulatory Commission (FERC) process in which shippers make binding offers of long-term commitments, will provide the flow volume information needed for actual pipeline capacity design. Some modification of traditional contract terms may be needed to accommodate in-state use of gas.
5. The State of Alaska has standing to intervene in FERC hearings if it chooses to do so.
6. FERC has no pipeline or rate jurisdiction over an LNG export project. Instead, the in-state Regulatory Commission of Alaska (RCA) has jurisdiction.
7. Competing project sponsors dispute which governmental agencies have jurisdiction over permitting and also dispute the current status of permit applications.
8. The State of Alaska is not yet unified in its management of this opportunity. In particular, the Administration and Legislature are not yet working harmoniously to identify and maximize the State's interests.
9. The State's 12.5 percent royalty share by itself is an insufficient quantity to support a stand-alone project.
10. All proposed projects are subject to potential delays from environmental, permitting and legal problems and indigenous peoples' opposition. The "over-the-top" route has the following additional burdens:
 - a. Legislative, Gubernatorial and Congressional opposition
 - b. Alaska's Interior and Cook Inlet regions have long-term needs for gas that many believe an in-state route could supply. An over-the-top route would require a separate line to meet in-state needs.
11. Both the Canadian and United States federal governments control economic incentives that could significantly affect project economics. Rules on tax-exempt financing, depletion, tax credits, depreciation and tax rates could be modified to support the project. To a lesser extent the State of Alaska has available deferred taxation and other incentives.

Stakeholders in the Commercialization of Alaska North Slope Gas

1. Stakeholders include:

- a. ANS producers and project sponsors
- b. Alaska citizens and affected Canadian citizens
- c. Alaska Natives and Canadian First Nations
- d. State of Alaska and affected Canadian provinces
- e. U.S. and Canadian federal regulators
- f. Environmental organizations
- g. Potential workers, both construction and permanent operators
- h. Potential Alaska and Canadian industrial and utility users
- i. North American and Asian consumers
- j. Alaska and Canadian businesses

2. Alignment of the proportional ownership interests of ANS gas similar to that of oil may have eliminated a major barrier to commercialization.

3. Many ANS gas stakeholders have diverse and, in significant instances, competing interests with one another and non-Alaska projects that compete with Alaska projects.

4. Most stakeholders can "break but not make" the commercialization of ANS gas. Technical and financial hurdles can probably be overcome—but politics can make any alternative undoable.

5. Sound environmental controls must be integral to any gas delivery system.

6. Addressing Canadian interests must be part of any project that goes through Canada. An all-Alaska LNG route avoids dealing with Canadian interests, as does gas-to-liquids because it is based on using the existing Alaska pipeline system.

Alaska's Interests in Commercialization of Alaska North Slope Gas

1. ANS gas commercialization can create a significant long-term industry in Alaska.

2. Alternative projects or routes to deliver ANS gas to market vary significantly in their prospective economic, social, and environmental benefits and costs to Alaskans.

3. Gas commercialization could broaden the State's technological and revenue base, as well as generate direct employment and income opportunities for residents.

4. Alaska should analyze the feasibility of capitalizing on the synergies of any project to assist in providing power, transportation and communications services to rural Alaska, as could the Canadians.

5. In-state access to ANS gas from southern routes through Alaska has the potential to significantly benefit Alaska. In-state use can add to some project economics by enhancing economies of scale with a predictable need for in-state domestic and industrial uses.

- 
6. From Alaska's point of view, no project should be excluded from consideration if it has the potential for producing an acceptable combination of financial and beneficial returns to the State.
 7. The State could potentially reduce the cost of financing a gas delivery system by using its tax-exempt status to handle project financing. It may be possible that a structure that will allow for tax-exempt financing could provide the additional benefit of providing fiscal certainty to the shippers.
 8. State investment in, or ownership of, a gas delivery system involves unstudied risks and benefits. As mandated by legislation, the State is contracting for a third party analysis of these issues. Such ownership may tie into the "hub" or "Y line" idea to allow access to multiple markets and provide for in-state use.
 9. Cook Inlet gas supplies for local consumption are projected to be depleted unless new gas is discovered or industrial uses are diverted to local utility use.

RECOMMENDATIONS

1. The State should work to optimize its interests in the commercialization of ANS gas without undermining the commercial viability of less preferred routes or projects.
2. The State should ensure it is a full participant in the decision-making processes associated with the commercialization of ANS gas.
3. The State of Alaska should structure a public resource management corporation that can proactively manage the development of, promote, account for and explain to the people the State's natural resources.
4. The State and project sponsors need to negotiate a structure that allows for open and understandable pricing as well as a stable tax and royalty environment.
5. A unified State delegation could work with affected Canadian jurisdictions to jointly structure and promote any Canadian and United States federal incentives needed to support project economic viability. The federal governments may have many more financial and regulatory incentives to offer than do state or regional Canadian jurisdictions. Similarly, U.S. incentives should be extended to all alternatives that benefit U.S. interests.
6. The United States Congress and the federal government should be encouraged to oversee and facilitate development of ANS gas as an integral part of the nation's energy policy.
7. The State should study the risks and benefits associated with participation in the financing of a gas pipeline, including tax-exempt financing and what type of organizational structure would be required to implement it.
8. The State Legislature should provide adequate resources to ensure the State could fully support the consideration of information requests and permit applications associated with ANS gas development needs.
9. The State should take all appropriate means to identify, protect and provide for in-state gas needs in the Railbelt, Cook Inlet and other areas in Alaska.
10. The State should preserve the right to take its gas royalty in-kind at some future date under terms and conditions that are timely, fair and reasonable.

11. The State should determine how the wellhead price of gas would be determined as a condition of approving a route or project, including the possible use of a "hub" or "Y line" concept.
12. If and when a project is authorized, the State should work closely with industry and labor to ensure Alaskans are trained and employed to hold long-term jobs associated with gas commercialization.
13. The decision-making process should be as open as possible for public review and input.

MAJOR UNRESOLVED ISSUES PENDING ADDITIONAL INFORMATION

1. **Any route recommendation.** The Study Group feels all options should be kept open pending more refined cost and engineering estimates on the highway and over-the-top routes. Absent such information, and thorough analysis thereof, a route recommendation would be premature.
2. **State of Alaska equity participation in a project.** Certain broad advantages and disadvantages of State equity participation have been identified. However, information in point 1 above, plus the results of a State-contracted third party study analyzing risks and rewards of State equity participation, are needed to adequately address this subject.
3. **State and Federal regulatory streamlining**
4. **Specifics of a "hub" or "Y line" arrangement**

CONFLICTS OF INTEREST

Persons with interests in the outcome of the study were members of the study group and participated in its deliberations. Affiliations were generally well known or identified relative to specific points advocated. The study group endeavored to seek information and viewpoints from all major proponents of Alaska gas commercialization projects.

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