

LEG. FINANCE - BILLS 1977 - 1978 617

HCR 142 cont.

FAIRBANKS CORRIDOR PIPELINE SYSTEM

A VIABLE ALTERNATIVE

The following is a discussion of the two earlier proposals for transporting arctic gas to the lower U. S. and Northwest Pipeline Corporation's proposed Fairbanks Corridor Pipeline System which is being presented as a viable alternative which satisfies the major objectives with the least detrimental socio-economic and environmental impacts.

By Land or By Sea?

After many months, even years, of investigation and analysis, the facts seem to favor the selection of an Alaskan/Canadian pipeline from Prudhoe Bay to the lower 48 states rather than a trans-Alaska pipeline/LNG tanker system from Prudhoe Bay to southern California. More specifically, as it now stands, the Arctic Gas Pipeline system would most likely be selected over the El Paso LNG System.

- . The LNG System would result in considerably higher transportation cost than would the pipeline system.
- . The LNG System would be based on a relatively new technology scaled up to sizes not yet tried or proven, therefore, cost estimates cannot be as reliable as those for a more conventional pipeline.
- . According to El Paso's initial filing, the LNG System could not be ready to deliver gas as early as a Pipeline System.
- . The economics and design of the LNG System are such that phasing in gas production up to full design levels over several years, as may well be the case, would be prohibitive in view of the anticipated low return on investment at reduced load factor operation.

- . Future expansion of an LNG System consisting of such large components would be more difficult and more costly than it would be for the Pipeline System.
- . The LNG liquefaction plant site would be in the very active earthquake zone along the southern Alaskan coast.
- . In the event of catastrophe, a pipeline with its dispersion of facilities is more easily and quickly reinstated to service than is a liquefaction facility or LNG tanker, particularly where all of the facilities are concentrated in one plant and the tankers are often docked at the adjacent marine terminal.
- . The LNG System is dependent upon the displacement "theory" for transferring the gas from the Westcoast to the rest of the United States. Alaskan oil production and transportation is already experiencing difficulty with a similar concept.
- . The cost of service for the LNG System would be more sensitive to future inflation than it would be for the Pipeline System because of the higher percentage of labor in the LNG System operating costs.
- . The LNG System, under optimistic assumptions, would consume nearly twice as much gas as would a Pipeline System for delivering a comparable volume.
- . The LNG System has apparently failed to gain the political and industrial support needed to assure a timely implementation of an arctic gas delivery system.

In summary, it is improbable that the El Paso LNG System will be selected for arctic gas delivery to the lower U. S. because it fails to offer the same degree of reliability, security, expansibility, timely implementation, economic and geographic benefits as does a Pipeline System.

If By Land. Which Route?

Although the Pipeline System is and should be the preferred method of transporting arctic gas from Prudhoe Bay to the lower U. S., the proposed Arctic Gas Pipeline route from Prudhoe Bay and Mackenzie Delta to the U. S. is not necessarily the preferred route. The alternative, now being supported by Northwest Pipeline Corporation for a pipeline traversing the Fairbanks Corridor, has been given considerable attention and the facts brought to light suggest that it offers the most rational, economic and feasible method of coming near satisfying the majority of the interests in a manner that is beneficial to the consumers and the economy in Alaska as well as the lower U. S.

What the Federal Power Commission says:

The environmental staff of the Federal Power Commission, after an in depth review of the environmental data and analysis, arrived at the following conclusions in regard to the El Paso LNG and Arctic Gas Pipeline Systems as reported in the Final Environmental Impact Statement:

Although the Arctic Gas Pipeline proposal is more environmentally preferable to the El Paso LNG proposal, it was strongly recommended that neither proposal be approved, but rather that the Fairbanks Corridor route, exclusive of the Mackenzie Delta lateral, was the preferred route for delivery of Prudhoe Bay gas. In addition, if Mackenzie Delta gas becomes available, it was suggested that the Foothills Pipe Lines Ltd. project could be constructed for delivery of that gas to existing West-coast Transmission Company and Alberta Gas Trunk Line facilities.

What the Department of the Interior says:

The Department of the Interior has submitted their Final Environmental Impact Statement in which they have made direct comparison of the various

alternative routes proposed for the Arctic Gas System. Although not specifically recommending any particular route, this report reveals that a pipeline constructed along the Fairbanks Corridor route would pose the least detrimental environmental impact. In addition, it has also received favorable economic analysis from the Department of Interior.

What the Environmental Groups say:

In prepared testimony before the Senate Committees on Interior and Commerce, both the Environmental Policy Center and the Wilderness Society have come out with strong support for the Fairbanks Corridor route alternative.

The Fairbanks Corridor Route

All of the foregoing discussion relating to the Fairbanks Corridor alternative has been based upon that alternative as presented by the Alaskan/Canadian Arctic Gas Pipeline applications. A major economic and environmental improvement could be made to the Fairbanks Corridor Route, as presented, by utilizing existing Canadian pipelines in Alberta and British Columbia instead of constructing an entirely new system across Canada.

The Fairbanks Corridor Pipeline System proposed by Northwest, as illustrated in Figure 1, would be designed to transport Prudhoe Bay gas through a 42" pipeline parallel to the Alyeska pipeline system from Prudhoe Bay to Delta Junction. From Delta Junction to Fort Nelson, B. C., the pipeline route would be adjacent to the Alcan Highway. At Fort Nelson, a portion of the gas would be diverted into expanded Westcoast Transmission Company, Ltd. facilities for delivery to Sumas, Washington. The remainder of the gas would be transported via a 36" pipeline from Fort Nelson to Zama Lake, Alberta, for delivery to Empress through expanded facilities of Alberta Gas Trunk Line, Ltd.

The Mackenzie Delta gas, when available, would be transported by the proposed Foothills Pipe Lines, Ltd. 42" pipeline system from Mackenzie Delta to the 60th parallel, where it would deliver gas to the proposed Alberta Gas Trunk Line (Canada) system which would connect to the existing Alberta Gas Trunk Line system at Zama Lake. The connection at Zama Lake would supply Mackenzie Delta gas to the expanded Alberta Gas Trunk Line system and, through an exchange with Prudhoe Bay gas, the expanded Westcoast Transmission Company system.

The tremendous advantages of this proposed arctic gas delivery system arises from the large scale use of existing roadways, rights-of-way, utility corridors and Canadian pipeline facilities. It is to this pipeline system, as described above, that the following advantages are ascribed:

- . Lowest investment for delivering Prudhoe Bay gas to the United States. (Figure 2)
- . Lowest transportation cost for delivering Prudhoe Bay gas to the United States. (Figure 2)
- . Supported by federal and private environmental groups.
- . Year-round construction possible in some areas; up to 9 months most areas.
- . Earliest completion and delivery date - three years from date of permit receipt.
- . Provides economic growth base for Alaskan interior (Fairbanks).
- . Can be designed for economic operation at the lower gas production rates realistically expected during the first few years of production.
- . Permits economical phasing in as additional gas supplies develop along the north slope. (Mackenzie Delta gas via Foothills Pipe Lines)

- . Reduced cost and phased construction enhance financibility.
- . Proven 42" pipeline technology assures greater reliability.
- . More conventional pipeline construction lends itself to competitive bidding and more reliable cost estimates resulting in fewer cost overruns.
- . Only approximately 65 miles of highly sensitive, non-stable, fragile soil to be traversed as compared to approximately 460 miles of similar conditions along the Arctic Gas Pipeline prime route.
- . Crosses several potential gas fields within the State of Alaska.
- . Follows existing all weather roads and utility corridors.
- . Year-round access to all areas in event of emergency.
- . Potential for sharing operating costs with Alyeska.
- . Avoids the uncertainties regarding the Canadian Native Claims Settlement issue.

In short, the Fairbanks Corridor Pipeline System, as proposed by Northwest, has many of the advantages of both the Arctic Gas System and Trans-Alaska LNG System with few of the disadvantages of either system.

It is timely, in light of the Department of Interior's and FPC's environmental Statements, to commence prosecution of a formal application for the Fairbanks Corridor Pipeline System. Planning and preparation of an application with the FPC to construct and operate a pipeline system along the Fairbanks Corridor route in Alaska has commenced and Northwest has received the cooperation of Westcoast Transmission Company, Ltd., and Alberta Gas Trunk Line Company, Ltd. in planning for the transportation of the gas through Canada. Northwest has also received the support of the major natural gas distribution companies serving the Pacific Northwest region for this project.

In the event that a satisfactory commitment of Alaskan royalty gas is made to Northwest, an application will be submitted within three months of the commitment date.

FIGURE 1

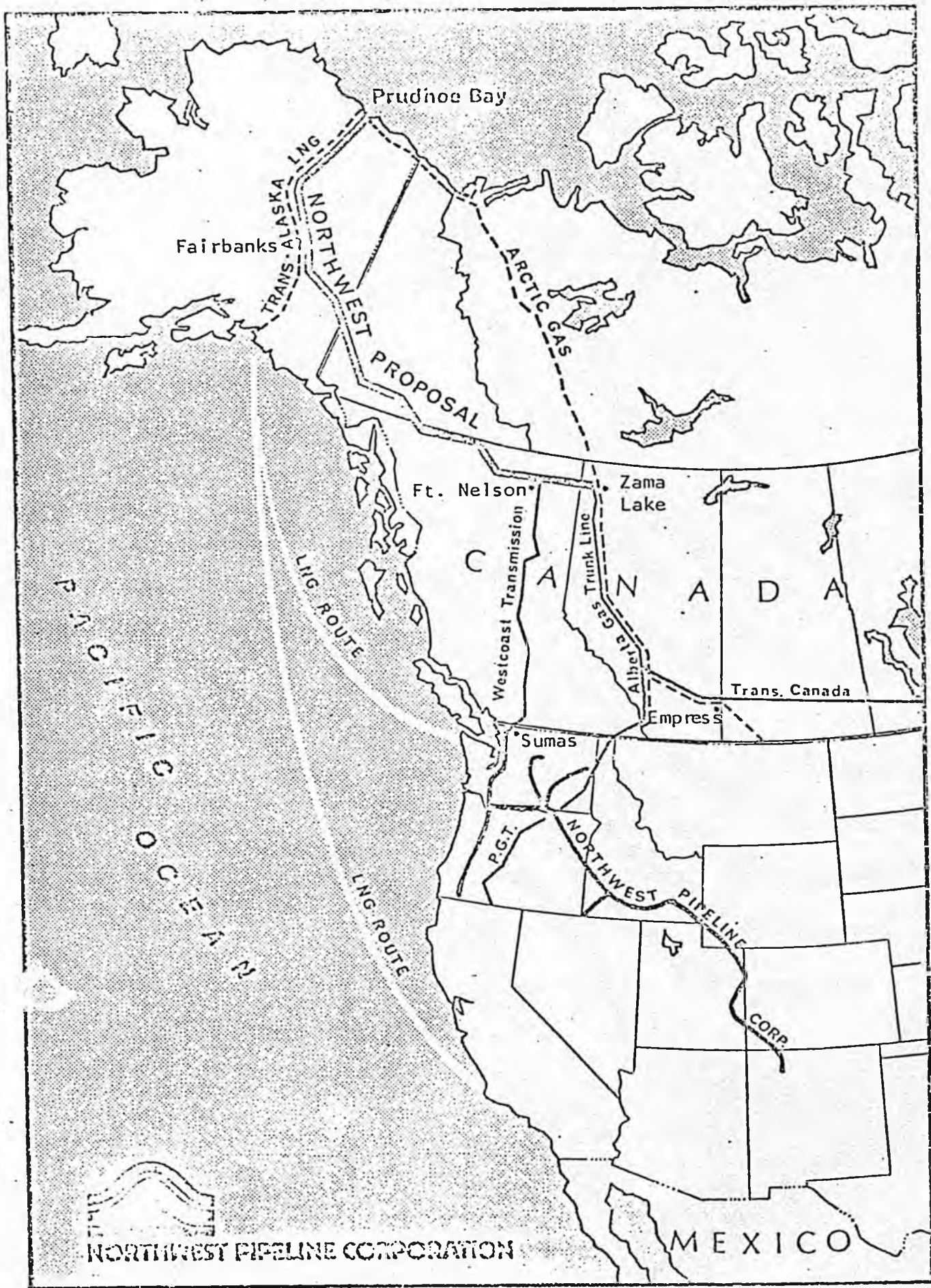


FIGURE 2

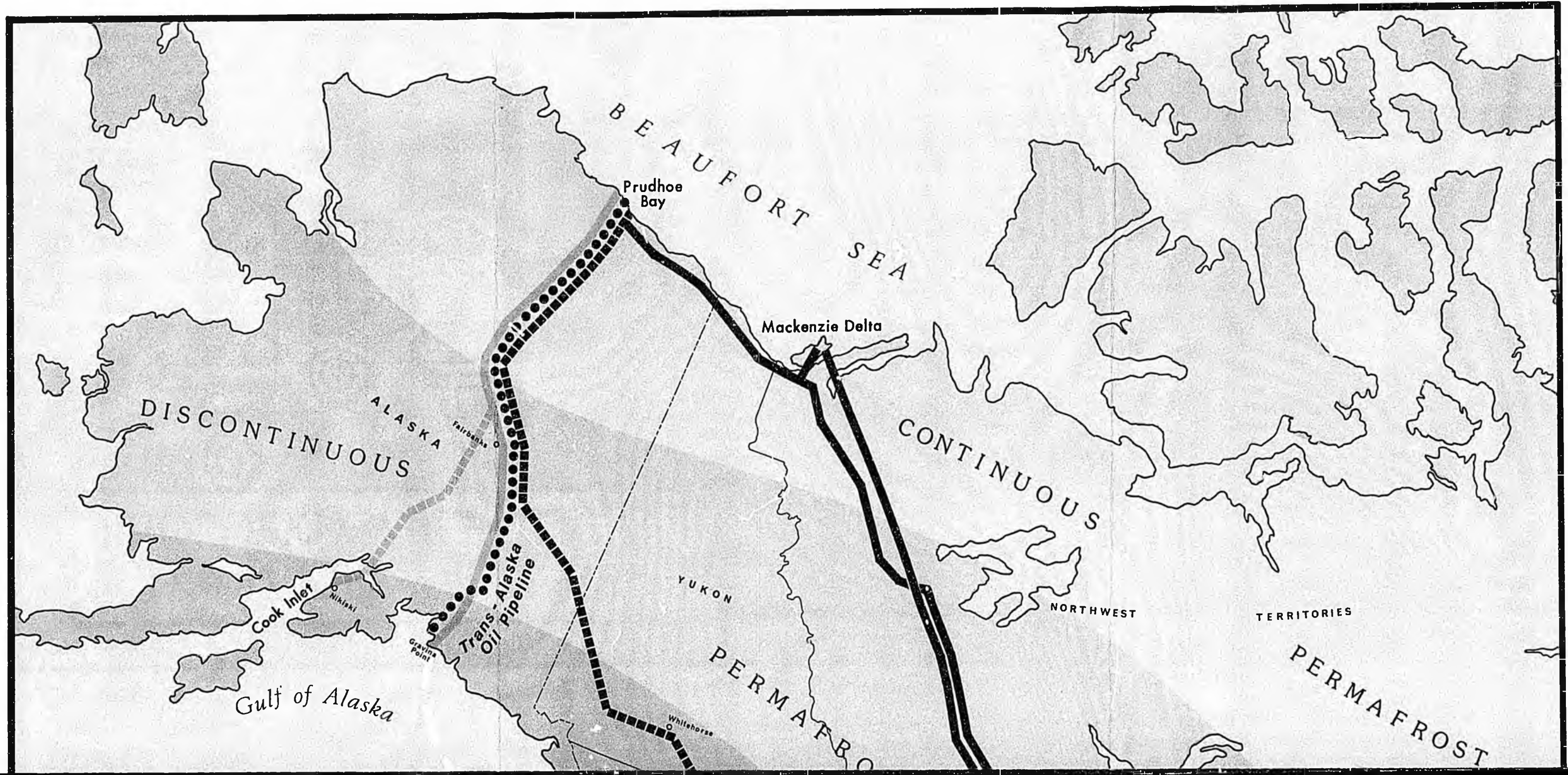
ARCTIC GAS DELIVERY SYSTEMS













COST COMPARISONS

	<u>El Paso LNG</u>	<u>Arctic Gas Project</u>	<u>Northwest Fairbanks Corridor Prudhoe Bay only</u>	<u>Prudhoe & Delta</u>
Volumes (Billion Cubic Feet Per Day)				
Prudhoe Bay Supply	3.2	2.25	2.4	2.4
MacKenzie Delta Supply	-	2.25	-	1.6
Delivered to U. S. Border	2.8	2.1	2.2	2.2
Capital Investment (\$ Billion)				
1975 Constant Dollars	\$7.62	\$6.68	\$4.65	\$6.84
Unit Transportation Cost (\$ per MMBtu)	\$1.48	\$1.04	\$1.00	\$1.02

The volume, investment and unit cost data shown above for the Arctic Gas Project and the Northwest Fairbanks Corridor reflects the facilities for deliveries at Sumas, Washington or Kingsgate, British Columbia for gas destined for U. S. western regional markets, and at Empress, Alberta for deliveries through Saskatchewan to the U. S. mid-western and eastern regions. The facilities for delivery from Empress, Alberta to mid-western and eastern U. S. markets would be the same with either project. The figures shown for the El Paso LNG Project are for delivery of the gas to the first pipeline interconnection in California, after regasification. The facilities and costs required for displacement within the U. S. have not been included.

The unit transportation costs for the Arctic Gas Project and the Northwest Fairbanks Corridor are for delivery at Kingsgate, British Columbia and Sumas, Washington, respectively. These costs are for the third year of operation and do not include the cost of purchased gas or fuel.



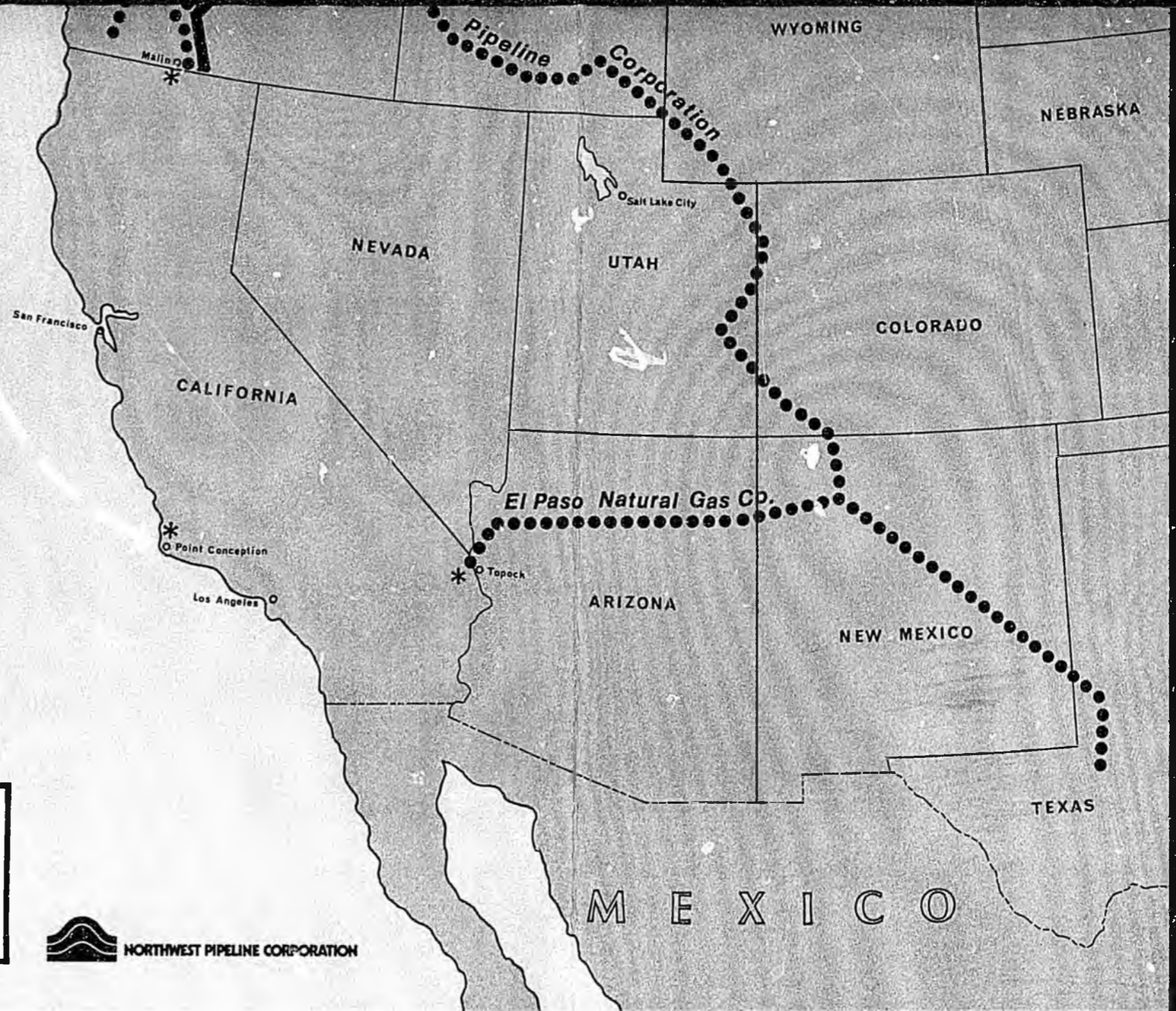
	Canadian Arctic Gas Pipeline (prime cross delta route)	2001 281 236 158 Tot. 2676	48 30 42 36	X X X X	Prudhoe Bay to Caroline Jct. Caroline Jct. to Kingsgate Caroline Jct. to Empress Empress to Monchy
	Fairbanks Corridor Pipeline (FPC Staff alternate)	1510 140 Tot. 1650	42 36	X X	Prudhoe Bay to Ft. Nelson Ft. Nelson to Zama
	Alberta Gas Trunk Line	N/A	N/A	X	loop existing AGTL
	Westcoast Transmission Co.	N/A	N/A	X	loop existing WTC
	Trans-Alaska Gas Pipeline (present proposal)	809	42	X	LNG Terminal at Grina Pt.
	Trans-Alaska Gas Pipeline (FPC Staff alternate)	759	42	X	LNG Terminal at Nikiski
	Foothills Pipe Lines	817	42	X	
	Alberta Gas Trunk Line	81 695 29 Tot. 805	42 42 36	X X X	Zama to Foothills loop existing AGTL loop existing AGTL
	Alberta Natural Gas Co.	102	30	X	loop existing ANG
	West coast Transmission Co.	141 175 Tot. 316	30 36	X X	Ft. Nelson to Foothills close loop on existing WTC
	Pacific Gas Transmission	283 330 Tot. 613	30 36	X X	Kingsgate to Stanfield Stanfield to California border
	Existing Pipelines (as shown on map)	N/A	N/A	X	does not denote number of multiple or looped lines

*Arrangements for distribution have not been finalized.

March, 1976

PROPOSED ARCTIC GAS DELIVERY SYSTEMS

1900 Nautical Miles
LNG Tanker Route



 NORTHWEST PIPELINE CORPORATION



PACIFIC OCEAN

OCEAN

NORTH

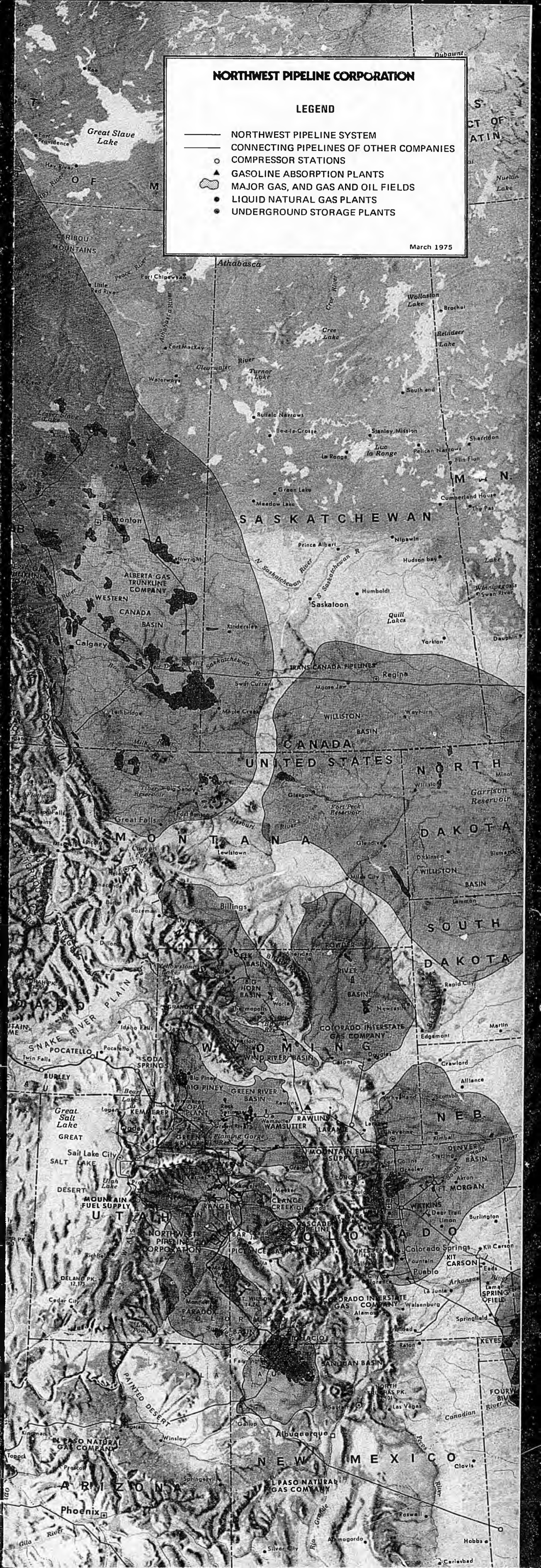


NORTHWEST PIPELINE CORPORATION

LEGEND

- NORTHWEST PIPELINE SYSTEM
- CONNECTING PIPELINES OF OTHER COMPANIES
- COMPRESSOR STATIONS
- ▲ GASOLINE ABSORPTION PLANTS
- MAJOR GAS, AND GAS AND OIL FIELDS
- LIQUID NATURAL GAS PLANTS
- UNDERGROUND STORAGE PLANTS

March 1975



The Case for Committing ⁵
Alaska State Royalty Gas
from the North Cook Inlet
gas field to Alaska Pipeline
Company ("Anchorage Natural
Gas")

Presented to the Royalty Board
on November 10, 1975

TAB
NUMBER

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V	Copies of Prior Correspondence
VI	General and Miscellaneous Comments

Introduction

Alaska Pipeline Company and its distribution affiliate Alaska Gas and Service Company, Division of Alaska Interstate Company, collectively known as "Anchorage Natural Gas" have requested to purchase the State's 1/8 royalty share of the North Cook Inlet gas field, which is operated by Phillips Petroleum Company. In response, Anchorage Natural Gas has been requested to appear on November 10, 1975 to discuss this matter with the Royalty Board. This memorandum is submitted as advance information to the Royalty Board and for their convenience in considering the matter.

Summary

Anchorage Natural Gas (ANG) is the most logical choice of any potential purchaser of North Cook Inlet royalty gas, because:

1. ANG is prepared to accept delivery of this gas immediately, on an "if and as available" basis, and at the same price the State now receives for this gas while it is being liquefied and shipped to Japan.

Assuming that delivery to ANG can be made by "exchange," there would be no necessity for capital expenditure for new pipelines or other facilities at present.

2. ANG would utilize this gas as part of its gas supply for its entire service area, from Kalifonsky to Eklutna, and thereby be able to provide improved assurance of the availability of natural gas to all its customers, and at lower cost to ratepayers than is possible through any other alternative known to ANG.
3. Without this gas, ANG may not be able to continue serving the Bernice Lake power plant of Chugach Electric Association, or, if an alternate source is found, then the cost to ANG's customers is likely to be very substantially more than would apply to purchase of State royalty gas. Thus, ANG's purchase of State royalty gas will be of material benefit to ANG's residential and commercial gas customers, and of even greater benefit to Chugach Electric Association and all its customers from Homer to Talkeetna. More than 50% of Alaska's population would be affected, either as gas consumers or as power customers, and thus nearly all of $\geq 50\%$ Alaska's taxpayers would be benefited.

For the reasons given, ANG requests the Royalty Board to give ANG highest priority as a prospective purchaser of State royalty gas from the North Cook Inlet gas field, and to recommend such an arrangement for priority action in the next legislative session. Export of this gas, whether to Japan or elsewhere, is not in the best interest of Alaska's citizens.

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I. ANG's Need for Additional Gas Reserves

ANG has two gas supply contracts at present. First, the "Anchorage" contract has committed a total of 550 BCF (billion cubic feet) from January 1, 1972 through December 31, 1992, delivered at a master meter in the Kenai gas field. This contract provides 160 million cubic feet per day of deliverability through 1985, and thereafter a deliverability of 1-1/3 times the "average daily" reserves remaining. The price for this gas is:

22¢ per MCF through December 31, 1975

24¢ per MCF 1/1/76 through 12/31/80

27¢ per MCF 1/1/81 through 12/31/85

* "Area Price" 1/1/86 through end of contract

* Area Price is related to sales to third parties in the vicinity of Cook Inlet, as defined by the contract.

In addition to the foregoing contractual price schedules, ANG pays 19.5¢ per MCF for deliverability of 160 million cubic feet per day, escalated each January 1 by the ratio of the Wholesale Price Index (WPI) for November 1975 divided by the WPI of November 1974. Thus, effective January 1, 1976 ANG will pay 24¢ plus 19.5¢ plus the (estimated 1¢) WPI escalation or 44.5¢ per MCF, for a deliverability of 160 million cfd and take-or-pay of 72 million per day (annual average).

ANG's second gas contract (both are with Union and Marathon as equal partners) is called the "Nikiski" contract. It provided 10 million cfd of deliverability, 10 BCF of reserves, and was for 10 years ending May 1, 1977. Delivery is at ANG's choice of three pipeline taps on Union-Marathon's 20" pipeline between the Kenai gas field and the industrial area on the North Kenai Road. At the current level of sales, the 10 BCF of reserves will be exhausted in 1976, prior to the end of the contract term. ANG has several hundred residential and commercial customers on the North Kenai Road, but by far the greater share (90% or more) of this gas is sold to the Bernice Lake power plant of Chugach Electric Association.

Because of the impending early exhaustion of the "Nikiski" contract reserves, and because of the need to obtain additional reserves for the "Anchorage" area, ANG wrote to Union, Marathon, Phillips, and Shell to inquire for a total of 75 BCF over a 15 year period. The only written response was from Shell, who said they had no uncommitted gas available for sale to ANG. Phillips responded in a telephone conversation that since the North Cook Inlet gas was in part potentially committed to

Northwest Natural (Portland) and since both Portland and Pacific Lighting (Los Angeles) were "negotiating" for the State royalty from this field, Phillips could not offer any to us. No response has been received from Union or Marathon other than an informal reaction that 75 BCF is an unreasonably large amount of reserves for us to request in the circumstances.

The information that the gas companies in Portland and Los Angeles are attempting to obtain the State royalty gas from the North Cook Inlet gas field accentuated ANG's interest in the royalty gas and its approaches to the Alaska Department of Natural Resources which has led to this presentation.

ANG's information is that a wellhead value of 45¢ per MCF applies to Phillips' purchase of State royalty gas for its LNG export to Japan. This price is net of 5.45¢ per MCF transportation cost from the platform to the LNG plant, so that a price of 50.45¢ per MCF is in effect for gas delivered at the LNG plant. This is the price ANG contemplates paying for royalty gas from the North Cook Inlet gas field.

ANG has made several other efforts to obtain additional gas reserves. First, it has tried to purchase surplus gas which is now committed to the gas company at the City of Kenai, with no indication of interest in response. Second, ANG inquired to purchase gas now being flared at the Swanson River oil field as a safety measure. This was declined as being "temporary." Third, ANG is negotiating to purchase gas from a well which is controlled by Mike Halbouty ("West Fork"). The deliverability and reserves from this well are probably negligible in relation to ANG's requirements, however.

ANG is aware of the "going price" for intrastate gas sales in areas such as Texas, and has hoped that it could avoid such pricing and make the best possible purchase by applying for the North Cook Inlet royalty gas, as it has done.

Quite apart from the urgent need for gas to replace the "Nikiski" contract, ANG must maintain a supply of reserves related to the term outstanding on its long term financing. When the reserve life falls below the financing term remaining, ANG will have to pre-pay installments on this long term debt, as it had to do in 1970-71 prior to obtaining the current reserve commitment.

The tables and graphs attached present the historical trends and the range of future gas sales. It is clear that if present trends continue, ANG will face pre-payment in 1980 and thereafter unless additional supplies can be secured. It is with that fact in mind that ANG has formed a subsidiary corporation, Gas Supply Corporation of Alaska ("GASCOA"), to explore for natural gas in the vicinity of Anchorage. ANG has invested more than \$500,000 to date in this activity, and has drilled (with others) an exploratory well on acreage at the mouth of the Big Susitna River. Although this well was plugged and abandoned, it did not condemn the area, and further exploration is contemplated as time and financing permit.

ANG cannot be complacent about its future need for gas, even without considering the exhaustion of its "Nikiski" contract reserve commitment. But that urgent problem requires early and positive action, because the gas supply there will last less than a year. The North Cook Inlet royalty gas is seen to be the ideal and only realistic solution to that immediate problem, and helpful to ANG's long term reserves needs as well.

II

II. Reasons for Requesting North Cook Inlet Royalty Gas

North Cook Inlet royalty gas is interchangeable with Kenai gas field gas, as may be seen by the fact that the two streams are blended (in a 70/30 ratio) as feedstock to the Phillips-Marathon LNG plant on the North Kenai Road. Both fields are essentially pure methane. All the necessary pipeline systems exist to allow an "exchange" to be made so that ANG could "receive" the royalty gas at the Kenai gas field. Such exchanges already are being made by the operators (Phillips, Marathon, Union). ANG can easily agree to "take" whatever royalty gas may be produced at the North Cook Inlet gas field, day by day, without requiring any investment by either of these operators. At the times such deliveries from the North Cook Inlet gas field might be limited temporarily by production facilities or by pipeline facilities, ANG could "work within" (exchange correspondingly less) that limitation, day by day. Alternatively, ANG could readily agree to take the full 1/8th royalty share each and every day if that were preferred by the operators (Phillips, Marathon, Union). When pipeline facilities from the North Cook Inlet may permanently limit its capacity to deliver the royalty gas, ANG could participate in the cost of compressors or additional pipeline necessary to maintain the delivery.

While the "exchange" described above is the only rational and reasonable method of implementing ANG's purchase of royalty gas, ANG could, if necessary, construct a pipeline to deliver the royalty gas into its pipeline to Anchorage. Obviously it would appear to be unnecessary and ludicrous for ANG to be hauling royalty gas south along the North Kenai Road while Union-Marathon is hauling identical gas north along the same road. Thus the "exchange" would be in the public interest, and in the mutual best concern of all the operators.

No other royalty gas is so readily available or really available at all, to ANG. Royalty at the Kenai gas field cannot be taken by ANG to advantage, since this was considered and such limitations are contained in ANG's contract at the Kenai gas field. If ANG does not take North Cook Inlet royalty gas it will be exported to Japan or to Portland or to Los Angeles. ANG's use of this gas to serve its Alaskan gas customers cannot be regarded as being less appropriate than these export arrangements, provided ANG pays no less than exporting the gas would have paid.

III

3

III. Proposed Price, Escalations, Total Volume,
Annual Volume, Contract Term, Deliverability, and
Transportation

(a) Price and Escalations

ANG proposes to pay to the State the same price which the State otherwise would have received from (Phillips') export of the North Cook Inlet royalty gas to Japan, for the duration of that export and thereafter not less than

- (1) the average price in effect during the last full year prior to termination of the export contract, and not less than
- (2) the price in effect, from year to year, for gas purchased by ANG at the Kenai gas field (from Union-Marathon)

(b) Total Volume, Annual Volume, Contract Term, Deliverability

ANG proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year. ANG understands that at current production rates, approximately 15,000 MCF per day, or 5.5 BCF/year, would be available. AGAS would not, however, require any particular amount by day or by month or by year or in total. ANG contemplates that its commitment to purchase North Cook Inlet royalty gas would be for the life of production and probably at least 15 years, so that about 75 BCF would be available. ANG also understands that at present the maximum daily royalty production is about 20,000 MCF, related to a condition in which North Cook Inlet gas is supplying the entire input to the LNG plant, which would be unusual and temporary, since the contractual arrangement is for 70% North Cook Inlet gas and 30% Kenai gas to the plant.

ANG has adequate deliverability under contract at the Kenai gas field, and contractual ability to interrupt, so that it does not require a deliverability feature to be part of an agreement to purchase royalty gas -- ANG can take royalty gas on an "if and as available" basis. If, for the convenience of the operators (Phillips or Marathon or Union), a specified daily quantity should be desired, such as 15,000 to 20,000 MCF per day, ANG could so agree.

(c) Transportation

ANG proposes that transportation of the royalty gas would be by Phillips, to the LNG plant site, at the present amount which is understood to be 5.45¢ per MCF. ANG understands that as field pressure will decline during the life of the field, compression will become necessary and will cause additional cost for transportation. ANG further recognizes that compression may also become necessary as a result of increased throughput at the LNG plant whether as a result of increased plant loading or as a result of expansion of the LNG plant. ANG would expect to contribute its proportionate share of such additional transportation cost either by participating in the necessary investment or by compensating Phillips appropriately if Phillips makes the entire investment. ANG proposes that it should have the option of making the capital contribution or paying a higher transportation charge, to assure that Phillips is fairly compensated, without controversy.

III

21 22 23

IV

IV Question of (hypothetical) "possible subsidization of Anchorage gas consumers at state taxpayers' expense" (Raised in Mr. Fackler's letter of October 15, 1975)

ANG believes that its offer, to pay the same price the State would otherwise receive from Phillips on the sale of the royalty gas for export to Japan, precludes any suggestion of "subsidization," particularly in view of ANG's further proposal to pay not less than the "area price" in the event the export to Japan is terminated. ANG further believes that it would not be in the public interest for Anchorage gas consumers to sustain a higher price for this royalty gas than would be payable on its export to Japan, although ANG understands that competitive bidding might result in a higher price than the price for export to Japan.

ANG contemplates that if the State were to deny ANG's offer to purchase the North Cook Inlet royalty gas on the terms described above, and to invite competitive bidding for this gas in the hope of realizing a higher price, severe complications might arise which would delay or prevent the consummation of such a sale. As an example, Phillips-Marathon have been attempting to sell their gas from this field to the gas company in Portland, Oregon for several years, but have not resolved the matter of jurisdiction by the Federal Power Commission (FPC) since the sale involves interstate commerce.

A sale of royalty gas in interstate commerce would have the same regulatory character, and involve the same jurisdiction by the FPC. A sale to ANG, however, does not involve the FPC in any way, being intrastate.

Aside from the regulatory problem, there easily could be other problems with an interstate sale, such as the need for additional drilling to "prove" the reserves or deliverability; additional pipeline facilities to assure delivery to the LNG plant; and possibly additional LNG storage facilities. All of these problems could require negotiation by the several parties (Phillips, Marathon, State, and the high bidder). Investment for new facilities would require time for engineering and design - which would not be required for ANG's purchase of the gas for pipelining to Anchorage and use by the Bernice Lake power plant and ANG's other customers on the North Kenai Road.

ANG believes that the possible benefits of a higher price through competitive bidding would be more than outweighed by the timeliness and appropriateness of ANG's purchasing this gas for use in Alaska, by the avoidance of regulatory problems (FPC), and by the relatively simple negotiation which ANG's proposal would entail. ANG believes that the suggestion of "subsidization" is illusory and that in fact ANG's proposal will be beneficial to all Alaskan taxpayers as well as Anchorage gas consumers, in that ANG's proposal can be implemented immediately upon approval by the Royalty Board and the legislature, if the parties can agree as described. This would result in increased production of natural gas and thus more income to the State, at the earliest possible date.

V

LIST OF COPIES OF CORRESPONDENCE

1. August 1, 1975 Letter to Chugach
2. August 1 Letters to Union, Marathon, Phillips, Shell
3. August 20 Letter to O.K. Gilbreth
4. August 25 Letter and Memo of August 22 to Alaska Public Utilities Commission
5. September 4 Letter from Shell Oil Company
6. September 24 Memorandum to Commissioner Martin
7. September 29 Letter to Standard Oil of California
8. September 30 Letter to Commissioner Martin
9. October 10 Letter from Standard Oil of California
10. October 15 Letter from W.C. Fackler (Invitation to Royalty Board Meeting, Nov. 10)



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

August 1, 1975

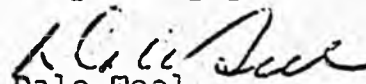
Chugach Electric Association, Inc.
8th and Gambell
Anchorage, Alaska 99501

Gentlemen:

It has just come to my attention this week that our supply of gas which we deliver to you at the Bernice Lake power plant is diminishing at a rate which is cause for serious concern and requires the earliest and best possible attention. Although our contract for the supply runs to May 1, 1977, your continuing heavy use of this plant this year may exhaust the remaining reserves during this coming winter. Based on your purchases to June 30 this year, we have well less than a one year supply remaining under contract. We assume that when you activate the new land line to Wasilla and complete your cable repairs, your requirement to operate Bernice Lake will be substantially reduced, but in the event this does not occur we could have a critical situation (as to a contractual supply only--not physical) this winter. At any rate there is an early requirement for us to make new arrangements for this supply and we wanted you to be so advised so that you could consider the availability of oil which you used during the years of operating this plant prior to its use of gas.

We have notified our suppliers regarding this matter and hopefully they may be able to expedite their consideration at least for a short term solution. As you know, however, at the moment we are operating without "flow through" provisions and in fact without a definite rate structure. It may be that we will be unable to consummate agreement for additional gas, even for a short term, until these matters are resolved. We have appealed to the APUC for reinstatement of the "flow through" provisions, and informally for a permanent rate structure, hoping for a favorable decision. We would then proceed immediately on the matter of reserves to supply Bernice Lake. But we may have to consider other action, even interruptions, due to regulatory or legal developments. We will, of course, keep you advised on this matter, and we regret that we have not had time in recent months to review such important matters with our staff continually.

Very truly yours,


Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission

DIVISION OF ALASKA INTERSTATE COMPANY



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Union Oil Company of California
P.O. Box 7600, Union Oil Center
Los Angeles, California

Attention: Mr. Larry Bradford

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977 and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year, 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Bart Emery, Marathon, Findlay, Ohio



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Marathon Oil Company
539 South Main Street
Findlay, Ohio

Attention: Mr. Bart Emery

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Larry Bradford, Union Oil, Los Angeles



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 98502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Phillips Petroleum Company
Phillips Building
Bartlesville, Oklahoma 66600

Attention: Mr. John Horn

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering out requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Shell Oil Company
Alaska Mutual Savings Bank Building
Anchorage, Alaska

Attention: Mr. Tom Cates

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd



Feel (Union)

ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

Mr. O. K. Gilbreth, Director
Division of Oil and Gas
State of Alaska
Department of Natural Resources
3001 Porcupine Street
Anchorage, Alaska 99504

Dear Easy:

We have a gas supply contract with Union-Marathon for 10 BCF on the Kenai North Road which expires May 1, 1977. Due to accelerated sales to Chugach Electric's Bernice Lake power plant this year, it appears the entire reserve quantity could be used up within less than one year from now, and we are soliciting a replacement supply of gas to serve Chugach and our other customers on the Kenai North Road.

We are in a position to commit to take more than our North Road requirements, however, and would like to offer to purchase the State's royalty share of Phillips' production from North Cook Inlet, delivered to a metering point near the Phillips-Marathon LNG plant on the Kenai North Road. The excess above our Kenai North Road sales would be used to displace deliveries by Union-Marathon to us at the Kenai gas field, and thus serve to prolong the adequacy of our reserve commitment at the Kenai gas field. We are not certain as to whether or not the displacement can be made "on paper," or whether we would be required to lay a pipeline to connect into our Anchorage pipeline either at or near the Kenai gas field or at or near our compressor station east of the Kenai River.

Please consider this letter to be an application to purchase royalty gas as described, pursuant to AS 38.06.010. Since limited time is available to do any necessary construction, we hope all procedural requirements can be determined readily. We would anticipate paying the State the same price it would have received from Phillips, which we believe to be 45¢ per MCF plus 5.45¢ transportation fee, as compared to the current 41.5¢ cost of gas (and deliverability) at the Kenai gas field.

ALASKA PIPELINE COMPANY

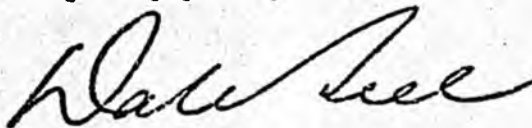
ANCHORAGE, ALASKA

Mr. O. K. Gilbreth
August 20, 1975
Page Two

We are relying on approval by the Alaska Public Utilities Commission for us to "flow through" the increased cost of gas to Chugach's Bernice Lake power plant and to "meld" the (higher) cost royalty gas with the (lower) cost Kenai field gas, on a day-to-day basis, since the amount of royalty gas we would receive would depend on the rate of production of the Phillips-Marathon LNG plant and be outside our control. When this plant is down for any reason, we would be utilizing Kenai field gas as replacement.

Please advise regarding any questions or further procedure we should follow in presenting a formal offer to the State.

Very truly yours,



Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P.O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-8881
TELEX 25-187

August 25, 1975

Alaska Public Utilities Commission
1100 MacKey Building
338 Denali Street
Anchorage, Alaska 99501

Gentlemen:

The enclosed "Memo to File" (August 22, 1975) was prepared for discussion with the APUC or staff, in connection with our filing for reinstatement of our tariff section "708," (purchased gas cost adjustment). It illustrates the effect this section would have on various gas rates in the event we were successful in obtaining the state royalty gas which we have proposed to buy.

Also enclosed are a map of the Upper Cook Inlet and copies of our letters of August 1 and August 13 to Phillips. It is intended that the enclosures are for the information of the APUC and staff, but would not become "public" information at present.

Very truly yours,

Dale Teel
President

DT:lv
Enclosures

Teel Chrono

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

August 22, 1975

Memo To: File

Subject: Intended Applicability and Operation
of
AGAS Tariff Section 708
Purchased Gas Cost Adjustment

AGAS now has a filing at the APUC for reinstatement of its Section 708, modified to the apparent (verbal) satisfaction of the APUC staff (Dwight MacCurdy and Bob Lindblom). AGAS is relying on approval of this filing at the earliest possible date because of its imperative need to be contracting for additional gas reserves, both for continued service to customers on the North Kenai Road (especially Chugach's Bernice Lake power plant) and to avoid (postpone) future problems with the provisions of AGAS' long term financing. AGAS' reserves to serve North Kenai Road customers could be exhausted during the winter of 1975-1976 if Chugach continues its current rate of consumption. Unless an alternate solution is developed, AGAS must require Chugach to interrupt the use of gas beginning in October 1975, through March 1976, to the maximum allowable by tariff (Schedule P1), which is 10 days per calendar month during those months.

AGAS' preferred solution is to apply for and obtain state royalty gas from Phillips' North Cook Inlet gas field, rather than to face the (unknown) price of new reserves from its present supplier (Union-Marathon) and rather than to consume, on the North Kenai Road, the reserves dedicated for the Anchorage area. Accordingly AGAS has offered the State the price of 45.0¢ plus 5.45¢ or 50.45¢ per MCF for royalty gas which the State in effect is now selling to Phillips and Phillips in turn is exporting to Japan. To do so, AGAS would expect to build about 35 miles of 8" pipeline at the earliest opportunity, along the Homer Electric power-line right-of-way, from the Phillips LNG plant to the AGAS (APC) Gudenrath compressor station. This pipeline initially could flow in reverse, supplying gas to North Kenai Road customers out of AGAS' (APC's) pipeline to Anchorage, but as soon as royalty gas becomes available, gas would flow from the North Kenai Road to the AGAS Anchorage pipeline. The amount of royalty gas is assumed to be $1/8 \times 70\% \times 140$ million cfd or 12.25 million cfd. Normally it is expected to run at a fairly steady rate, somewhat higher than 12.25, but it could go as high as 17 million, or as low as zero when the LNG plant is shut down. Thus the taking of royalty gas would introduce new dynamics into AGAS' transmission system. Similarly, as a result of these dynamics, AGAS' cost of purchased gas will be constantly varying and thus its rates to customers also will be constantly varying, depending on the mix of Kenai field gas and State royalty gas obtaining for a given month.

AGAS' tariff Section 708-Purchased Gas Cost Adjustment-was designed with the intent of application to such changing costs of gas: each month AGAS would determine its cost of gas for the prior month and would adjust its effective rates upward or downward to reflect the variation from the base price, which will be 43.5¢ after January 1, 1976.

Applying Section 708 in this way, the following examples are given:

1. Assume a summer load condition as follows:

Anchorage/Soldotna Market:	50,000,000 cf/day
North Kenai Road Market:	8,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (58 - 15 = 43) 43,000 MCF x 43.5¢ or	<u>18,705.00</u>

Total \$26,272.50

Average cost of 58,000 MCF is 45.297¢/MCF

After 1/1/76, all rates are based on gas cost of 43.5¢ (includes 2¢ escalation of 1/1/76, per paragraph 9, page 17 of Order No. 4, U-75-30). The average cost of gas above (45.30¢) less this base price of 43.5¢, is 1.8¢ effective increase which would "flow through" to all AGAS customers per tariffs and contracts. Thus, using the illustrated average rates given on page 19 of APUC Order No. 4, and adding the 2.0¢ escalation of 1/1/76, the "flow through" effect of applying Section 708 as described would be:

Schedule A:	157.08 plus 2.0 is 159.08; plus 1.8 is 160.88; 1.1%
B:	142.48 plus 2.0 is 144.48; plus 1.8 is 146.28; 1.2%
C:	102.58 plus 2.0 is 104.58; plus 1.8 is 106.38; 1.7%
*Chugach I-5:	73.78 plus 2.0 is 75.78; plus 1.8 is 77.58; 2.4%
**Chugach PI :	51.78 plus 2.0 is 53.78; plus 1.8 is 55.58; 3.3%
City Contract:	53.48 plus 2.0 is 55.48; plus 1.8 is 57.28; 3.2%
Military:	60.20 plus 2.0 is 62.20; plus 1.8 is 64.00; 2.9%

2. Assume an average winter load condition as follows:

Anchorage/Soldotna Market:	90,000,000 cf/day
<u>1/</u> North Kenai Road Market:	10,000,000 cf/day
<u>2/</u> State Royalty gas:	10,000,000 cf/day

Thus the cost of gas for this condition would be

10,000 MCF x 50.45¢ or	\$ 5,045.00
plus (100 - 10 = 90) 90,000 MCF x 43.5¢ or	<u>39,150.00</u>
. Total	\$44,195.00

Average cost of 100,000 MCF would be 44.195¢/MCF (say 44.20¢)
and rates would be 0.7¢/MCF increase over the base of 43.5¢/MCF.

As for Condition "1" described above, the effect of 0.7¢ per MCF increase would be as follows:

Schedule A:	159.08 plus 0.7 is 159.78; 0.44%
B:	144.48 plus 0.7 is 145.18; 0.48%
C:	104.58 plus 0.7 is 105.28; 0.67%
I-5:	75.78 plus 0.7 is 76.48; 0.92%
PI:	53.78 plus 0.7 is 54.48; 1.30%
City:	55.48 plus 0.7 is 56.18; 1.25%
Military:	62.20 plus 0.7 is 62.90; 1.13%

- 1/ The North Road Market is mostly Chugach's Bernice Lake power plant, thus there will not be much increase for winter over summer.
- 2/ The LNG plant operation is typically less in winter than summer due to slower passage of the LNG ships to/from Japan.

3. Assume a peak winter condition as follows:

Anchorage/Soldotna Market:	150,000,000 cf/day
North Kenai Road Market:	12,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (162 - 15 = 147) 147,000 MCF x 43.5¢ or	<u>63,945.00</u>
Total	\$71,512.50

Average cost of 162,000 MCF is 44.144¢, and rates would be increased 0.644¢ over the base of 43.5¢ per MCF. Effect on rates almost same as Condition "2" above.

4. Assume a summer condition such that LNG plant is at maximum operation, but Chugach Bernice Lake plant is shut down for repairs or other reason, and thus essentially all the State royalty gas would be entering the Anchorage system:

Anchorage/Soldotna Market:	40,000,000 cf/day
North Kenai Road Market:	2,000,000 cf/day
State Royalty gas:	17,000,000 cf/day

Thus the cost of gas for this condition would be

17,000 MCF x 50.45¢ or	\$ 8,576.50
plus (42 - 17 = 25) 25,000 MCF x 43.5¢ or	<u>10,875.00</u>
Total	\$19,451.50

Average cost of 42,000 MCF is 46.313¢, and rates would be 2.813¢ (say 2.80¢) over the base of 43.5¢ per MCF.

The effect on AGAS rates for this condition would be:

Schedule A:	159.08 plus 2.80¢ is 161.88; 1.76%
B:	144.48 plus 2.80¢ is 147.28; 1.94%
C:	104.58 plus 2.80¢ is 107.38; 2.68%
I-5:	75.78 plus 2.80¢ is 78.58; 3.69%
PI:	53.78 plus 2.80¢ is 56.58; 5.21%
City:	55.48 plus 2.80¢ is 58.28; 5.05%
Military:	62.20 plus 2.80¢ is 65.00; 4.50%

Condition "4" above is about the worst probable effect of royalty gas on AGAS' rates. Clearly the effect of such "worst conditions" is not such as to raise doubts as to the acceptability of applying AGAS' Section 708 to melding of State royalty gas with Kenai field gas. Only with Section 708 in effect can this melding be accomplished, and thus this Section is essential to AGAS' utilizing royalty gas (or any other new gas supply).

While the foregoing discussion indicates that APC would expect to construct a pipeline from the LNG plant site to the site of APC's Gudenrath compressor station, the more logical step would be to accomplish the "delivery" of the royalty gas by "paper exchanges" rather than physical transportation of the gas. Both North Cook Inlet gas and Kenai field gas are essentially pure (99% plus) methane and no adjustment for heating value or other quality aspect is necessary as a result of such "paper exchanges." The term "paper exchange" here means that with the consent and cooperation of all the parties involved, AGAS (APC) could pay to the State as if it were actually accepting royalty gas from the State, but in fact would continue to receive gas only as at present, at its Kalifonsky metering point, and on the North Kenai Road, produced at the Kenai gas field. The effect would be that AGAS would deduct from actual deliveries at the Kenai field meter an amount of gas equal to the royalty production for a month and would pay the Kenai gas field producers for the remainder. AGAS (APC) would continue to receive gas from these producers at the Kenai North Road at presently existing taps on their pipeline, and would add these deliveries to the "net" deliveries at the Kenai gas field for purposes of computing APC's "purchases" each month from the Kenai gas field. Then Marathon and Union Phillips could resolve the balancing of their records as follows:

- The amount of Phillips' royalty production (12.5% of Phillips' total) for a given period, probably on monthly scheduling, would displace Marathon's actual delivery to the LNG plant, and Phillips would increase its otherwise "share" (70% of plant input) to compensate, during the following month, or later in the year if preferred by the parties for their convenience.

Obviously, there would be a requirement for additional production (wells in operation) and transmission by Phillips, unless for economic reasons the additional productive capacity were to be installed at the Kenai gas field with appropriate cost reimbursement being made by Phillips to Union-Marathon.

Because of the anticipated complexities of having all the parties--Marathon, Union, Phillips, State of Alaska, and AGAS (APC) affirmatively cooperate in the above "paper exchange," this memo has presumed that a new pipeline and physical movement of the gas would be necessary. Hopefully there can be a negotiation to eliminate the need for such a pipeline, however.

From the total actual "takes," at the Kenai field meter plus the taps on Union-Marathon's pipeline on the Kenai North Road, would be deducted each year, the Phillips' royalty in order to determine the net usage of Kenai field gas against the contractual total of 550 million MCF. Guaranteed deliverability, now contracted at 160,000 MCF per day, would not be improved by the "paper exchange" alternative to a pipeline, while such a pipeline could improve deliverability, but only to the extent of royalty gas being available when needed, which would be coincidental and not within our control. However, this indefinite and debated improvement on deliverability resulting from the new pipeline would not alone justify the cost of the pipeline.

9-9-75



SHELL OIL COMPANY

601 W. 5TH AVENUE, SUITE 810
ANCHORAGE, ALASKA 99501

September 4, 1975

Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Subject Middle Ground Shoal Field
Associated Gas Reserves

Attention Mr. Dale Teel

Gentlemen:

Thank you for your letter of August 1, 1975, inquiring into the possibility of the purchase of gas at our North Kenai Road onshore facility. Unfortunately, our gas is committed on a long term basis to another buyer in the area and, therefore, we are not in a position to consider your proposal.

Should we be so fortunate as to develop new reserves in the Anchorage Basin, we would gladly entertain your proposition.

Very truly yours,

A handwritten signature in cursive script that reads "T. S. Cate".

T. S. Cate
Land Representative

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM

TO: Mr. Guy Martin
Commissioner of Natural Resources

FROM: Dale Teel

DATE: September 24, 1975

SUBJECT: Alaska Pipeline Company's Request to Purchase State Royalty Gas from the North Cook Inlet Gas Field ("Phillips")

Alaska Pipeline Company (APC) and its affiliate Alaska Gas and Service Company ("Anchorage Natural Gas") supply natural gas to 285 customers on the North Kenai Road and to the Bernice Lake power plant of Chugach Electric Association. The gas is obtained from the industrial pipeline which supplies the LNG plant, the Ammonia/Urea plant, and gas for reinjection into the Swanson River Oil field, and comes from the Kenai gas field (Union-Marathon), under a contract which runs to May 1, 1977. Due to unexpectedly heavy usage by the Bernice Lake power plant, the reserve quantity, 10 billion cubic feet (BCF), will be used prior to May 1, 1977, and at that point the contract will terminate. A contract extension and additional commitment of reserves has been requested of Union-Marathon, or the right to receive gas on the North Kenai Road which is committed for the Anchorage area under a separate contract. There has been little if any progress made on these requests thus far.

Alaska Pipeline Company's contract with Union-Marathon has a provision that if APC were to obtain royalty gas from the Kenai gas field, then the commitment of gas reserves by Union-Marathon (originally 550 BCF) would be reduced an equal amount, and thus in effect APC is barred from negotiating for royalty gas from the Kenai gas field.

APC has inquired for a commitment of gas from Phillips, with the (telephone) response that since Phillips' obligations to the gas company of Portland, Oregon are in suspense due to hearings at the Federal Power Commission and since the gas company at Los Angeles is attempting to purchase royalty gas from the North Cook Inlet gas field, Phillips is not clear to negotiate a commitment of reserves to APC. It is known also that the Portland gas company is requesting to purchase North Cook Inlet royalty gas (discussions with Governor Hammond).

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

APC has written to the State (letter to O.K. Gilbreth, August 20, 1975, attached) requesting to purchase the North Cook Inlet royalty gas at the price of 50.45¢ per MCF, which is the price which now applies to the royalty gas which Phillips utilizes for its LNG manufacture, which is known to be 45¢ wellhead plus 5.45¢ transportation. If this gas were to be offered to APC, APC could build a pipeline from the LNG plant to deliver the gas into its pipeline to Anchorage as well as to supply its North Kenai Road customers. Such a pipeline (approximately 35 miles of 8") could be built in the right of way now occupied by Homer Electric Association's power line from the Bernice Lake power plant to "Quartz Creek." However, construction of such a pipeline should not be necessary, because existing pipeline systems could be utilized to "exchange," or "displace," gas and the transaction could be made entirely on paper, continuing actual movement as at present, without change. North Cook Inlet gas is identical to Kenai field gas (the streams are interchangeable at the LNG plant), so adjustments can be made by volume only.

APC would appear to be the ideal customer for State royalty gas because it would "blend" (by price/rate adjustments) the higher priced royalty gas into its present supply, with relatively small impact on its rates to Alaskan gas users. APC has negotiated "deliverability" with Union-Marathon so that it is in a position to take none or the full royalty share of North Cook Inlet gas without placing its suppliers (Union-Marathon) in any hardship and without having to rely on constant or steady rate production from the North Cook Inlet field. In other words, APC could take the State royalty gas from North Cook Inlet if and as it is produced, without requiring "deliverability."

The foregoing description assumes that the producers (Union, Marathon, Phillips) and the State can readily agree to the "exchange" or "displacement" as indicated. If APC were to build the new pipeline so that the royalty gas actually were to be moved from the LNG plant to APC's pipeline to Anchorage, the same general situation would obtain as for displacement, but operation would be relatively complex since gas would have to move to or from the LNG plant in the new pipeline depending on whether or not the LNG plant were running and at what rate. It is anticipated that normally there would be adequate notice available so that flow rate and directional changes would be practical - in fact displacement could be utilized even with such a pipeline, to foster best scheduling by all the parties. Such displacement actually occurs already, from time to time, although it involves only the producers (Union, Marathon, Phillips) and, of course, does not affect APC or the State at present. The proposed displacement, either with or without a new pipeline being added, should be just as practical if the parties would so agree.

DT/js

enclosure

DALE TEEL
PRESIDENT

ALASKA PIPELINE COMPANY
P. O. BOX 6288
ANCHORAGE, ALASKA 99502

September 29, 1975

Mr. John Rowland
Standard Oil Company of California
3001 C Street
Anchorage, Alaska

Dear John:

I want to thank you for the courtesies extended to me Saturday, September 27, by Walt Larman at your Swanson River compressor plant. I met Ed Saltz there also, and renewed an acquaintance of 10 years or more ago, when he was assisting us in restoring gas service after the 1964 earthquake.

Naturally, I can't avoid thinking about possible uses for the gas now being flared as a safety measure at the plant. I can visualize various possibilities such as piping it into our pipeline to Anchorage, or to Soldotna, or to the North Kenai Road. We have a centrifugal compression unit at Mile 25 on our pipeline which might be adapted to handle this gas especially during the summer season, when it is not needed for capacity, and we have available an electric motor-driven reciprocating unit which could be installed at your plant. We need the gas and might be able to justify the 20 miles of pipeline if the gas were available "free," or nearly so, even without a commitment of deliverability or a reserves quantity -- in other words, "if and as available." I would like to continue discussion of this possibility with you at your convenience.

Cordially,



DT/js

T Chron



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 30, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Mr. Martin:

Confirming our discussion at the Anchorage airport on September 30, and my letter to Mr. Gilbreth of August 20, and memorandum to you of September 24, Alaska Pipeline Company is requesting to purchase the royalty share of North Cook Inlet gas field at or near the Phillips-Marathon LNG plant on the North Kenai Road, at the price used by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. We believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline(s) and compression would be minimized. Since our supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being it should be practical that we would take whatever amount of the North Cook Inlet royalty gas may be available day by day by displacement into our system at the Kenai gas field. Later, when additional investment would be required for transporting this royalty gas to shore, we could negotiate our participation in investment, or install our own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned.

The essential aspect of our request is that we have an immediate need for additional gas on the North Kenai Road and we have a long term requirement for additional gas reserves to serve Alaskan customers in our present service area. We believe that it is in the public interest that we should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. We will begin preparing a formal

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

**Mr. Guy Martin
September 30, 1975
Page 2**


application to purchase this gas and will appreciate having your guidance as to what supporting data or format may be desired, if any, for presentation to the Royalty Board or to the legislature to satisfy statutes or regulations which apply.

Very truly yours,



Dale Teel

DT/js

cc: O. K. Gilbreth, Director 
Division of Oil and Gas

Alaska Public Utilities Commission



**Standard Oil Company of California,
Western Operations, Inc.**
P.O. Box 7-839, Anchorage, AK 99510 • Phone (907) 279-9666

J. L. Rowland
Area Supervisor
Producing Department

October 10, 1975

Mr. Dale Teel, President
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Dale:

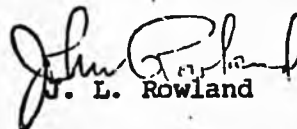
Thanks for your letter of September 29, and for your interest in our flared gas at Swanson River.

Since speaking with you, I have reviewed our gas handling capacity with our Engineering group and have determined the gas phase is still considered temporary. As you know, we have made several adjustments in the past year, including the installation of ^{two} ten field compressors, and we are actively pursuing other remedies which will relieve our flaring problem.

It is my opinion that the laying of a 20 mile pipeline, based on the limited volumes which we foresee, would be a very high risk venture.

We do appreciate your asking about the possibilities and we'll certainly be alert to those opportunities which may become available.

Very truly yours,


J. L. Rowland

JLR:ald

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, Governor

POUCH M — JUNEAU 99801

October 15, 1975

Mr. Dale Teel
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

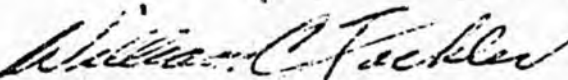
Your letter and memorandum regarding the proposal of Alaska Pipeline Company to purchase state royalty gas from the North Cook Inlet Gas Field was read into the minutes of the October 12 meeting of the Royalty Board.

The Royalty Board invites you to attend the next meeting which will be November 10, 1975, in the Alaska Division of Lands Conference Room in Anchorage beginning at 8:30 a.m. to discuss your proposal.

Items to be addressed in your presentation should be the need for additional gas reserves, reasons for requesting North Cook Inlet source of gas, price and schedule of escalation, total volume, annual volume, deliverability, term of proposal, transportation and so forth. A question has been raised as to the possibility that this proposal would be a subsidization of Anchorage gas consumers at state taxpayer's expense. You might wish to anticipate this point also in your discussion.

Please advise me if I can be of further assistance.

Very truly yours,



William C. Fackler
Deputy Commissioner

cc: Mr. Robert H. Reynolds
921 East Sixth Avenue
Anchorage, Alaska 99501

IV

LIST OF TABLES AND GRAPHS

1. Table of gas consumption
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
2. Graph of data per Table (1)
3. Table of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
4. Graph of data per Table (3)
5. Table of life of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)

Note: This is the quotient of reserves data in
Table (3) divided by consumption during
the prior year per Table (1)

6. Graph of data per Table (5)
7. Graph of North Cook Inlet gas production since 1969

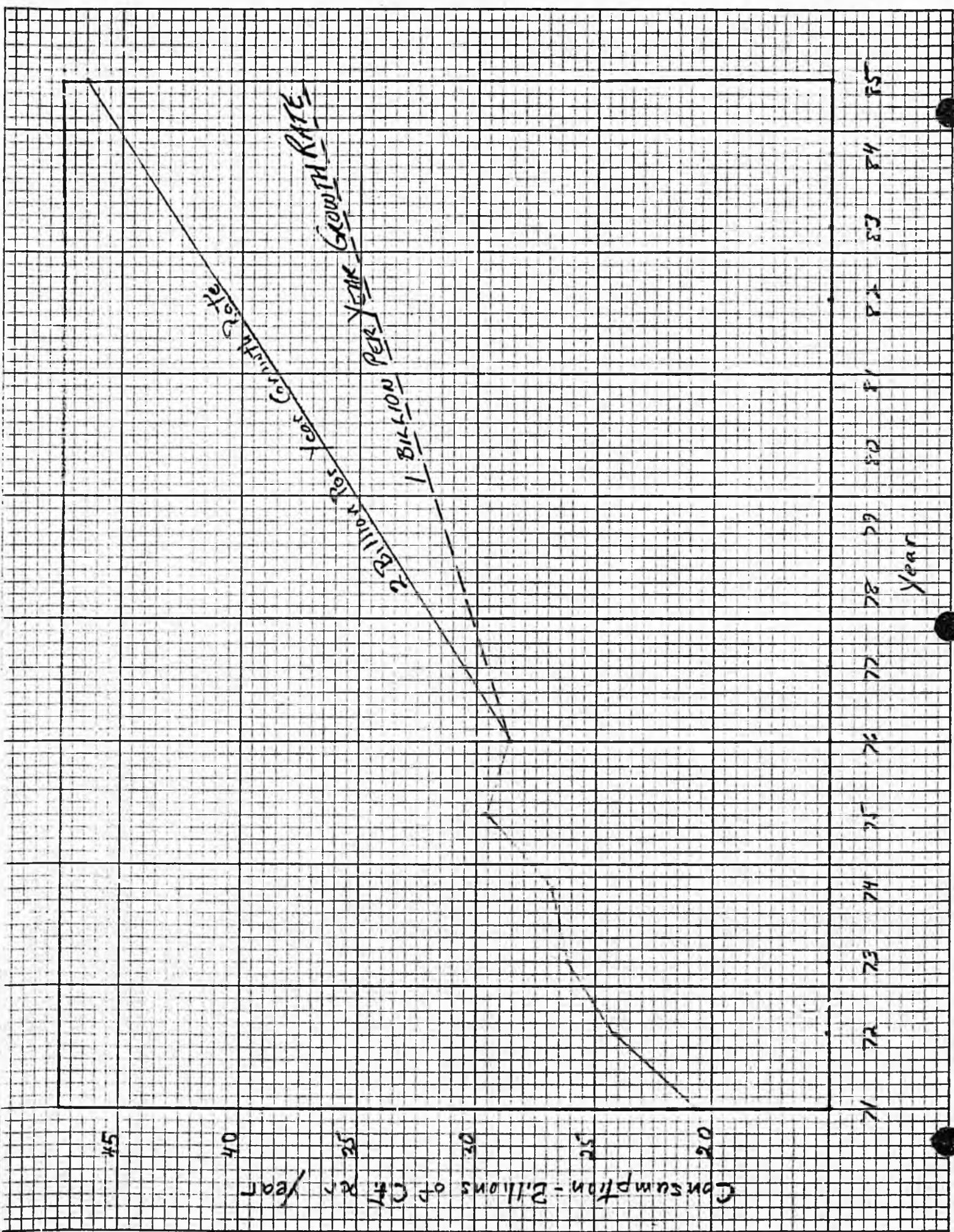
ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Gas Consumption BCF

Year	Consumption (One Billion/yr Growth Rate)	Consumption (Two Billion/yr Growth Rate)
1971	20.6	20.6
1972	24.1	24.1
1973	26.1	26.1
1974	26.7	26.7
1975	29.7	29.7
* 1976	28.5	28.5
1977	29.5	30.5
1978	30.5	32.5
1979	31.5	34.5
1980	32.5	36.5
1981	33.5	38.5
1982	34.5	40.5
1983	35.5	42.5
1984	36.5	44.5
1985	37.5	46.5

*Reflects loss of deliveries to Chugach Electric

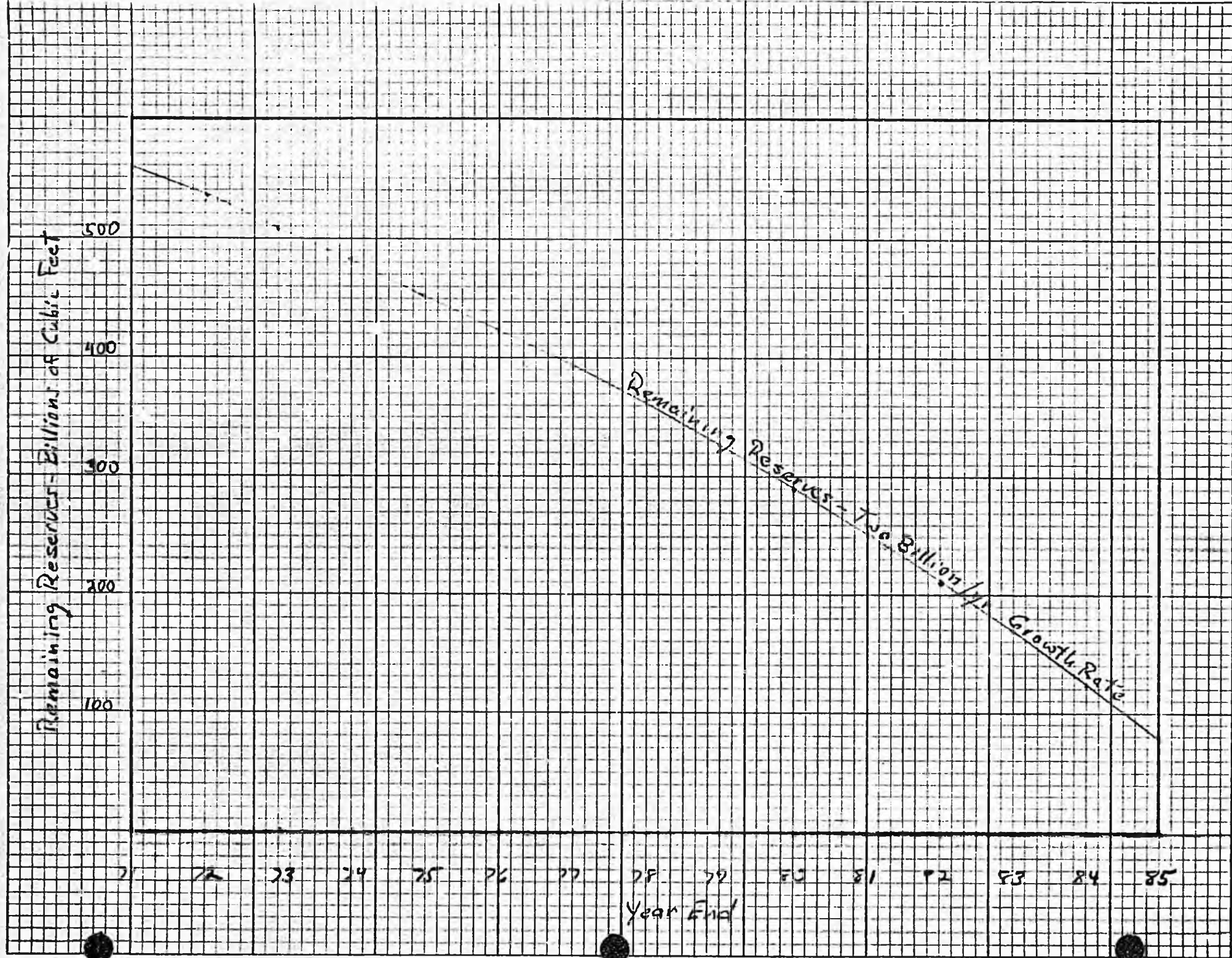
11/4/75



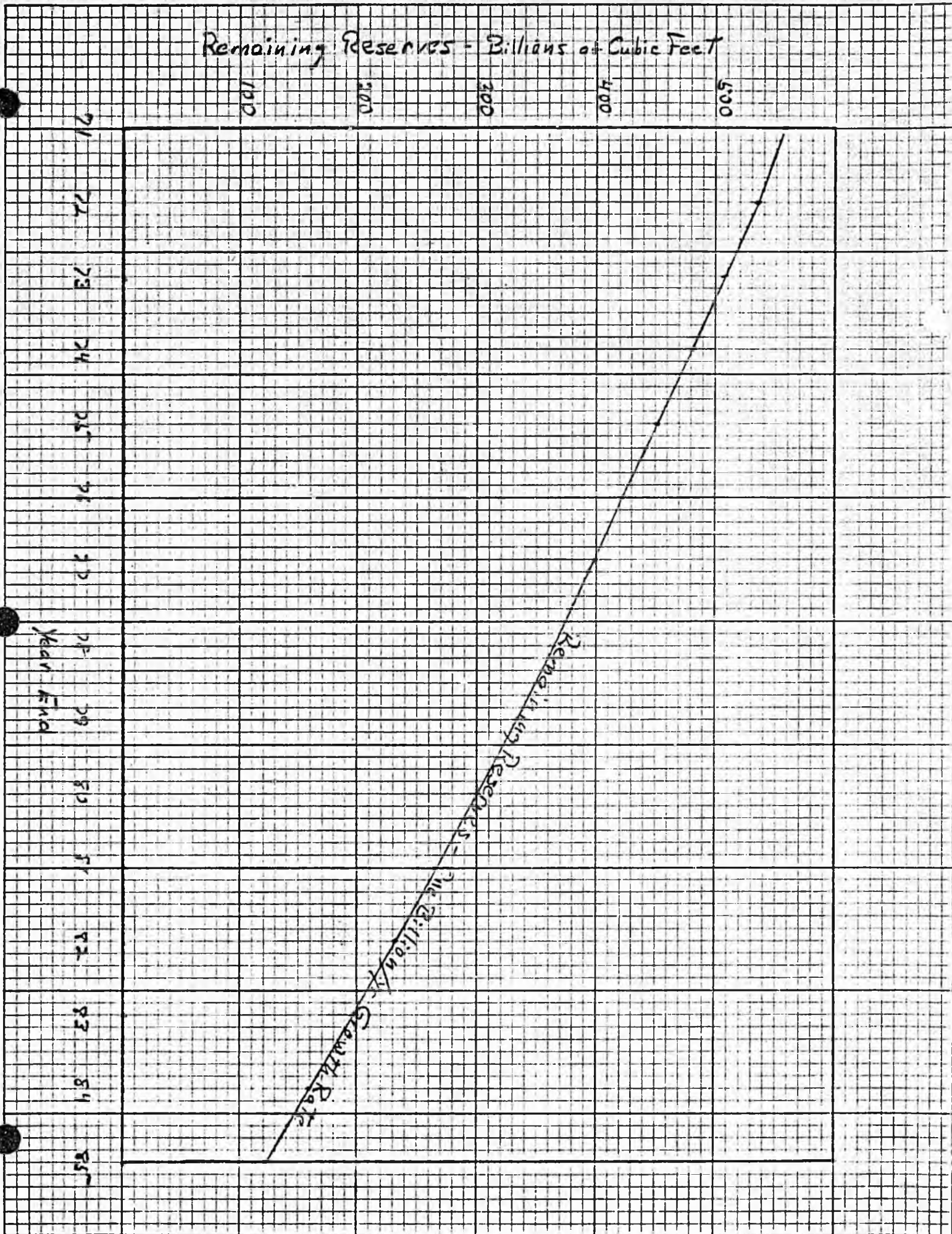
ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Remaining Reserves

Year End	Reserves-BCF (One Billion CF/yr Growth Rate)	Reserves-BCF (Two Billion cf/yr Growth Rate)
1971	559	559
1972	535 ²⁴	535
1973	509 ²⁶	509
1974	482 ²⁷	482
1975	452 ³⁰	452
1976	424 ²⁸	424
1977	394 ³⁰	393 ³¹
1978	363 ³¹	361 ³²
1979	332 ³¹	326 ³⁵
1980	300 ³²	290 ³⁶
1981	266 ³⁴	251 ³⁹
1982	232 ³⁴	211 ⁴⁰
1983	196 ³⁶	168 ⁴³
1984	160 ³⁶	124 ⁴⁴
1985	122 ³⁸	77 ⁴⁷



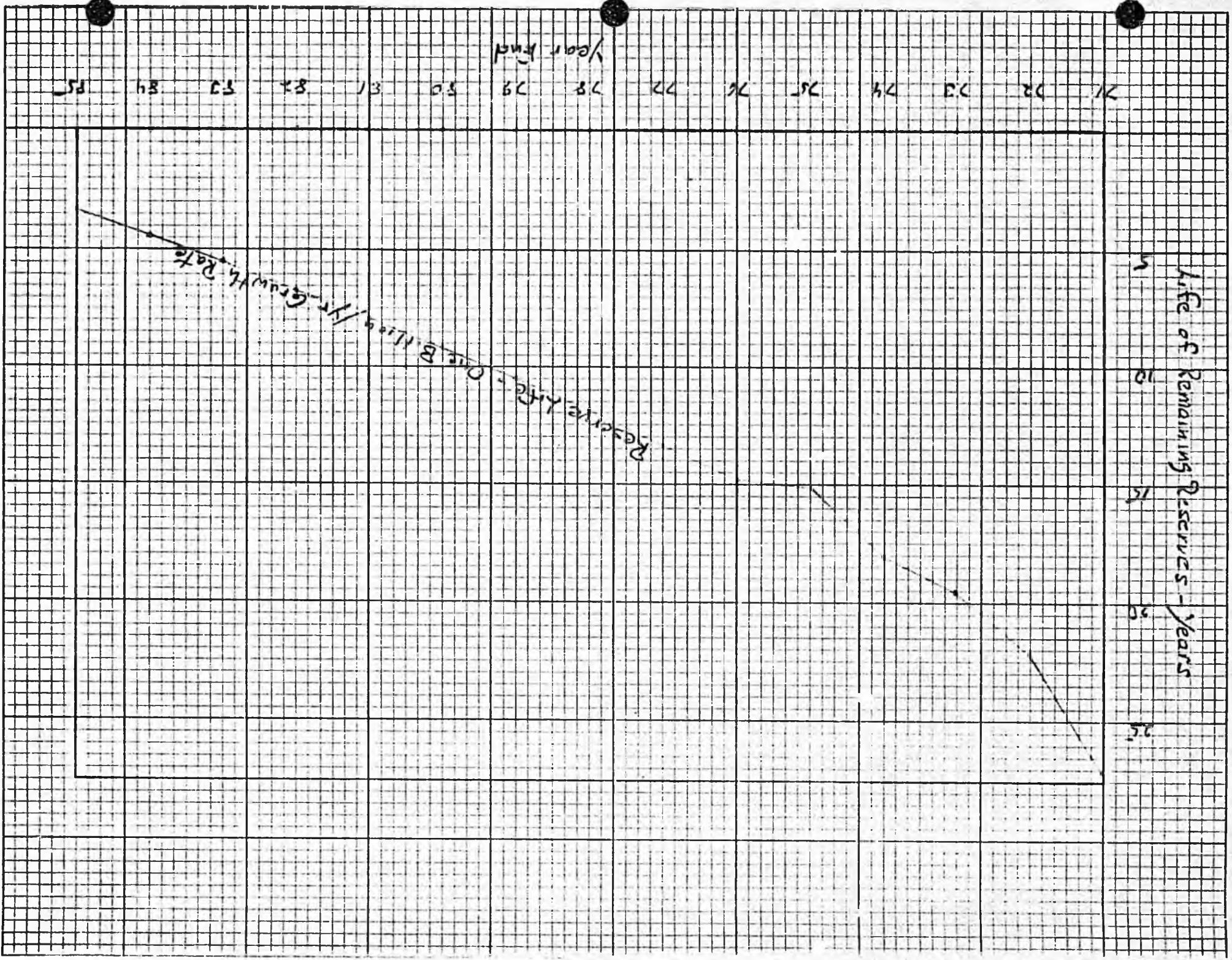
Remaining Reserves - Billions of Cubic Feet



ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Life of Remaining Reserves

Year End	Life-Years (One Billion CF/yr Growth Rate)	Life-Years (Two Billion CF/yr Growth Rate)
1971	27.1	27.1
1972	22.2	22.2
1973	19.5	19.5
1974	18.1	18.1
1975	15.2	15.2
1976	14.9	14.9
1977	13.4	12.9
1978	11.9	11.1
1979	10.5	9.5
1980	9.2	7.9
1981	7.9	6.5
1982	6.7	5.2
1983	5.5	4.0
1984	4.4	2.8
1985	3.3	1.7



Life of Remaining Reserves - Years

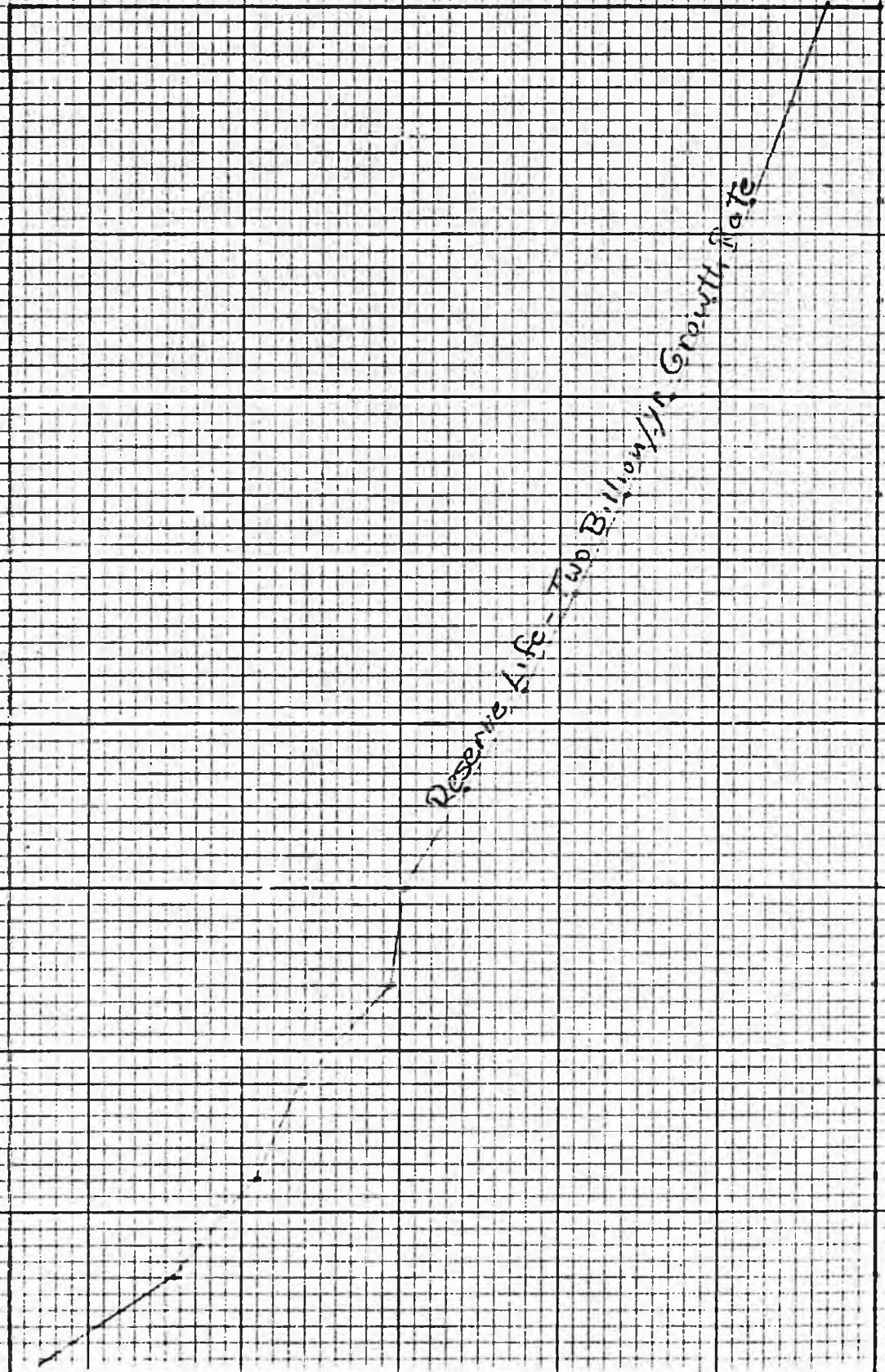
Reserve Ratio

$\frac{O.R. B. \text{ Line}}{\text{Yr. Growth Rate}}$

Year End

71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Life of Remaining Reserves - Years



Reserve Life - Two Billion / 1% Growth Rate

Year End

Relating to the taking of state-owned royalty oil or gas in-kind and its disposal by sale.

COMMITTEE REPORT

HOUSE

5/10/76

Mr. Speaker:

Date _____

The Committee on FINANCE has had HCR 142

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman

relating to the taking of state-owned royalty oil or gas in-kind and its disposal by sale.

COMMITTEE REPORT

HOUSE

FINANCE

5/4/76

Mr. Speaker:

Date 5-10-76

The Committee on RESOURCES has had HCR 142

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S) *(same title)*

recommends it BE REPLACED WITH CS FOR HCR 142 AND THAT

CS FOR HCR 142 DO PASS

() "and" recommends it BE REFERRED TO THE _____
COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

<u><i>[Signature]</i></u>	<u><i>[Signature]</i></u>	_____
<u><i>[Signature]</i></u>	<u><i>[Signature]</i></u>	_____
<u><i>[Signature]</i></u>	<u><i>[Signature]</i></u>	_____
<u>MINE HENSBERGER</u>	<u><i>[Signature]</i></u>	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman
w/ Chairman's report

Original Spncsor: Rules Committee by
request of the Governor

Offered: 5/10/76
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of state-owned
6 royalty oil or gas in-kind and its disposal
7 by sale.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06, et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a con-
17 tract for the sale and purchase of state-owned royalty gas from the North
18 Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corporation
19 which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective approval
22 by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that Alaska royalty gas
24 sale No. 76-1 and the contract providing for the sale of royalty gas from
25 the North Cook Inlet gas field pertaining to it, between the state and the
26 Alaska Pipeline Company, is hereby approved.
27
28
29

COMMITTEE COPY

for

Introduced: 5/4/76
Referred: Resources and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 142

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of
6 state-owned royalty oil or gas
7 in-kind and its disposal by sale.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06. et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a
17 contract for the sale and purchase of state-owned royalty gas from the
18 North Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corpora-
19 tion which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective appro-
22 val by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that approval of
24 Alaska Royalty Gas Sale No. 76-1, the contract for the sale of state
25 royalty gas from the North Cook Inlet Gas Field to Alaska Pipeline Company,
26 is hereby approved.

27
28
29
COMMITTEE COPY

HCR
142

HOUSE RESOURCES COMMITTEE REPORT

It is the desire of the House Resources Committee to include the contract for the sale and purchase of state-owned royalty gas from the North Cook Inlet Gas Field with Alaska Pipeline Company, in the Committee Report and have the contract printed in the Journal.

Nels A. Anderson, Jr.

Nels A. Anderson, Jr., Chairman

COMMITTEE COPY

ALASKA STATE LEGISLATURE

.NINTH Legislature SECOND Session

HOUSE CONCURRENT RESNO. ... 142

By RELES. COMMITTEE BY REQUEST OF THE GOVERNOR

Relating to the taking of state-owned royalty oil or gas in-kind and its disposal by sale.

State-owned royalty oil or gas.

Introduced in the House ... 5/4..., 19.76.

HISTORY IN THE HOUSE

19 76

May 4

Read first time and referred to Committee on Resources and Finance

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by Speaker
Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by President
Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Received from Senate

Reported correctly enrolled

Sent to Governor

..... By Governor

Filed with Lt. Governor

Chapter No.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 8, 1976

SUBJECT: Contract for Sale of State Royalty Gas from the North Cook
Inlet Field to Alaska Pipeline Company

TO: The Honorable Fred Brown

FROM: Gregg Erickson
Director of Research Services

Summary

As you requested on Friday, May 7, we have reviewed the unexecuted gas purchase contract identified as #76-1, between the State of Alaska (seller) and Alaska Pipeline Company (buyer) with particular reference to several specific questions you raised. Our analysis raises questions concerning the contract's pricing provisions and suggests that more extensive review by the Department of Natural Resources of Cook Inlet gas prices is called for. We also suggest that a requirement for in-state use of this gas be considered or, alternatively, that the contract be made unilaterally terminable by the state. In general, however, we find no obvious conditions or terms in the contract that appear contrary to the state's interests. Finally, we suggest revised wording for the resolution approving the contract.

Analysis

In general, the contract calls for the state to deliver to the buyer--currently the sole supplier of natural gas to Anchorage--an unspecified quantity of royalty gas received from its lessee in the North Cook Inlet field. It provides that the state shall direct its lessee (which in this case is Phillips Petroleum Company) to make these deliveries directly to the buyer who will then be responsible for its transportation to wherever it is to be consumed. Overall, a review of this contract reveals no glaring inequities or conditions which are

obviously not in the state's best interest. We do note, however, a number of minor policy issues and technical considerations which the legislature may wish to call to the attention of Commissioner Martin and the Alaska Royalty Oil and Gas Development Advisory Board.

The first question you raised concerned the point at which the royalty gas will be delivered to the buyer. The gas purchase contract itself does not specify this point. Under the terms of the lease between the State of Alaska and Phillips, the state has the right to take its royalty gas in kind but must do so on or adjacent to the lease from which it is produced. In the case of an offshore platform such as that from which the North Cook Inlet field is produced, this means that, absent other mutually acceptable arrangements, the state must take delivery of its in-kind royalty gas at the platform and arrange for its own transportation ashore. Thus, unless the state wishes to assume this responsibility, the contract provision as currently framed regarding point of delivery would seem to be the only appropriate alternative, i.e., that the state make its delivery to the buyer at the point where it receives delivery from the lessee.

As a practical matter, pipeline capacity sufficient to transport both the royalty and producer's gas to shore already exists, and Alaska Pipeline Company should be willing to pay Phillips a reasonable fee for the use of that capacity. Normally, both Phillips and Alaska Pipeline would be expected to have plenty of incentive to reach an agreement on these transportation charges. They represent additional income to Phillips without any additional expense (since the pipeline capacity is already in being) and, in the case of the Alaska Pipeline Company,

should be substantially lower than the cost of building and operating its own platform-to-shore pipeline.

The only situation where we could envision difficulties arising would be in the case where the lessee was willing to make significant immediate financial sacrifices in order to sabotage the royalty gas sale and thus regain for itself control over the entire production stream. If the cost of constructing a separate pipeline for the royalty share were economically prohibitive, denial of access of the existing facility might be sufficient to torpedo the entire deal. We do not see this as a likely eventuality, and if it were it is probable that the state could bring countervailing pressure to bear on the lessee. In any event, the possibility of such a confrontation would not seem to require any change in the contract here presented to the legislature.

You also asked us to review the provisions concerning the pricing of royalty gas delivered to the buyer. In general, this provision calls for the buyer to pay the state the higher of either the price the state would have received from Phillips Petroleum Company had it not taken its gas in kind, the highest price paid for gas elsewhere within 100 kilometers (62 miles) of the North Cook Inlet field, or a minimum price (which is 60.36¢ per Mcf as of July, 1977, escalating thereafter at the rate of 2¢ per Mcf annually).

We find these provisions unexceptionable, but we would call your attention to what appears to be unnecessary vagueness with respect to the provisions (on page 4 and repeated on page 5 of the contract) concerning how prices received for gas elsewhere in the Upper Cook Inlet Basin are to be related to the price of gas sold under this contract. The problem

arises from the fact that natural gas may be sold elsewhere within the 100 kilometer radius at a price higher than that which would be due under either of the other two pricing provisions, but that the conditions of delivery of that higher priced gas or its quality may be different enough to raise the question of whether the price is properly comparable to that received for gas purchased by the buyer. The contract states that these comparisons shall be made "with due regard to appropriate factors including, but not limited to, difference of BTU content, delivery pressure, term of contract and connection charges." We would suggest that the semicolons preceding this phrase on pages 4 and 5 be deleted so that it will be clear the phrase applies only to the part of the sentence following the "(iii)", applying only to the comparison of prices within the basin and not to the minimum price or the price that the state would have received from Phillips.

In addition, you might consider it appropriate to work with the commissioner to develop substitute wording defining exactly how the BTU content and delivery pressure differences will influence the comparison prices, eliminating the reference to contract term and connection charges, and adding words indicating how the quantity of gas delivered is to affect the comparison. As it stands now, almost any difference in terms of delivery or quality could be used to justify an effective exemption from the "highest price received elsewhere" requirement.

It should be noted that the price currently received by the state for royalty gas produced from the North Cook Inlet field is an "imputed price". This means that it is not determined on the basis of actual

sales but rather on the basis of a "netback calculation" whereby one takes the price received for this gas in Japan and subtracts therefrom the costs of transportation and liquifaction incurred between the production platform and the delivery point in Tokyo. In the past the state has devoted little or no attention to actual verification of the validity of this imputed price, since it happens to be the highest price received for any gas in the basin. We have no reason to believe there is anything phony about the current price but would suggest that it would be appropriate in the future for the department to pay closer attention to this and other similarly determined prices in the basin since changes in one may influence others as well.

We would also call your attention to the fact that as the contract is currently written the state has no right of termination other than by mutual agreement. The buyer, on the other hand, may unilaterally terminate the contract prior to January 31, 1978. We would also point out in this context that although the "Whereas" paragraphs prior to the body of the contract indicate that the "buyer ...[delivers] natural gas for ultimate consumption within the State of Alaska", nowhere in the contract does the buyer agree to use or sell the gas purchased here only for consumption within the state. Conceivably the buyer could either export the gas from the state himself or sell it to some other party who would do the same thing. If the point of sale is greater than 100 kilometers from the North Cook Inlet field, the price of the sale would not result in any readjustment of the price paid by the buyer to the state. Since the purpose of this contract is to insure adequate supplies of natural gas for domestic consumption within the state, it would seem