HCR 142 cont.

Mr. Gallagher moved that AROGDAB approve the gas purchase and sale contract, as amended, for the sale of the North Cook Inlet Gas Field royalty gas to the Alaska Pipeline Company as provided for in AS.38.05.183 and AS.38.06.050. Mr. Lyon was the second. On a roll call vote all members voted affirmatively.

The Chairman announced that the Board had concluded its first sale. He also said that he would initiate an inquiry regarding possible exchange of gas between the State, producers and gas purchasers.

The meeting was adjourned.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

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

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 transporatation 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 logical that the contract include guarantees with respect to this matter or, alternatively, provisions allowing the state to unilaterally terminate the arrangement.

Finally, we would note that the "Resolved" clause of the resolution offered by the governor when he requested approval of this contract (HCR 142) would appear to be incorrectly worded. We would suggest that the following language be substituted:

> "BE IT RESOLVED by the Alaska State Legislature that Alaska royalty gas sale No. 76-1 and the contract providing for the sale of royalty gas from the North Cook Inlet gas field pertaining to it, between the State and the Alaska Pipeline Company, is hereby approved."*

We would also suggest that the contract itself be ma part of the legislature's official record by its inclusion in the House Committee Report, and thus the Supplement.

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* If the legislature or a committee thereof believes that the above comments or other considerations require some revision of the contract, the most expeditious way of bringing them about might be to instruct the Department of Natural Resources or Mr. Fackler (executive director of the Royalty Board) to work with the proposed buyer to develop the necessary language. The resolved clause could then read:

> "BE IT RESOLVED by the Alaska State Legislature that Alaska Royalty Gas Sale No. 76-1 and the amended contract (submitted to the legislature on ___ May 1976 and appearing in the House Journal Supplement for ___ May 1976) providing for ..."

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

11TH FLOOR, STATE OFFICE BLDG.
POUCH M – JUNEAU 99811

May 7, 1976

The Honorable Nels Anderson
Chairman, House Resources
Committee
Pouch V
Juneau, Alaska 99811

Dear Mr. Anderson:

In accordance with the requests of you and your committee the items listed below pertaining to HCR 142 are attached.

1. Letter from Alaska Pipeline Company dated September 30, 1975 requesting State royalty gas from North Cook Inlet Field.

2. Minutes of Board meeting October 10, 1975.

3. Roster from October 10, 1975 meeting.

4. Minutes of Board meeting November 10, 1975.

5. Alaska Pipeline Brochure prepared for November 10, 1975 meeting.

6. Letter from Phillips Petroleum Company, dated October 21, 1975.

7. Letter from Phillips Petroleum Company, dated December 5, 1975.

8. Letter from Homer Electric Association requesting royalty gas, dated January 22, 1976.

9. Letter from Homer Electric Association withdrawing request, dated March 30, 1976.

10. Sale terms approved by Board.

11. Telegram from Pacific Alaska LNG disclaiming interest.

12. Letter from Alaska Pipeline Company agreeing to terms dated April 2, 1976.

13. Minutes of Board meeting April 26, 1976 approving sale.

If you desire additional information regarding the North Cook Inlet Field royalty gas sale, please advise me.

Yours truly,

William C. Fackler

William C. Fackler
Executive Director

Attachments

(1)

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

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ANCHORAGE, ALASKA

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

Dale Teel

DT/js

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

Alaska Public Utilities Commission

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).

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

cc: Alaska Public U[illegible]ities Commission

ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

COPIES SENT TO:

Paul Robison
Sebe Eastland
Harold Schmidt
O. C. Honig

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.

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ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

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

(2)

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD

Minutes From October 10, 1975, Meeting in Juneau

1. The meeting was called to order by Chairman Martin at 9:00 a.m. in the Fifth Floor Conference Room of the State Office Building. All of the Board members were in attendance. Chairman Martin had no special remarks in opening the meeting and the meeting proceeded according to the agenda (Appendix A). Several members of the public were present.

2. The minutes of the August 4, 1975, meeting were approved as circulated to the Board.

3. Reports

A. Board's Administrative Report.

1. Richard Lyon moved that the Royalty Board go into executive session to discuss the appointment of an Executive Director for the Royalty Board. The motion was seconded by Donald Triplehorn. The motion passed unanimously at 9:10 a.m. The meeting was called back to order at 9:30 a.m. Chairman Martin advised those present that the Board has made a decision on the appointment of an Executive Director. Arlon Tussing moved that William C. Fackler be appointed as Executive Director of the Alaska Royalty Oil and Gas Development Advisory Board to be effective November 15, 1975, at an advanced step of the salary range. Donald Triplehorn seconded the motion and the motion passed unanimously.

2. Chairman Martin advised that the Department of Law's report was not yet complete, therefore, it will be presented at a later date.

3. Chairman Martin informed the Board that it needed to decide about the distribution of proposals to interested parties. The motion was made that the Board establish open reading files in Anchorage in the Divison of Lands' office and in Juneau in the Commissioner's office. The proposals received should be placed in the reading files and mailed to the Board members and after five working days be made available to the public upon request. The motion was seconded by Richard Lyon. Motion passed unanimously.

B. Studies

1. Projected Natural Gas Demand - A report was presented by Mr. Pat Dobey of the Division of Geological and Geophysical Surveys of the Department of Natural Resources on the projected natural gas demand. (Appendix B.)

2. Mr. O. K. Gilbreth, Director of the Division of Oil and Gas for the Department of Natural Resources, presented a report on the projected natural gas availability in Cook Inlet to the Royalty Board. (Appendix C.)

C. Current Federal Legislation - Arlon Tussing gave a brief report on current federal legislation (Appendix D). Mr. Tussing informed the Board that in summary it is still in stalemate both on oil and gas legislation, and that the Congress had passed legislation continuing price controls and allocations on oil and gas and did not accept the Administration's proposed schedule for phasing out price controls. The President vetoed it, the veto was sustained and Congress did not override the veto and beginning the first of September there were no price controls or allocation authority for oil and gas. The President did agree to another retroactive extension of price control while there was an attempt to come up with a new compromise. The House and Senate are now in conference on the legislation and both the House and Senate bills that went into this conference have price control provisions which are unacceptable to the Administration. It looks as if in November we will again be faced with a situation where Congress will pass an extension of oil and gas price control which will include a rollback in the price of new oil.

Chairman Martin asked for concurrence of the Board in altering the agenda to take up the definition of surplus question following the presentation of proposals received since the last meeting of the Board. There was no objection by the Board.

5. Correspondence - Mr. Fackler read several letters that had been received from companies that refer to earlier proposals submitted by the various companies to the Board. (Northern Natural Gas, Southern Natural Gas Company and Alaska Petroleum Company.)

6. Proposals since the last meeting.

A. Prudhoe Bay

Mr. Fackler informed the Board that a letter from Murphy Oil Corporation had been received. He advised that Murphy Oil was interested in supplying a portion of their Superior, Wisconsin, refinery's needs with Alaskan crude oil starting in 1977. The vehicle for the crude oil would be the Trans Mountain Pipeline from Puget Sound to Interprovincial Pipeline and then to Superior, Wisconsin. They estimated requirements to be 20,000 to 40,000 barrels per day. They advised that at the present time it would be impossible with the uncertain conditions in regard to price, government controls, pipeline reversal, et cetera to submit a firm bid for production to be purchased several years in the future. They would be willing to pay competitive world market prices for similar types of crude at the ti. : of purchase.

Mr. Robert C. Thomas of Tennessee Gas Transmission Company was present and was requested to present their proposal. Mr. Thomas advised that their proposal would allow the following benefits:

1. Company acquiring the right to contract the royalty reserves should be capable of giving maximum support to the obtaining of a trans-Alaska pipeline route. He pointed out that in their approach they had covered this point by stating that to date Tennessee Gas Transmission Company has not supported either route designed to transport North Slope gas to market.

2. That the State would receive substantial front-end money. In their approach they indicated that they would make available to the State in excess of 100 million dollars for the right to contract all of the royalty oil and gas reserves in the Prudhoe Bay Field. The exact amount contributed would be subject to further negotiations between the parties and would reflect the needs of the State, the drawdown schedule, and several other factors. The funds would be made available to the State over a three-year period according to the State's needs. There would be no recovery of the advanced funds for a period of three years following the date of the advance. The contribution would be hopefully recovered out of the portion of revenue from the royalty natural gas or oil. The recovery period would be five years, giving a total of eight years. The funds that would be made available would be interest free.

3. They felt that some of the gas must be available for use within the State. In their outline they indicated that they would consider reservation of the State of up to 10 percent of the royalty gas. They did not intend to imply that this represented the maximum anticipated future growth of the State natural gas lease. What it did indicate is that they feel the primary goal at this time should be to secure a trans-Alaska route and that the major source of gas for the future needs of the State would come from future reserves found and transported through this system.

4. The maximum possible wellhead price should be paid for the reserves when produced. They feel that the gas produced in Prudhoe Bay would go into interstate commerce and under current regulations would be subject to control by the Federal Power Commission. Since they are regulated by the Federal Power Commission, they are unable to guarantee a specific wellhead price.

Since the purchaser is subject to unknown timing factors and substantial risks associated with purchasing the right to contract Prudhoe Bay gas, the purchaser must be compensated by certain benefits. They see those benefits to the purchaser as being:

1. the front-end payment must be financeable,

2. the front-end payment must be recoverable at a particular point in time, and

3. the right to contract all of the State's royalty gas in Prudhoe Bay subject to a 10 percent reservation of the gas by the State.

They feel the most important consideration by the State at this time is the securing of the trans-Alaska routing for the Prudhoe Bay gas. This is the biggest single factor that would have an impact on the State throughout its future. To insure that there is no question about their intent in promoting a trans-Alaskan route, Tenneco would add a provision to the memorandum they submitted that they would be willing to give the State the option of terminating their right to contract should the trans-Alaska route not be considered. This termination provision would further provide that Tenneco would receive their capital contribution back plus any interest and that they would not be prejudiced in any further attempts to contract royalty gas.

Chairman Martin asked Mr. Thomas if Tenneco had done any analysis of the El Paso proposal on a comparative basis with their proposal and had they taken a look at the question of the 10 percent set aside and the jurisdictional question in regard to commingling? Mr. Thomas advised that he would get a response to these questions in writing to the Board.

Arlon Tussing asked if Tenneco could provide the Board with the backup on their market analysis and cost analysis. Mr. Thomas stated that he would be happy to get the information together for the Board.

Chairman Martin called a lunch recess until 1:30 p.m. The meeting was called to order at 1:30 p.m. and Mr. Fackler read a letter received from Northern Liquid Fuels Companies dated August 11, 1975, to the Board. Northern Liquid Fuels Companies wished to acquire the right to process the State of Alaska's royalty share of the gas to be produced from the Prudhoe Bay Field for the removal of propane, butane, natural gasoline and ethane (NGL) and to purchase any NGL attributable to the State of Alaska's royalty share of the oil produced from such field. For the right to process the State of Alaska's royalty share of such gas, the Companies would propose a prepayment plus a payment for each barrel of NGL extracted and marketed over the life of the field, the amounts of such payments to be determined upon conclusion of the study hereinafter referred to. The Companies propose to undertake a comprehensive study to determine which of the following programs is more economical: 1) process the gas stream in the field for removal to the NGL and build a liquids pipeline to transport the NGL to Southern Alaska, or 2) leave the NGL in the gas stream and process the stream: a) in Southern Alaska, if a trans-Alaska gas pipeline is built, or b) in Canada or the United States if an Alaska-Canadian pipeline system is built. The studies will take into account the needs of the State, particularly the establishment of a liquid fuels distribution system in the State of Alaska in its principal cities of Anchorage, Fairbanks, Juneau, as well as others to which reasonable transportation can be made available to transport safely liquid fuel. The Companies would be interested in establishing such a system if the studies indicated that the NGL should be removed either in the Prudhoe Bay Field or at the coast or some intermediate point along the trans-Alaska pipeline. The portion of NGL which exceeds the needs of the State of Alaska would be exported to the continental United States. The Companies, together with two other parties, are currently engaged in designing an LPG import terminal facility on the Houston Gulf Coast capable of receiving 100,000 barrels of LPG per day. Mr. Baca was present to answer any questions the Board had. Mr. Baca advised the Board that he would prepare a more detailed proposal concerning purchase of State royalty natural gas liquids.

B. Cook Inlet

Mr. Fackler advised the Board that two proposals had been received with regard to Cook Inlet gas. The first one was from Alaska Pipeline Company who were requesting purchase of 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 paid by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. They believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline and compression would be minimized. Since their supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being, it would be practical that Alaska Pipeline would take whatever amount of the North Cook Inlet royalty gas that may be available day by day by displacement into their system at the Kenai gas field. Later, if additional investment would be required for transporting this royalty gas to shore, they would negotiate their participation in investment, or install their own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned. The essential aspect of their request is that they have an immediate need for additional gas on the North Kenai Road and have a long-term requirement for additional gas reserves to serve Alaskan customers in their present service area. They believe that it is in the public 'nterest that they should be allowed to purchase this State royalty as for local consumption rather than for this gas to be exported tc Japan or elsewhere. They would begin preparing a formal applic·cion to purchase this gas and would appreciate having the Board's guidance as to what supporting data or format may be desired.

Mr. Fackler gave the Board some background on this request. He advised that Alaska Pipeline Company has renegotiated with Union Marathon and have increased their deliverability but have not increased their reserves. Mr. Teel is seeking increases in reserves now. Chairman Martin advised the Board that what Mr. Teel indicates would require Board action and submission to the upcoming Legislature. Mr. Teel feels that from the consumer's standpoint this would be very attractive legislatively. It would be based totally on the attractiveness applying to the Anchorage area as opposed to other areas in the State. Mr. Gallagher informed the Board that a clause in regard to most favored nations should be included in the new contract. Mr. Gallagher informed the Board that the most favored nations concept is that the price will meet the highest price in the field. Chairman Martin requested that Mr. Fackler direct a letter to Mr. Teel inviting him to make a presentation at the Board's next meeting.

The second letter was from Northwest Natural Gas Company in which they advised that their project for delivering LNG from Alaska to the State of Oregon had hit a snag due to the jurisdictional restrictions which would be imposed on the producers (Phillips Petroleum Company and Marathon Oil Company) by the Federal Power Commission.

4. Definition of Surplus - Chairman Martin read the statute regarding surplus (AS 38.05.13(d)). Chairman Martin advised the Board that some basic standard in regard to surplus is going to have to be established as a part of the regulations. The Board discussed how they should go about putting that regulation together. After much discussion about surplus, three items emerged that should be included in the definition of surplus and they are: 1) time period, 2) demand, and 3) supply. Chairman Martin informed the Board that he would attempt to bring back to the Board at their next meeting a finished product with regard to the definition of surplus.

7. Other Business - Dick Lyon moved that the Board authorize the Board members who wished to take a briefing from Tennessee Gas Transmission Company on their economic analysis and go through their calculations of costs and that either the Board member or Tennessee Gas Transmission Company would send to the Board a written summary of the briefing for the Board's records. Don Triplehorn seconded the motion and the motion passed unanimously.

Chairman Martin advised that the next item on the agenda was the scheduling of the next Board meeting. The next Board meeting will be held in Anchorage, Alaska on November 10, beginning at 8:30 a.m. He advised that there should be another meeting in December. The meeting is tentatively scheduled some time during the week of December 8. The meeting will be held in Juneau and will begin at 8:30 a.m.

8. Public Participation - Mr. Swetnam of Phillips Petroleum Company requested that Phillips have an opportunity to make a presentation to the Board regarding North Cook Inlet royalty gas. Chairman Martin requested that Phillips make a written presentation to at least the Commissioner's Office, which the Commissioner would make available to the Board and based on this proposal talk with his office in the interim so they could decide whether an appearance would be necessary and desirable.

Mr. A. Baca of Northern Liquid Fuels Companies wanted to add to their presentation that if an LPG system is feasible to be constructed that the State's royalty liquids would be available to serve any market within Alaska that might exist.

There being no further business the meeting adjourned at 3:15 p.m.

3

10/10

Roster

	Rep
Bruce Ivonmore	Birch, Jermain, Horton Bittner Ellings
M. C. Holland	El Paso Alaska Co
Larry Eppenbach	Treasury Div.
Sarah Eppenbach	Alaska Construction & Oil Mag.
Apolonio Baca	Northern Liquids Fuels Co.
Robert C. Thomas	Tennessee Gas Transmission
Bob Gwetnam	Phillips Petroleum
O.K. Gilbreth	Div Oil & Gas - Anch.
Patrick ~~Pat~~ Dobey	Div of Geol & Geoph Survey

4

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD

Minutes From November 10, 1975, Meeting in Anchorage

1. The Meeting was called to order by Chairman Martin at 8:30 a.m. in the Division of Lands Conference Room in Anchorage. All Board members were in attendance, together with members of our legislative liaison group, distinguished Commissioners of Public Utilities and other dignataries.

2. The Minutes of the October 10, 1975, meeting were discussed. Arlon Tussing raised a question on the wording of Section 4 on page 6 on Definitions of Surplus, and whether or not Mr. Tussing had made a motion defining parameters needed in the definitions. Mr. Fackler was instructed to determine if the recorded tapes of that meeting were still available and transcribe that portion if possible.

3. Reports

A. Chairman Martin was informed that the reports on Natural Gas Future Demand and Existing Gas Contracts scheduled at this time would be delayed several hours pending last minute work. The Board decided to amend the schedule and advance to Part V - Proposals.

5. Proposals

A. Prudhoe Bay

1. Mr. John Bennett, El Paso Alaska Company, reviewed the El Paso trans-Alaska gas pipeline project efforts to date emphasizing El Paso's need for a contract to purchase or transport State royalty gas from Prudhoe Bay which is surplus to State's needs. A transcript of the testimony is attached.

B. Cook Inlet

1. Mr Dale Teel, Alaska Pipeline Company, presented a request that the State royalty gas from North Cook Inlet gas field be taken in-kind and sold to Alaska Pipeline Company. His testimony was followed by Mr. John Horn, Phillips Petroleum Company, who opposed Mr. Teel's request. A transcript of the testimony of Mr. Teel and Mr. Horn is attached to the minutes.

Mr. Thomas Stahr, Anchorage Municipal Light and Power, read a letter to the Board supporting the Alaska Pipeline Company request. A copy of the letter is attached.

Mr. John Miller, Division of Oil and Gas, presented a table summarizing the existing gas contracts in the Cook Inlet area. Items include quantity of gas dedicated, length of contract, price, remaining reserves to contract and uncommitted reserves.

Mr. Patrick Dobey, Division of Geological and Geophysical Surveys, reviewed current progress on the computer model study of probable future demand for gas in Alaska. A copy of his presentation is attached.

Mr. Robert C. Thomas, Tennessee Gas Transmission, presented additional information on the effect of Federal Power Commission regulations on Alaska's use of its royalty gas. This information was requested by the Board at the October 10 meeting in Juneau.

Their legal counsel is of the opinion that the State as a political subdivision is not subject to direct FPC control. However, any State gas transmitted by a transfer would require a certificate thereby allowing at least a measure of indirect control.

Tenneco suggests that FPC control could be minimized by either of two ways. One is to secure an immunity or exemption by the FPC in the original certificate. Second is an exemption through legislative action by Congress approved by the President. A copy of this memorandum is attached.

Following this discussion the Board instructed the Chairman and staff to proceed in drafting proposed regulations on determining surplus definitions of supply and demand. The proposed regulations are to be published in several newspapers. Final language and approval will depend on comments on the public notice.

Chairman Martin requested approval by the Board to extend the term of acting directorship for Mr. Fackler until the appointment of a new Deputy Commissioner. There being no objection by the Board, approval was granted.

Authority was also requested to expend up to $20,000 of Board contractual funds for consulting purposes. After a short discussion on possible types of consultant activities, the Board approved the request.

The next meeting date of the Board was set as December 9 and 10, 1975, in Juneau. There being no further business before the Board, the meeting was adjourned.

Nov 10, 1975 Mtg Anchorage

Name	Representative of:
John L. Williford	Phillips Petroleum Company
John Horn	" " "
Len McLean	Pacific Alaska LNG Co.
Don Triplehorn	Univ. of Alaska - Board Mbr.
Arlon Tussing	" "
Eric Eckholm	Gas Pipeline Legislative Comm.
Dale T[illegible]	Anchorage Natural Gas
Paul F Robison	Atty " "
Richard A. Lyon	Board Member
M.C. Holland	El Paso Alaska Co
J.C. Bennett	El Paso Alaska Co.
Jack Roderick	self
Thomas Stahr	Anchorage Municipal Light & Power
Carolyn Guess	Alaska Public Utilities Commission
Paul F. Robison	above
Gordon Schadt	Birch, Jermain, Horton & Bittner
Fred Boness	Dept. of Law
Julius J. Brecht	" " "
Gordon Zerbetz	Alaska Public Utilities Comm
Noel Burke	Marathon
Chancy Croft	Alaska Senate
C J Diver	Marathon
Harold Schmidt	Alaska Gas & Service
Peter C. Hinder	Ely, Guess & Rudd (Pac Ak LNG Co
Ken Sheppard	Consulting Engineer
[illegible]	El Paso Alaska

Jared G. Carter	Tenneco
Kay M. Linton	O.M.A.R.
Robert C. Thomas	Tenn. Gas Transmission
Bill Maguire	Legislative Affairs
Rosemary Shinohara	Daily News
Mike Bradner	Alaska House of Representatives
Eliz. Todd	Anchorage Times
Lawrence Eppenbach	Dept. of Revenue
W. C. Fackler	Natural Resources
John C. Miller	✓ ✓
Tom Marshall	✓ ✓
Patrick L. Dobey	✓ ✓

(6)

DEPARTMENT OF NATURAL RESOURCES

OCT 23 1975

RECEIVED JUNEAU, ALASKA

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661 6600

NATURAL RESOURCES GROUP
Gas and Gas Liquids Division

October 21, 1975

North Cook Inlet Royalty Gas

File: 1-Ho-381-75-G&GL

Commissioner Guy Martin, Chairman
Alaska Royalty Oil and Gas Development
Advisory Board
c/o Department of Natural Resources
Juneau, AK 99801

Dear Commissioner Martin:

We are advised that certain interests have made application or may make application to purchase royalty gas owned by the State of Alaska and produced from the North Cook Inlet Field. Phillips is the Owner and Operator of this field.

Phillips has at considerable risk and expense, developed the North Cook Inlet Field and has provided a market for the natural gas when no markets existed. Phillips constructed a pipeline, liquefaction plant, and LNG tankers which were designed to utilize all of the natural gas produced from the North Cook Inlet Field. Through our efforts, we have negotiated several substantial price increases with our customers and have shared these price increases with the State of Alaska. This, we believe, gives strong evidence of Phillips' willingness to establish a fair and reasonable wellhead price as a basis of royalty payment. We know of no other natural gas royalty settlement in Alaska at a price as high as Phillips is paying.

For the State of Alaska to take the royalty gas in kind and separately dispose of it will impose severe economic hardships on Phillips. Such disposal to a third party will cause a premature abandonment of the pipeline, liquefaction and transportation facilities due to the early depletion of our natural gas reserves. All of these facilities were specifically built to create and provide a market for all of the natural gas from the North Cook Inlet Field. Additionally, it would require the drilling of more wells and the installation of additional compression equipment as well as the installation of certain compression equipment at an earlier date.

We strongly oppose the sale of royalty gas from the North Cook Inlet Field by the State of Alaska to any third party because of the undue economic hardships that it will impose on us. Further, Phillips is settling with the State of Alaska on a fair and reasonable value for the State's royalty gas.

Please take a look at our performance record. We believe that the State of Alaska will receive the greatest overall benefit by allowing Phillips to continue to market Alaska's royalty gas from the North Cook Inlet Field.

Very truly yours,

John Horn

John Horn, Manager
Gas and LNG Sales Branch

JH:bla

cc: Mr. R. I. Swetnam
Phillips Petroleum Company
Hoblit Building
515 "D" Street
Anchorage, AK 99501

PHILLIPS 66

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661-6600

NATURAL RESOURCES GROUP
Gas and Gas Liquids Division

1

December 5, 1975

State Royalty Gas
North Cook Inlet Field
Alaska Gas & Service
Company Proposal

File: 1-Ho-438-75-G&GL

Commissioner Guy Martin, Chairman
Alaska Royalty Oil and Gas Development
Advisory Board
c/o Department of Natural Resources
Pouch M
Juneau, AK 99801

Dear Mr. Martin:

During the hearing before the Alaska Royalty Advisory Board on November 10, 1975, in Anchorage, a brochure entitled "The Case for Committing Alaska State Royalty Gas from the North Cook Inlet Gas Field to Alaska Pipeline Company (Anchorage Natural Gas)" was presented to the Board. We offer the following comments to the Board on this proposal in addition to the oral presentation made in behalf of Phillips at the November 10 hearing.

1. Phillips recognizes that the State has the right to take its royalty share of the gas in kind at the wellhead. But we believe that such action will not in the long run be to the best advantage to the citizens of the State.

2. Phillips has invested over $125,000,000 to develop a market for the North Cook Inlet Field gas when no market existed. Our investment was made with the expectation that we would market all of the gas from the field — it was our obligation to market the State's royalty gas along with our working interest gas.

3. Deliveries commenced six years ago and we had visualized at least a 20-year project.

4. Phillips has actively worked with various groups and individuals in Alaska, including Alaska Gas & Service Company, to try to make LNG available to the more remote areas; however, thus far the high cost of transportation has thwarted these efforts.

Comments by John Horn
Phillips Petroleum Company
to
Alaska Oil and Gas Development Advisory Board
Juneau, Alaska, December 9, 1975

Mr. Chairman, Members of the Board,

Phillips Petroleum Company appreciates the opportunity once again to appear before you. Let me state again that we share with you the concern that the citizens of Alaska derive a fair and reasonable benefit from the State's natural resources — including its natural gas. We recognize that the State has the right to take its royalty share of gas in kind at the wellhead.

We have handed to you a folder which contains (1) our written response to the Board on the brochure entitled "The Case for Committing Alaska State Royalty Gas from the North Cook Inlet Gas Field to Alaska Pipeline Company (Anchorage Natural Gas)" which was presented to the Board at the November 10, 1975 hearing in Anchorage, and (2) reproduced copies of some letters from governmental officials written at the time our LNG project was in its formative stages so that you may have the benefit of their feelings toward the Phillips-Marathon LNG Project at that time.

Although we have reprinted the entire texts for your review, I would like to quote from two of these latter mentioned letters.

The first is from a letter dated March 21, 1967, from Senators E. L. Bartlett and Ernest Gruening, addressed to Honorable Lee C. White, then Chairman of the Federal Power Commission, with respect to the Phillips-Marathon LNG Project.

"It is our hope that favorable action on the two applications and the subsequent development of Japanese markets will encourage the exploration and utilization of new Alaska gas fields. The present proposal and those we hope will follow will have a very measurable, favorable and tremendous effect on Alaska's economy.

"We support the applications in the strongest way possible."

The second is dated April 7, 1967, from Mr. Anthony M. Solomon, Assistant Secretary, Bureau of Economic Affairs, Department of State, and also addressed to Honorable Lee C. White.

"The Department of State raises no objections to the substance of the Phillips-Marathon proposal and in view of trade expansion policy supports the prompt action of the Federal Power Commission toward favorable response to the application."

During this time, we worked with Mr. Frank H. Murkowski, then Commissioner of the Department of Economic Development, who was most anxious to further the economic development of Alaska and to develop and utilize its natural gas resources.

We were advised at that time that 1967 marked the 100th year since Alaska was purchased from Russia and that our proposed LNG plant would be one of the top four industrial installations in Alaska during those first 100 years.

We believe that the State would receive the greatest benefit if it continued to receive the royalty payments made from the North Cook Inlet Field by Phillips, which is substantially higher than the prices presently being paid for natural gas by Alaska Gas & Service Company for other gas in the area. We submit that if Alaska Gas & Service Company would offer producers in the Cook Inlet Area the same amount that it would pay for the royalty gas from North Cook Inlet Field, this should be a very attractive market for natural gas and would encourage the development of additional natural gas reserves in the Kenai-Cook Inlet Area for Alaska Gas & Service Company even beyond the 15 million cubic feet per day which they propose to receive from North Cook Inlet Field.

The State is in the enviable position of not having to decide on an "either/or" basis but has the opportunity to continue to receive income from the present market while encouraging the creation of new markets and development of the undeveloped natural gas resources in the area — thus winning on both bases.

It might be interesting to the Board to know that Phillips Petroleum Company in 1975 will pay from this project to the State of Alaska revenues in excess of $60,000 for each of its employees in the State.

We would hope that the State of Alaska would encourage the judicious development of its natural gas resources. We believe that the State should take that action which will result in a long term supply available for the development of Alaska's economy. Certainly, we would hope that the State would avoid the mistakes made in the Lower 48 States in the past which depressed exploration and development. The result has been an inadequate supply of natural gas and the Federal and State regulatory agencies in the Lower 48 now find themselves simply trying to allocate the shortage. We believe that the course we suggest you take is one of the types of State action which will be conducive to expand development of Alaska's natural gas resources and will help assure the citizens of Alaska an adequate supply of gas for the long term.

We would be happy to answer any questions.

JH:bla
12-5-75

Homer Electric Association, Inc.

P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

8

January 22, 1976

RECEIVED
JAN 26 1976
Department of
Natural Resources

Mr. William C. Fackler, Exec. Secy.
Alaska Royalty Oil & Gas Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Fackler:

The purpose of this letter is to inform you and your Commission that our Association is entering into negotiations with Chugach Electric Association to acquire their gas fired electric generation facilities at Nikiski.

These facilities are presently consuming approximately 9 million cu. ft. per day of natural gas, which is purchased from the Alaska Pipeline Company. In addition to the present gas consumption, we intend to construct prior to the end of calendar year 1978 an additional generating facility at that location requiring an additional 5 to 6 million cu. ft. per day.

We are familiar with the on-going negotiations between your office and the Alaska Pipeline Company concerning State Royalty gas for resale to Chugach and the Anchorage area.

Please consider this letter as an inquiry to determine whether or not we will be able to purchase Royalty Gas in the amounts described above pursuant to Alaska Statutes AS 38.06.010. We would anticipate purchasing all of the royalty gas available at the Phillips Petroleum LNG Plant with the assumption that the amount in excess of our needs available on a day to day basis could be resold to Phillips for their processing plant.

We assume that we would be required to pay the current market price for the gas which we believe to be 45¢ per MCF plus a negotiated transportation fee. Our negotiations to acquire the electric generating facilities in the area and build additional generation facilities is dependent upon our ability to acquire the State Royalty Gas or a like quantity of other gas in that area.

RECEIVED
JAN 62 1975
ALASKA ROYALTY
OIL & GAS BOARD

Our association is a non-profit cooperative. The membership includes all of the residents and business organizations of the Western Kenai Peninsula. We will greatly appreciate any cooperation that your office can lend us in bringing these negotiations to a mutually beneficial conclusion.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes
General Manager

WCR:em

cc: O. K. Gilbreth
W. I. Palmer
Sen. Clem Tillion
Rep. Hugh Malone
Rep. Leo Rhode
Guy Martin

cc All Bd. memo 4-5

Homer Electric Association, Inc.
P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

March 30, 1976

9

Mr. Guy Martin, Commissioner
Royalty Oil and Gas Development Advisory Board
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Dear Sir:

In our letter to Mr. Fackler dated January 22, 1976, and at a hearing before your Advisory Board, we applied for the State Royalty Gas that you plan to make available from presently producing fields in the North Kenai area.

The purpose of this letter is to inform you that we have been able to obtain commitments to purchase fuel for the proposed new electric generating facility at North Kenai from what we believe to be a reliable source; and, further, Mr. Dale Teel of the Alaska Pipeline Company has agreed to supply our Association with natural gas for fuel for the existing electric generating plants in the North Kenai area if we are successful in acquiring these from Chugach Electric Association.

In view of the foregoing, we feel that it is in the best interest of all concerned that we withdraw our application as outlined in our letter of January 22.

As the Kenai Peninsula continues to attract industry, we do not wish to imply that we will not, at some future time, be interested in dealing with the State for royalty gas that may become available in other, yet to be developed, fields on the Kenai Peninsula area. If, at any time, additional royalty gas does become available we would appreciate it very much if your office would advise us so that we can ascertain whether or not it would be needed in our ever-expanding operation.

We note with interest the development of the Advisory Board's intention to adopt a regulation in Title 11 of the Alaska Administrative Code to interpret and make specific Alaska Statute 38.06, including the determination of surplus.

We sincerely hope that the proposed regulation 11AAC26.900(a) (5) will define the term "industrial use" as referred to in existing regulations, and that the State's royalty gas will be made available first to industrial use and then to all other uses, according to priorities established by your office.

We sincerely appreciate the courtesies extended to our Association by the Advisory Board and your office, and we are looking forward to further negotiations should the need arise.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes
General Manager

WCR:em

cc: Rep. Leo Rhode
cc: Mr. Dale Teel

10

North Cook Inlet Field Royalty Gas
Commissioner's Proposal in Concept

The Commissioner of Natural Resources has recognized that the increasing growth of the Cook Inlet area of Alaska with its resultant increase in the use of natural gas requires that additional natural gas reserves be allocated for that purpose from State of Alaska royalty gas. From the standpoint of size of uncommitted gas reserves, geographical location and possible pipeline access, the North Cook Inlet field royalty gas appears the best available supply at this time. Pursuant to AS 38.05.182 the Commissioner proposes that it is in the best interest of the State to take in kind the State's royalty share of the gas production from the North Cook Inlet gas field and requests the consent of the Alaska Royalty Oil and Gas Development Advisory Board for this change.

The Commissioner further proposes to dispose of the North Cook Inlet field royalty gas to Alaska Pipeline Company and its subsidiaries through a negotiated contract. The proposed contract will contain the following provisions:

1. Purchaser agrees to take 1/8 of daily production from the North Cook Inlet gas field on an if and as deliverable basis for the contract period. The State will report to the Purchaser each month the amount of royalty gas produced by Phillips during the prior months.

The approximate average daily royalty gas share of the production from Phillips' North Cook Inlet field platform is 17,000 MCF. Gas production from the platform varies as LNG plant needs dictate therefore no daily amount can be specified.

2. Point of delivery will be the wellhead.

3. Purchaser is responsible for measurement costs, and any compression or dehydration costs if or when necessary.

4. The contract expires on June 1, 1984, unless extended by mutual agreement for a period not to exceed one year.

5. The price of the gas will be equal to the price the State otherwise would have received from Phillips for its royalty gas for export as LNG to Japan; but not less than the highest price paid by any purchaser in the Cook Inlet area for a similar sale of gas of similar quality. The price will be adjusted yearly on the anniversary date of the contract.

6. The contract shall not be effective until

-all necessary permits and authorizations by governing bodies are obtained

-all transportation or exchange arrangements have been completed to the satisfaction of the parties involved.

-six month's notice required under lease

The Commissioner request approval of the above proposed conceptual plan by the Alaska Royalty Oil and Gas Development Advisory Board.

Bill

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.
PHONE: 586-6440
JUNEAU, ALASKA 99801

11

1976 MAR 29 PM 5 03

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1-034980C389 03/29/76

TWX PAC LGHT LSA

215 LOS ANGELES, CA MARCH 29, 1976

PMS MR. GUY MARTIN, CHAIRMAN

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER 7580

POUCH M

JUNEAU, ALASKA 99801

WITH REFERENCE TO THE LETTER FROM PACIFIC ALASKA LNG COMPANY TO MR, GUY R. MARTIN, COMMISSIONER OF NATURAL RESOURCES, DATED MARCH 5, 1976. OUR OFFER TO BID ON THE PURCHASE OF THE STATES ROYALTY SHARE OF GAS IN THE NORTH COOK INLET AREA WAS LIMITED ONLY TO THOSE FIELDS IN THAT GENERAL AREA IN WHICH WE CURRENTLY HAVE THE RIGHT TO PURCHASE GAS OR MAY IN THE FUTURE HAVE THE RIGHT TO PURCHASE GAS. WE HAVE NO INTEREST IN BIDDING ON THE PURCHASE OF ANY STATE ROYALTY GAS PRODUCED FROM THE "NORTH COOK INLET FIELD"

PACIFIC ALASKA LNG COMPANY

BY P. VER PLANCK

1956 EST

IPMAFUB AHG

ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

12

April 2, 1976

Mr. Guy T. Martin
Commissioner of Natural Resources
11th Floor, State Office Building
Pouch M
Juneau, Alaska 99811

Dear Commissioner Martin:

The purpose of this letter is to confirm our oral proposal made to the Alaska Royalty Oil and Gas Development Advisory Board during its March 30/31 meeting in Juneau.

The proposal can be outlined as follows:

1. The State take North Cook Inlet royalty gas in kind and sell such gas to AGAS.

2. AGAS will take delivery of the gas at the platform. This presumes that--

   (a) an arrangement can be made whereby, for suitable compensation, Phillips will transport the gas via their existing system to a point adjacent to the LNG plant.

   (b) the APUC waives jurisdiction over the Phillips facilities to the extent that they may otherwise come under regulation due to the transport of the "royalty" gas.

3. The price will be equal to the Phillips price for royalty gas exported to Japan or equal to the highest price paid in the Cook Inlet area for similar quality gas.

4. The proposal is to cover the "life of the contract" and will terminate on or about June 1, 1984.

5. AGAS will take or pay

   This presumes that--

   (a) it may be agreed with the State that royalty will be taken in kind for resale to AGAS on a selective lease by lease basis so that the volume in question will approximate AGAS' North Road requirements or

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

(b) if suitable exchange arrangements can be made with others or if AGAS chooses to build the pipeline connection to its Anchorage line--it may be agreed with the State that all of the royalty be taken in kind for resale to AGAS.

(c) The notice date regarding the State taking royalty in kind be so arranged as to permit AGAS a reasonable length of time to make exchange arrangement with others or to build the required pipeline facilities on a reasoned schedule.

6. The volume of gas expected to be taken in kind for resale to AGAS over the life of the contract is approximately 40 BCF with the actual amount being dependent upon the date of commencement, the arrangement agreed to under #5 above and the actual rate at which the field is produced.

7. It is understood that a deliverability feature is not required in this agreement.

Very truly yours,

Harold F. Schmidt
Senior Vice President

dh

Alaska Royalty Oil and Gas Development Advisory Board
Minutes of the April 26, 1976, Meeting
Juneau, Alaska

13

The meeting was called to order by Chairman Martin at 10:00 a.m. April 26, 1976. All members present except Mr. Gallagher who was late.

The minutes of the previous meeting, March 30 and 31, 1976, had been mailed to Board members prior to the meeting. Mr. Lyon moved for approval and Dr. Triplehorn seconded the motion. Mr. Martin noted that Paul Robison's name was misspelled. The correction was made by the secretary. The minutes were approved unanimously by the four members present.

Chairman Martin advised the Board of an agenda change. No proposed sale of North Slope royalty gas would be introduced to the Board at this meeting. He wished to brief the Board on the status of negotiations during the meeting but in an executive session. Also he wanted to determine a satisfactory date for the next meeting within the next ten days to two weeks.

After discussion, the dates of May 7 and 8 and May 11 and 12 were selected with the decision made by the Chairman depending on progress.

Next item for consideration was the proposed sale of North Cook Inlet Field royalty gas to Alaska Pipeline Company. The contract draft was reviewed in detail by the Board, item by item. All corrections were noted and a corrected draft prepared for the afternoon session.

Mr. Martin gave a brief status report on the North Slope royalty oil solicitation including a recent conversation with Mr. Downey of Tesoro Alaska Oil Company. Tesoro maintains their interest in expanding the Kenai refinery using North Slope royalty oil.

Mr. Gallagher moved that the Board reconvene in executive session at 1:30 p.m. and public session at 2:30 p.m. Motion seconded by Mr. Lyon. Motion passed unanimously.

The Board reconvened in public session resuming consideration of the North Cook Inlet Field royalty gas sale. Documents before the Board were: a corrected draft of the contract, request for approval to waive the competitive bidding requirement and approval for the rejection of bids or applications.

Several changes in wording in contract provisions were worked out and noted for retyping.

There was no response to a call for public participation

Mr. Boness reported on the legal research by Mr. Allen, Covington and Burling, on a set of questions relating to State taking of royalty-in-kind. He had received a preliminary draft by telecopy which was not suitable for copying for the Board. The legal research essentially confirmed the opinions of the Department of Law and industry counsel who have responded to State questions on the matter. Mr. Allen's work has bolstered these opinions by case citations and also pointed out the areas where case law has not developed, particularly in reference to a State taking royalty gas in-kind. The authority of the Federal Power Commission to control gas arising from its jurisdiction over pipeline transport is of special interest to the State. Mr. Allen recommends procedures to follow to reduce FPC control as much as possible. The State should make its desires known to the producers in time to be included in the producer's contracts with gas purchasers and to the FPC. The report also was not optimistic about the FPC granting the State authority to abandon gas sales at the time of initial sale or preabandonment authority as some refer to it.

Mr. Gallagher returned from his telephone call to Mr. Harold Schmidt, Alaska Pipeline Company, about certain wording in the price provision of the contract. The wording added to the provision was explanatory.

The requests for prior written approval to reject bids and to waive competitive sales were circulated. Mr. Gallagher moved that the Alaska Royalty Oil and Gas Development Board approve the waiver of competitive sales, Dr. Triplehorn made the second. On a roll call vote each member voted yes and signed the waiver.

Mr. Lyon moved that AROGDAB approve rejection of all bids or applications for the royalty gas in the North Cook Inlet Gas Field except that of Alaska Pipeline Company as provided for in AS.38.06.050(b). Dr. Triplehorn made the second. The motion was approved by unanimous vote on a call of the roll and each member signed the approval.

Mr. Gallagher moved that AROGDAB approve the gas purchase and sale contract, as amended, for the sale of the North Cook Inlet Gas Field royalty gas to the Alaska Pipeline Company as provided for in AS.38.05.183 and AS.38.06.050. Mr. Lyon was the second. On a roll call vote all members voted affirmatively.

The Chairman announced that the Board had concluded its first sale. He also said that he would initiate an inquiry regarding possible exchange of gas between the State, producers and gas purchasers.

The meeting was adjourned.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

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

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 transporatation 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 logical that the contract include guarantees with respect to this matter or, alternatively, provisions allowing the state to unilaterally terminate the arrangement.

Finally, we would note that the "Resolved" clause of the resolution offered by the governor when he requested approval of this contract (HCR 142) would appear to be incorrectly worded. We would suggest that the following language be substituted:

> "BE IT RESOLVED by the Alaska State Legislature that Alaska royalty gas sale No. 76-1 and the contract providing for the sale of royalty gas from the North Cook Inlet gas field pertaining to it, between the State and the Alaska Pipeline Company, is hereby approved."*

We would also suggest that the contract itself be made a part of the legislature's official record by its inclusion in the House Committee Report, and thus the Supplement.

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* If the legislature or a committee thereof believes that the above comments or other considerations require some revision of the contract, the most expeditious way of bringing them about might be to instruct the Department of Natural Resources or Mr. Fackler (executive director of the Royalty Board) to work with the proposed buyer to develop the necessary language. The resolved clause could then read:

> "BE IT RESOLVED by the Alaska State Legislature that Alaska Royalty Gas Sale No. 76-1 and the amended contract (submitted to the legislature on ___ May 1976 and appearing in the House Journal Supplement for ___ May 1976) providing for ..."

STATE OF ALASKA
JAY S. HAMMOND, GOVERNOR
DEPARTMENT OF NATURAL RESOURCES
ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD
11TH FLOOR, STATE OFFICE BLDG.
POUCH M – JUNEAU 99811

May 7, 1976

The Honorable Nels Anderson
Chairman, House Resources
Committee
Pouch V
Juneau, Alaska 99811

Dear Mr. Anderson:

In accordance with the requests of you and your committee the items listed below pertaining to HCR 142 are attached.

1. Letter from Alaska Pipeline Company dated September 30, 1975 requesting State royalty gas from North Cook Inlet Field.
2. Minutes of Board meeting October 10, 1975.
3. Roster from October 10, 1975 meeting.
4. Minutes of Board meeting November 10, 1975.
5. Alaska Pipeline Brochure prepared for November 10, 1975 meeting.
6. Letter from Phillips Petroleum Company, dated October 21, 1975.
7. Letter from Phillips Petroleum Company, dated December 5, 1975.
8. Letter from Homer Electric Association requesting royalty gas, dated January 22, 1976.
9. Letter from Homer Electric Association withdrawing request, dated March 30, 1976.
10. Sale terms approved by Board.

11. Telegram from Pacific Alaska LNG disclaiming interest.

12. Letter from Alaska Pipeline Company agreeing to terms dated April 2, 1976.

13. Minutes of Board meeting April 26, 1976 approving sale.

If you desire additional information regarding the North Cook Inlet Field royalty gas sale, please advise me.

Yours truly,

William C. Fackler

William C. Fackler
Executive Director

Attachments

1

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

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NATURAL RESOURCES
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ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

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

Dale Teel

DT/js

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

Alaska Public Utilities Commission

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).

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 L' G 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

cc: Alaska Public U ities Commission

ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

COPIES SENT TO:

Paul Robison
Sebe Eastland
Harold Schmidt
O. C. Honig

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.

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OIL & GAS BOARD

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

Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission

Mr. O. K. Gilbreth

(2)

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD

Minutes From October 10, 1975, Meeting in Juneau

1. The meeting was called to order by Chairman Martin at 9:00 a.m. in the Fifth Floor Conference Room of the State Office Building. All of the Board members were in attendance. Chairman Martin had no special remarks in opening the meeting and the meeting proceeded according to the agenda (Appendix A). Several members of the public were present.

2. The minutes of the August 4, 1975, meeting were approved as circulated to the Board.

3. Reports

A. Board's Administrative Report.

1. Richard Lyon moved that the Royalty Board go into executive session to discuss the appointment of an Executive Director for the Royalty Board. The motion was seconded by Donald Triplehorn. The motion passed unanimously at 9:10 a.m. The meeting was called back to order at 9:30 a.m. Chairman Martin advised those present that the Board has made a decision on the appointment of an Executive Director. Arlon Tussing moved that William C. Fackler be appointed as Executive Director of the Alaska Royalty Oil and Gas Development Advisory Board to be effective November 15, 1975, at an advanced step of the salary range. Donald Triplehorn seconded the motion and the motion passed unanimously.

2. Chairman Martin advised that the Department of Law's report was not yet complete, therefore, it will be presented at a later date.

3. Chairman Martin informed the Board that it needed to decide about the distribution of proposals to interested parties. The motion was made that the Board establish open reading files in Anchorage in the Divison of Lands' office and in Juneau in the Commissioner's office. The proposals received should be placed in the reading files and mailed to the Board members and after five working days be made available to the public upon request. The motion was seconded by Richard Lyon. Motion passed unanimously.

B. Studies

1. Projected Natural Gas Demand - A report was presented by Mr. Pat Dobey of the Division of Geological and Geophysical Surveys of the Department of Natural Resources on the projected natural gas demand. (Appendix B.)

2. Mr. O. K. Gilbreth, Director of the Division of Oil and Gas for the Department of Natural Resources, presented a report on the projected natural gas availability in Cook Inlet to the Royalty Board. (Appendix C.)

C. Current Federal Legislation - Arlon Tussing gave a brief report on current federal legislation (Appendix D). Mr. Tussing informed the Board that in summary it is still in stalemate both on oil and gas legislation, and that the Congress had passed legislation continuing price controls and allocations on oil and gas and did not accept the Administration's proposed schedule for phasing out price controls. The President vetoed it, the veto was sustained and Congress did not override the veto and beginning the first of September there were no price controls or allocation authority for oil and gas. The President did agree to another retroactive extension of price control while there was an attempt to come up with a new compromise. The House and Senate are now in conference on the legislation and both the House and Senate bills that went into this conference have price control provisions which are unacceptable to the Administration. It looks as if in November we will again be faced with a situation where Congress will pass an extension of oil and gas price control which will include a rollback in the price of new oil.

Chairman Martin asked for concurrence of the Board in altering the agenda to take up the definition of surplus question following the presentation of proposals received since the last meeting of the Board. There was no objection by the Board.

5. Correspondence - Mr. Fackler read several letters that had been received from companies that refer to earlier proposals submitted by the various companies to the Board. (Northern Natural Gas, Southern Natural Gas Company and Alaska Petroleum Company.)

6. Proposals since the last meeting.

A. Prudhoe Bay

Mr. Fackler informed the Board that a letter from Murphy Oil Corporation had been received. He advised that Murphy Oil was interested in supplying a portion of their Superior, Wisconsin, refinery's needs with Alaskan crude oil starting in 1977. The vehicle for the crude oil would be the Trans Mountain Pipeline from Puget Sound to Interprovincial Pipeline and then to Superior, Wisconsin. They estimated requirements to be 20,000 to 40,000 barrels per day. They advised that at the present time it would be impossible with the uncertain conditions in regard to price, government controls, pipeline reversal, et cetera to submit a firm bid for production to be purchased several years in the future. They would be willing to pay competitive world market prices for similar types of crude at the time of purchase.

Mr. Robert C. Thomas of Tennessee Gas Transmission Company was present and was requested to present their proposal. Mr. Thomas advised that their proposal would allow the following benefits:

1. Company acquiring the right to contract the royalty reserves should be capable of giving maximum support to the obtaining of a trans-Alaska pipeline route. He pointed out that in their approach they had covered this point by stating that to date Tennessee Gas Transmission Company has not supported either route designed to transport North Slope gas to market.

2. That the State would receive substantial front-end money. In their approach they indicated that they would make available to the State in excess of 100 million dollars for the right to contract all of the royalty oil and gas reserves in the Prudhoe Bay Field. The exact amount contributed would be subject to further negotiations between the parties and would reflect the needs of the State, the drawdown schedule, and several other factors. The funds would be made available to the State over a three-year period according to the State's needs. There would be no recovery of the advanced funds for a period of three years following the date of the advance. The contribution would be hopefully recovered out of the portion of revenue from the royalty natural gas or oil. The recovery period would be five years, giving a total of eight years. The funds that would be made available would be interest free.

3. They felt that some of the gas must be available for use within the State. In their outline they indicated that they would consider reservation of the State of up to 10 percent of the royalty gas. They did not intend to imply that this represented the maximum anticipated future growth of the State natural gas lease. What it did indicate is that they feel the primary goal at this time should be to secure a trans-Alaska route and that the major source of gas for the future needs of the State would come from future reserves found and transported through this system.

4. The maximum possible wellhead price should be paid for the reserves when produced. They feel that the gas produced in Prudhoe Bay would go into interstate commerce and under current regulations would be subject to control by the Federal Power Commission. Since they are regulated by the Federal Power Commission, they are unable to guarantee a specific wellhead price.

Since the purchaser is subject to unknown timing factors and substantial risks associated with purchasing the right to contract Prudhoe Bay gas, the purchaser must be compensated by certain benefits. They see those benefits to the purchaser as being:

1. the front-end payment must be financeable,

2. the front-end payment must be recoverable at a particular point in time, and

3. the right to contract all of the State's royalty gas in Prudhoe Bay subject to a 10 percent reservation of the gas by the State.

They feel the most important consideration by the State at this time is the securing of the trans-Alaska routing for the Prudhoe Bay gas. This is the biggest single factor that would have an impact on the State throughout its future. To insure that there is no question about their intent in promoting a trans-Alaskan route, Tenneco would add a provision to the memorandum they submitted that they would be willing to give the State the option of terminating their right to contract should the trans-Alaska route not be considered. This termination provision would further provide that Tenneco would receive their capital contribution back plus any interest and that they would not be prejudiced in any further attempts to contract royalty gas.

Chairman Martin asked Mr. Thomas if Tenneco had done any analysis of the El Paso proposal on a comparative basis with their proposal and had they taken a look at the question of the 10 percent set aside and the jurisdictional question in regard to commingling? Mr. Thomas advised that he would get a response to these questions in writing to the Board.

Arlon Tussing asked if Tenneco could provide the Board with the backup on their market analysis and cost analysis. Mr. Thomas stated that he would be happy to get the information together for the Board.

Chairman Martin called a lunch recess until 1:30 p.m. The meeting was called to order at 1:30 p.m. and Mr. Fackler read a letter received from Northern Liquid Fuels Companies dated August 11, 1975, to the Board. Northern Liquid Fuels Companies wished to acquire the right to process the State of Alaska's royalty share of the gas to be produced from the Prudhoe Bay Field for the removal of propane, butane, natural gasoline and ethane (NGL) and to purchase any NGL attributable to the State of Alaska's royalty share of the oil produced from such field. For the right to process the State of Alaska's royalty share of such gas, the Companies would propose a prepayment plus a payment for each barrel of NGL extracted and marketed over the life of the field, the amounts of such payments to be determined upon conclusion of the study hereinafter referred to. The Companies propose to undertake a comprehensive study to determine which of the following programs is more economical: 1) process the gas stream in the field for removal to the NGL and build a liquids pipeline to transport the NGL to Southern Alaska, or 2) leave the NGL in the gas stream and process the stream: a) in Southern Alaska, if a trans-Alaska gas pipeline is built, or b) in Canada or the United States if an Alaska-Canadian pipeline system is built. The studies will take into account the needs of the State, particularly the establishment of a liquid fuels distribution system in the State of Alaska in its principal cities of Anchorage, Fairbanks, Juneau, as well as others to which reasonable transportation can be made available to transport safely liquid fuel. The Companies would be interested in establishing such a system if the studies indicated that the NGL should be removed either in the Prudhoe Bay Field or at the coast or some intermediate point along the trans-Alaska pipeline. The portion of NGL which exceeds the needs of the State of Alaska would be exported to the continental United States. The Companies, together with two other parties, are currently engaged in designing an LPG import terminal facility on the Houston Gulf Coast capable of receiving 100,000 barrels of LPG per day. Mr. Baca was present to answer any questions the Board had. Mr. Baca advised the Board that he would prepare a more detailed proposal concerning purchase of State royalty natural gas liquids.

B. Cook Inlet

Mr. Fackler advised the Board that two proposals had been received with regard to Cook Inlet gas. The first one was from Alaska Pipeline Company who were requesting purchase of 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 paid by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. They believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline and compression would be minimized. Since their supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being, it would be practical that Alaska Pipeline would take whatever amount of the North Cook Inlet royalty gas that may be available day by day by displacement into their system at the Kenai gas field. Later, if additional investment would be required for transporting this royalty gas to shore, they would negotiate their participation in investment, or install their own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned. The essential aspect of their request is that they have an immediate need for additional gas on the North Kenai Road and have a long-term requirement for additional gas reserves to serve Alaskan customers in their present service area. They believe that it is in the public interest that they should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. They would begin preparing a formal application to purchase this gas and would appreciate having the Board's guidance as to what supporting data or format may be desired.

Mr. Fackler gave the Board some background on this request. He advised that Alaska Pipeline Company has renegotiated with Union Marathon and have increased their deliverability but have not increased their reserves. Mr. Teel is seeking increases in reserves now. Chairman Martin advised the Board that what Mr. Teel indicates would require Board action and submission to the upcoming Legislature. Mr. Teel feels that from the consumer's standpoint this would be very attractive legislatively. It would be based totally on the attractiveness applying to the Anchorage area as opposed to other areas in the State. Mr. Gallagher informed the Board that a clause in regard to most favored nations should be included in the new contract. Mr. Gallagher informed the Board that the most favored nations concept is that the price will meet the highest price in the field. Chairman Martin requested that Mr. Fackler direct a letter to Mr. Teel inviting him to make a presentation at the Board's next meeting.

The second letter was from Northwest Natural Gas Company in which they advised that their project for delivering LNG from Alaska to the State of Oregon had hit a snag due to the jurisdictional restrictions which would be imposed on the producers (Phillips Petroleum Company and Marathon Oil Company) by the Federal Power Commission.

4. Definition of Surplus - Chairman Martin read the statute regarding surplus (AS 38.05.13(d)). Chairman Martin advised the Board that some basic standard in regard to surplus is going to have to be established as a part of the regulations. The Board discussed how they should go about putting that regulation together. After much discussion about surplus, three items emerged that should be included in the definition of surplus and they are: 1) time period, 2) demand, and 3) supply. Chairman Martin informed the Board that he would attempt to bring back to the Board at their next meeting a finished product with regard to the definition of surplus.

7. Other Business - Dick Lyon moved that the Board authorize the Board members who wished to take a briefing from Tennessee Gas Transmission Company on their economic analysis and go through their calculations of costs and that either the Board member or Tennessee Gas Transmission Company would send to the Board a written summary of the briefing for the Board's records. Don Triplehorn seconded the motion and the motion passed unanimously.

Chairman Martin advised that the next item on the agenda was the scheduling of the next Board meeting. The next Board meeting will be held in Anchorage, Alaska on November 10, beginning at 8:30 a.m. He advised that there should be another meeting in December. The meeting is tentatively scheduled some time during the week of December 8. The meeting will be held in Juneau and will begin at 8:30 a.m.

8. Public Participation - Mr. Swetnam of Phillips Petroleum Company requested that Phillips have an opportunity to make a presentation to the Board regarding North Cook Inlet royalty gas. Chairman Martin requested that Phillips make a written presentation to at least the Commissioner's Office, which the Commissioner would make available to the Board and based on this proposal talk with his office in the interim so they could decide whether an appearance would be necessary and desirable.

Mr. A. Baca of Northern Liquid Fuels Companies wanted to add to their presentation that if an LPG system is feasible to be constructed that the State's royalty liquids would be available to serve any market within Alaska that might exist.

There being no further business the meeting adjourned at 3:15 p.m.

Mr. Patrick Dobey, Division of Geological and Geophysical Surveys, reviewed current progress on the computer model study of probable future demand for gas in Alaska. A copy of his presentation is attached.

Mr. Robert C. Thomas, Tennessee Gas Transmission, presented additional information on the effect of Federal Power Commission regulations on Alaska's use of its royalty gas. This information was requested by the Board at the October 10 meeting in Juneau.

Their legal counsel is of the opinion that the State as a political subdivision is not subject to direct FPC control. However, any State gas transmitted by a transfer would require a certificate thereby allowing at least a measure of indirect control.

Tenneco suggests that FPC control could be minimized by either of two ways. One is to secure an immunity or exemption by the FPC in the original certificate. Second is an exemption through legislative action by Congress approved by the President. A copy of this memorandum is attached.

Following this discussion the Board instructed the Chairman and staff to proceed in drafting proposed regulations on determining surplus definitions of supply and demand. The proposed regulations are to be published in several newspapers. Final language and approval will depend on comments on the public notice.

Chairman Martin requested approval by the Board to extend the term of acting directorship for Mr. Fackler until the appointment of a new Deputy Commissioner. There being no objection by the Board, approval was granted.

Authority was also requested to expend up to $20,000 of Board contractual funds for consulting purposes. After a short discussion on possible types of consultant activities, the Board approved the request.

The next meeting date of the Board was set as December 9 and 10, 1975, in Juneau. There being no further business before the Board, the meeting was adjourned.

③ 10/10

Roster

Bruce Moore	Reps Birch, Jermain, Horton Bittner Attorneys
M. C. Holland	El Paso Alaska Co
Larry Eppenbach	Treasury Div.
Sarah Eppenbach	Alaska Conservation + Oil Mag.
Apolonio Baca	Northern Liquids Fuels Co.
Robert C. Thomas	Tennessee Gas Transmission
Bob Gwetnam	Phillips Petroleum
O.K. Gilbreth	Div Oil & Gas - Anch.
~~Pat.~~ Patrick Dobey	Div of Geol & Geoph Survey

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ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD

Minutes From November 10, 1975, Meeting in Anchorage

1. The Meeting was called to order by Chairman Martin at 8:30 a.m. in the Division of Lands Conference Room in Anchorage. All Board members were in attendance, together with members of our legislative liaison group, distinguished Commissioners of Public Utilities and other dignataries.

2. The Minutes of the October 10, 1975, meeting were discussed. Arlon Tussing raised a question on the wording of Section 4 on page 6 on Definitions of Surplus, and whether or not Mr. Tussing had made a motion defining parameters needed in the definitions. Mr. Fackler was instructed to determine if the recorded tapes of that meeting were still available and transcribe that portion if possible.

3. Reports

A. Chairman Martin was informed that the reports on Natural Gas Future Demand and Existing Gas Contracts scheduled at this time would be delayed several hours pending last minute work. The Board decided to amend the schedule and advance to Part V - Proposals.

5. Proposals

A. Prudhoe Bay

1. Mr. John Bennett, El Paso Alaska Company, reviewed the El Paso trans-Alaska gas pipeline project efforts to date emphasizing El Paso's need for a contract to purchase or transport State royalty gas from Prudhoe Bay which is surplus to State's needs. A transcript of the testimony is attached.

B. Cook Inlet

1. Mr Dale Teel, Alaska Pipeline Company, presented a request that the State royalty gas from North Cook Inlet gas field be taken in-kind and sold to Alaska Pipeline Company. His testimony was followed by Mr. John Horn, Phillips Petroleum Company, who opposed Mr. Teel's request. A transcript of the testimony of Mr. Teel and Mr. Horn is attached to the minutes.

Mr. Thomas Stahr, Anchorage Municipal Light and Power, read a letter to the Board supporting the Alaska Pipeline Company request. A copy of the letter is attached.

Mr. John Miller, Division of Oil and Gas, presented a table summarizing the existing gas contracts in the Cook Inlet area. Items include quantity of gas dedicated, length of contract, price, remaining reserves to contract and uncommitted reserves.

Nov 10, 1975 Mtg Anchorage

Name:	Representative of:
John L. Williford	Phillips Petroleum Company
John Horn	" " "
Len McLean	Pacific Alaska LNG Co.
Don Triplehorn	Univ. of Alaska - Board Mbr.
Arlon Tussing	" "
Eric Eckholm	Gas Pipeline Legislative Comm.
Dale T[illegible]	Anchorage Natural Gas
Paul F Robison	Atty " " "
Richard A. Lyon	Board Member
M.C. Holland	El Paso Alaska Co
J.C. Bennett	El Paso Alaska Co.
Jack Roderick	self
Thomas Stahr	Anchorage Municipal Light & Power
Carolyn Guess	Alaska Public Utilities Commission
Paul F. Robeson	above
Gordon Schadt	Birch, Jermain, Horton & Bittner
Fred Boness	Dept. of Law
Julius J. Brecht	" " "
Gordon Zerbetz	Alaska Public Utilities Comm
Noel Burke	Marathon
Chancy Croft	Alaska Senate
C.J. Diver	Marathon
Harold Schmidt	Alaska Gas & Service
Peter C. Ginder	Ely, Guess & Rudd (Pac Ak LNG Co.
Ken Sheppard	Consulting Engineer
[illegible]	El Paso Alaska

Jared G. Carter	Tenneco
Kay M. Linton	O. M. A. R.
Robert C. Thomas	Tenn. Gas Transmission
Bill Maguire	Legislative Affairs
Rosemary Shinohara	Daily News
Mike Bradner	Alaska House of Representatives
Elijo Todd	Anchorage Times
Lawrence Eppenbach	Dept. of Revenue
W. C. Fackler	Natural Resources
John C. Miller	✓ ✓
Tom Marshall	✓ ✓
Patrick L. Dobey	✓ ✓

(6)

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661-6600

NATURAL RESOURCES GROUP
Gas and Gas Liquids Division

October 21, 1975

North Cook Inlet Royalty Gas

File: 1-Ho-381-75-G&GL

Commissioner Guy Martin, Chairman
Alaska Royalty Oil and Gas Development
Advisory Board
c/o Department of Natural Resources
Juneau, AK 99801

Dear Commissioner Martin:

We are advised that certain interests have made application or may make application to purchase royalty gas owned by the State of Alaska and produced from the North Cook Inlet Field. Phillips is the Owner and Operator of this field.

Phillips has at considerable risk and expense, developed the North Cook Inlet Field and has provided a market for the natural gas when no markets existed. Phillips constructed a pipeline, liquefaction plant, and LNG tankers which were designed to utilize all of the natural gas produced from the North Cook Inlet Field. Through our efforts, we have negotiated several substantial price increases with our customers and have shared these price increases with the State of Alaska. This, we believe, gives strong evidence of Phillips' willingness to establish a fair and reasonable wellhead price as a basis of royalty payment. We know of no other natural gas royalty settlement in Alaska at a price as high as Phillips is paying.

For the State of Alaska to take the royalty gas in kind and separately dispose of it will impose severe economic hardships on Phillips. Such disposal to a third party will cause a premature abandonment of the pipeline, liquefaction and transportation facilities due to the early depletion of our natural gas reserves. All of these facilities were specifically built to create and provide a market for all of the natural gas from the North Cook Inlet Field. Additionally, it would require the drilling of more wells and the installation of additional compression equipment as well as the installation of certain compression equipment at an earlier date.

We strongly oppose the sale of royalty gas from the North Cook Inlet Field by the State of Alaska to any third party because of the undue economic hardships that it will impose on us. Further, Phillips is settling with the State of Alaska on a fair and reasonable value for the State's royalty gas.

Please take a look at our performance record. We believe that the State of Alaska will receive the greatest overall benefit by allowing Phillips to continue to market Alaska's royalty gas from the North Cook Inlet Field.

Very truly yours,

John Horn

John Horn, Manager
Gas and LNG Sales Branch

JH:bla

cc: Mr. R. I. Swetnam
Phillips Petroleum Company
Hoblit Building
515 "D" Street
Anchorage, AK 99501

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004 918 661-6600

NATURAL RESOURCES GROUP
Gas and Gas Liquids Division

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December 5, 1975

State Royalty Gas
North Cook Inlet Field
Alaska Gas & Service
Company Proposal

File: 1-Ho-438-75-G&GL

Commissioner Guy Martin, Chairman
Alaska Royalty Oil and Gas Development
Advisory Board
c/o Department of Natural Resources
Pouch M
Juneau, AK 99801

Dear Mr. Martin:

During the hearing before the Alaska Royalty Advisory Board on November 10, 1975, in Anchorage, a brochure entitled "The Case for Committing Alaska State Royalty Gas from the North Cook Inlet Gas Field to Alaska Pipeline Company (Anchorage Natural Gas)" was presented to the Board. We offer the following comments to the Board on this proposal in addition to the oral presentation made in behalf of Phillips at the November 10 hearing.

1. Phillips recognizes that the State has the right to take its royalty share of the gas in kind at the wellhead. But we believe that such action will not in the long run be to the best advantage to the citizens of the State.

2. Phillips has invested over $125,000,000 to develop a market for the North Cook Inlet Field gas when no market existed. Our investment was made with the expectation that we would market all of the gas from the field — it was our obligation to market the State's royalty gas along with our working interest gas.

3. Deliveries commenced six years ago and we had visualized at least a 20-year project.

4. Phillips has actively worked with various groups and individuals in Alaska, including Alaska Gas & Service Company, to try to make LNG available to the more remote areas; however, thus far the high cost of transportation has thwarted these efforts.

Comments by John Horn
Phillips Petroleum Company
to
Alaska Oil and Gas Development Advisory Board
Juneau, Alaska, December 9, 1975

Mr. Chairman, Members of the Board,

Phillips Petroleum Company appreciates the opportunity once again to appear before you. Let me state again that we share with you the concern that the citizens of Alaska derive a fair and reasonable benefit from the State's natural resources — including its natural gas. We recognize that the State has the right to take its royalty share of gas in kind at the wellhead.

We have handed to you a folder which contains (1) our written response to the Board on the brochure entitled "The Case for Committing Alaska State Royalty Gas from the North Cook Inlet Gas Field to Alaska Pipeline Company (Anchorage Natural Gas)" which was presented to the Board at the November 10, 1975 hearing in Anchorage, and (2) reproduced copies of some letters from governmental officials written at the time our LNG project was in its formative stages so that you may have the benefit of their feelings toward the Phillips-Marathon LNG Project at that time.

Although we have reprinted the entire texts for your review, I would like to quote from two of these latter mentioned letters.

The first is from a letter dated March 21, 1967, from Senators E. L. Bartlett and Ernest Gruening, addressed to Honorable Lee C. White, then Chairman of the Federal Power Commission, with respect to the Phillips-Marathon LNG Project.

"It is our hope that favorable action on the two applications and the subsequent development of Japanese markets will encourage the exploration and utilization of new Alaska gas fields. The present proposal and those we hope will follow will have a very measurable, favorable and tremendous effect on Alaska's economy.

"We support the applications in the strongest way possible."

The second is dated April 7, 1967, from Mr. Anthony M. Solomon, Assistant Secretary, Bureau of Economic Affairs, Department of State, and also addressed to Honorable Lee C. White.

"The Department of State raises no objections to the substance of the Phillips-Marathon proposal and in view of trade expansion policy supports the prompt action of the Federal Power Commission toward favorable response to the application."

During this time, we worked with Mr. Frank H. Murkowski, then Commissioner of the Department of Economic Development, who was most anxious to further the economic development of Alaska and to develop and utilize its natural gas resources.

We were advised at that time that 1967 marked the 100th year since Alaska was purchased from Russia and that our proposed LNG plant would be one of the top four industrial installations in Alaska during those first 100 years.

We believe that the State would receive the greatest benefit if it continued to receive the royalty payments made from the North Cook Inlet Field by Phillips, which is substantially higher than the prices presently being paid for natural gas by Alaska Gas & Service Company for other gas in the area. We submit that if Alaska Gas & Service Company would offer producers in the Cook Inlet Area the same amount that it would pay for the royalty gas from North Cook Inlet Field, this should be a very attractive market for natural gas and would encourage the development of additional natural gas reserves in the Kenai-Cook Inlet Area for Alaska Gas & Service Company even beyond the 15 million cubic feet per day which they propose to receive from North Cook Inlet Field.

The State is in the enviable position of not having to decide on an "either/or" basis but has the opportunity to continue to receive income from the present market while encouraging the creation of new markets and development of the undeveloped natural gas resources in the area — thus winning on both bases.

It might be interesting to the Board to know that Phillips Petroleum Company in 1975 will pay from this project to the State of Alaska revenues in excess of $60,000 for each of its employees in the State.

We would hope that the State of Alaska would encourage the judicious development of its natural gas resources. We believe that the State should take that action which will result in a long term supply available for the development of Alaska's economy. Certainly, we would hope that the State would avoid the mistakes made in the Lower 48 States in the past which depressed exploration and development. The result has been an inadequate supply of natural gas and the Federal and State regulatory agencies in the Lower 48 now find themselves simply trying to allocate the shortage. We believe that the course we suggest you take is one of the types of State action which will be conducive to expand development of Alaska's natural gas resources and will help assure the citizens of Alaska an adequate supply of gas for the long term.

We would be happy to answer any questions.

JH:bla
12-5-75

Homer Electric Association, Inc.
P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

8

January 22, 1976

Mr. William C. Fackler, Exec. Secy.
Alaska Royalty Oil & Gas Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Fackler:

The purpose of this letter is to inform you and your Commission that our Association is entering into negotiations with Chugach Electric Association to acquire their gas fired electric generation facilities at Nikiski.

These facilities are presently consuming approximately 9 million cu. ft. per day of natural gas, which is purchased from the Alaska Pipeline Company. In addition to the present gas consumption, we intend to construct prior to the end of calendar year 1978 an additional generating facility at that location requiring an additional 5 to 6 million cu. ft. per day.

We are familiar with the on-going negotiations between your office and the Alaska Pipeline Company concerning State Royalty gas for resale to Chugach and the Anchorage area.

Please consider this letter as an inquiry to determine whether or not we will be able to purchase Royalty Gas in the amounts described above pursuant to Alaska Statutes AS 38.06.010. We would anticipate purchasing all of the royalty gas available at the Phillips Petroleum LNG Plant with the assumption that the amount in excess of our needs available on a day to day basis could be resold to Phillips for their processing plant.

We assume that we would be required to pay the current market price for the gas which we believe to be 45¢ per MCF plus a negotiated transportation fee. Our negotiations to acquire the electric generating facilities in the area and build additional generation facilities is dependent upon our ability to acquire the State Royalty Gas or a like quantity of other gas in that area.

Our association is a non-profit cooperative. The membership includes all of the residents and business organizations of the Western Kenai Peninsula. We will greatly appreciate any cooperation that your office can lend us in bringing these negotiations to a mutually beneficial conclusion.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes

W. C. Rhodes
General Manager

WCR:em

cc: O. K. Gilbreth
W. I. Palmer
Sen. Clem Tillion
Rep. Hugh Malone
Rep. Leo Rhode
Guy Martin

Homer Electric Association, Inc.
P. O. BOX 255 • HOMER, ALASKA 99603 • PHONE (907) 235-8551

cc All Bd. members 4-5-

March 30, 1976

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Mr. Guy Martin, Commissioner
Royalty Oil and Gas Development Advisory Board
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Dear Sir:

In our letter to Mr. Fackler dated January 22, 1976, and at a hearing before your Advisory Board, we applied for the State Royalty Gas that you plan to make available from presently producing fields in the North Kenai area.

The purpose of this letter is to inform you that we have been able to obtain commitments to purchase fuel for the proposed new electric generating facility at North Kenai from what we believe to be a reliable source; and, further, Mr. Dale Teel of the Alaska Pipeline Company has agreed to supply our Association with natural gas for fuel for the existing electric generating plants in the North Kenai area if we are successful in acquiring these from Chugach Electric Association.

In view of the foregoing, we feel that it is in the best interest of all concerned that we withdraw our application as outlined in our letter of January 22.

As the Kenai Peninsula continues to attract industry, we do not wish to imply that we will not, at some future time, be interested in dealing with the State for royalty gas that may become available in other, yet to be developed, fields on the Kenai Peninsula area. If, at any time, additional royalty gas does become available we would appreciate it very much if your office would advise us so that we can ascertain whether or not it would be needed in our ever-expanding operation.

We note with interest the development of the Advisory Board's intention to adopt a regulation in Title 11 of the Alaska Administrative Code to interpret and make specific Alaska Statute 38.06, including the determination of surplus.

We sincerely hope that the proposed regulation 11AAC26.300(a) (5) will define the term "industrial use" as referred to in existing regulations, and that the State's royalty gas will be made available first to industrial use and then to all other uses, according to priorities established by your office.

We sincerely appreciate the courtesies extended to our Association by the Advisory Board and your office, and we are looking forward to further negotiations should the need arise.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes
General Manager

WCR:em

cc: Rep. Leo Rhode
cc: Mr. Dale Teel

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North Cook Inlet Field Royalty Gas
Commissioner's Proposal in Concept

The Commissioner of Natural Resources has recognized that the increasing growth of the Cook Inlet area of Alaska with its resultant increase in the use of natural gas requires that additional natural gas reserves be allocated for that purpose from State of Alaska royalty gas. From the standpoint of size of uncommitted gas reserves, geographical location and possible pipeline access, the North Cook Inlet field royalty gas appears the best available supply at this time. Pursuant to AS 38.05.182 the Commissioner proposes that it is in the best interest of the State to take in kind the State's royalty share of the gas production from the North Cook Inlet gas field and requests the consent of the Alaska Royalty Oil and Gas Development Advisory Board for this change.

The Commissioner further proposes to dispose of the North Cook Inlet field royalty gas to Alaska Pipeline Company and its subsidiaries through a negotiated contract. The proposed contract will contain the following provisions:

1. Purchaser agrees to take 1/8 of daily production from the North Cook Inlet gas field on an if and as deliverable basis for the contract period. The State will report to the Purchaser each month the amount of royalty gas produced by Phillips during the prior months.

The approximate average daily royalty gas share of the production from Phillips' North Cook Inlet field platform is 17,000 MCF. Gas production from the platform varies as LNG plant needs dictate therefore no daily amount can be specified.

2. Point of delivery will be the wellhead.

3. Purchaser is responsible for measurement costs, and any compression or dehydration costs if or when necessary.

4. The contract expires on June 1, 1984, unless extended by mutual agreement for a period not to exceed one year.

5. The price of the gas will be equal to the price the State otherwise would have received from Phillips for its royalty gas for export as LNG to Japan; but not less than the highest price paid by any purchaser in the Cook Inlet area for a similar sale of gas of similar quality. The price will be adjusted yearly on the anniversary date of the contract.