SCOMM
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STATE OF ALASKA
1997 LEGISLATIVE SESSION

FISCAL NOTE

NO.____
Bill Version: HB 250
(H) Publish Date: 4/14/97

Revision Date:
Dept. Affected: Revenue
Title: North Slope Gas Commercialization
BRU: Administration and Support
Component: Commissioner's Office
Sponsor: Governor
Requestor: RLS
COMPONENT SERIAL NO. 123

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	50.0 **					
TRAVEL	38.0 **					
CONTRACTUAL	150.0 **					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	238.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	238.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	238.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost $ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

In continuing the efforts to develop the North Slope Gas Project, funding is needed to accomplish the following:

1. staff work to complete the research and analysis to develop specific fiscal terms for proposed legislation and contract terms and staff work to facilitate commercialization team meetings and travel;
2. consultant to advise state on fiscal system;
3. coordination of the state's efforts with leaseholders and potential project sponsors;
4. perform a socioeconomic study of the effects the project would have on the state.

** Estimates may require further refinements.

Prepared by: Tamar diFranco
Phone: 465-2300
Division: Commissioner's Office
Date: April 11, 1997
Approved by Commissioner: Wilson L. Condon
Date: April 11 1997
Agency: Revenue

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Chenoweth
4/23/97

CS FOR HOUSE BILL NO. 250( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

"An Act establishing a North Slope Gas Commercialization Team to develop recommendations regarding a North Slope gas project; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** FINDINGS. The legislature finds that

(1) Alaska's North Slope contains abundant natural gas resources, with an estimated 26 trillion standard cubic feet of recoverable natural gas in the Prudhoe Bay field, an estimated three to five trillion standard cubic feet in the Pt. Thompson field, an estimated two to six trillion standard cubic feet in the Kuparuk, Lisburne, and Endicott fields combined, and other as yet unquantified gas resources;

(2) although the major Prudhoe Bay leaseholders and others have examined a variety of options for future development and sale of North Slope gas, a project in which North Slope gas is delivered to Asian markets as liquefied natural gas (LNG) has emerged as an option of particular interest;

(3) the Department of Revenue recently commissioned a study by a leading expert on tax and royalty systems applicable to oil and gas development; the study concluded that the state's current tax and royalty structure, relative to that of other current and potential LNG exporting countries, reduces the economic feasibility and competitiveness of a North Slope gas project;

(4) that study also concluded that the North Slope producers' estimated project costs of $15,000,000,000 must be reduced, the federal tax regime must be changed, perhaps through the adoption of accelerated depreciation and investment tax credits, and the time from the commencement of the project to the achievement of its target capacity should be shortened, if possible, to help make the project economically feasible and competitive;

(5) that study recommended that the state amend the tax and royalty structure applicable to the project and increase the certainty and stability of that structure;

(6) the executive branch recently signed memoranda of understanding with the three major Prudhoe Bay leaseholders and Yukon Pacific Corporation;

(7) in 1997, the Twentieth Alaska State Legislature passed Legislative Resolve 2 (CSHCR 1 (WTR)), which supports a North Slope gas project, recognizes that a window of opportunity now exists, and encourages the governor to work with leaseholders of North Slope natural gas resources, permit holders, the legislature, and the federal government to develop and complete an LNG project to transport and market North Slope natural gas by the year 2005;

(8) modifications to the federal tax regime are required;

(9) proposals by the governor for changes to the state's tax and royalty structure should be made to the legislature only after careful examination of the potential ramifications of the changes, under a wide range of economic conditions, in light of the state's obligation to provide for the utilization, development, and conservation of North Slope gas resources for the maximum benefit of Alaskans; and

(10) consistent with Legislative Resolve 2, the establishment of a North Slope Gas Commercialization Team is appropriate to research and to enter into discussions with potential project sponsors who have declared an interest in the project and who continue to show an interest in the project, and to make recommendations to policymakers on these important matters.

* **Sec. 2.** NORTH SLOPE GAS COMMERCIALIZATION TEAM; REPORT. (a) There is established a North Slope Gas Commercialization Team to research and recommend changes to state law and, in particular, to the state tax and royalty structure on natural gas, to improve the economic feasibility and competitiveness of a North Slope gas project. The members of the team are

(1) the commissioner of revenue, or the commissioner's designee;

(2) the commissioner of natural resources, or the commissioner's designee; and

(3) the attorney general, or the attorney general's designee.

(b) The North Slope Gas Commercialization Team shall gather, compile, and analyze information on ways to improve the economic feasibility and competitiveness of a North Slope gas project through changes in state and federal statutes and regulations and existing state leases.

(c) The North Slope Gas Commercialization Team shall prepare a report that includes the following:

(1) recommended terms that would be a basis for a contract to be entered into between the state and the potential sponsors of a North Slope gas project that reflect

(A) the changes to the state tax and royalty structure needed to improve the economic feasibility and competitiveness of the project; and

(B) other provisions that are needed to make a contract binding, to the full extent permitted by the Constitution of the State of Alaska, and to make it consistent with the public interest and the state's obligation to provide for the utilization, development, and conservation of North Slope gas resources for the maximum benefit of Alaskans; and

(2) recommended provisions that could be included in legislation needed or appropriate to

(A) enter into a contract;

(B) provide an appropriate and stable fiscal environment for the project;

(C) provide an appropriate and stable regulatory structure for, and aid permitting of, the project;

(D) ensure, consistent with the limits imposed by state and federal law and the need for competitively priced goods and services, that a maximum number of

Alaska residents and Alaska businesses that are qualified or capable of being qualified are hired to construct and operate the project;

(E) protect the environment and the health and safety of workers and the public; and

(F) provide natural gas to Alaska communities where economically, technically, and legally feasible.

(d) The North Slope Gas Commercialization Team shall deliver its final report to the governor by January 12, 1998.

*** Sec. 3. MEETINGS AND RECORDS.** (a) The North Slope Gas Commercialization Team shall solicit written comments on the recommendations to be included in the final report required by sec. 2 of this Act from interested members of the public and shall hold a public meeting under AS 44.62.310 - 44.62.312 to vote on and issue its final report, including its recommendations.

(b) Notwithstanding (a) of this section or a provision of AS 44.62.310 - 44.62.312, the North Slope Gas Commercialization Team is not a governmental body or public entity for purposes of AS 44.62.310 - 44.62.312.

(c) Notwithstanding AS 09.25.100 - 09.25.220, records requested by the North Slope Gas Commercialization Team from a potential sponsor of a North Slope gas project and working documents prepared by the team that analyze or incorporate the requested records shall be kept confidential if the records or working documents contain sensitive, proprietary, or privileged information and the potential sponsor requests that the records or working documents be kept confidential.

*** Sec. 4. LEGAL ASSISTANCE.** The Department of Law shall provide legal assistance to the North Slope Gas Commercialization Team.

*** Sec. 5. PERMANENT RECORD RETENTION; CONFIDENTIALITY.** On or before the date that the team's final report is provided to the governor under sec. 2 of this Act, the North Slope Gas Commercialization Team shall transfer to the custody and control of the Department of Revenue all records in the possession of the team, including the team's working documents and records requested from others. Notwithstanding AS 09.25.100 - 09.25.220 and sec. 6 of this Act, after the transfer of records under this section, the Department of Revenue shall continue to keep confidential all records and working documents

that were required to be kept confidential under sec. 3(c) of this Act.

*** Sec. 6.** SUNSET PROVISION. Sections 1 - 4 of this Act are repealed on the earlier of the date that the governor notifies the revisor of statutes and the lieutenant governor that the final report prepared under sec. 2 of this Act was delivered to the governor under sec. 2(d) of this Act or January 12, 1998.

*** Sec. 7.** This Act takes effect immediately under AS 01.10.070(c).

ENERGY PRESENTATION
Tuesday, March 25, 1997

Taiwan

Good morning (afternoon). Thank you for the opportunity to speak with you today about the emerging energy market in Taiwan. My name is IDA YAO and I am the State of Alaska representative for Taiwan.

Today I will give you an overview of Taiwan's energy picture and the players involved in energy production and sales. Please understand that I have only been a contractor for Alaska for one year and I will have to research any highly technical questions you have.

In Taiwan, there are two major energy users: Taipower and China Petroleum Corporation. Both are currently government-owned. For the time-being, only China Petroleum Corporation -- also known as CPC -- has the government okay to import petroleum products. This situation is going to be changed very soon -- within the next two years, Taipower and other private-sector energy companies will be granted the right to import petroleum products.

China Petroleum Corporation is now government-held and in the process of becoming a publicly held corporation. As part of the Taiwan government's policy to achieve full liberalization, CPC is being forced to sell 51% of its stock to the public by the turn of the century. CPC is currently undergoing corporate reorganization to both become a public company and increase it's global competitive edge. Its petroleum topping capacity is 720,000 barrels per day and CPC is working to cut production costs and improve efficiency. CPC sets up different business units and various task teams according to functional requirements. It also maintains liaison offices in Saudi Arabia, Kuwait and Singapore to handle crude oil purchases and joint venture projects. With annual sales of $13 billion US in 1995, almost equivalent to 5% of the country's total GNP, it is not only ranked the

biggest enterprise in Taiwan, but also one of the 500 biggest around the globe. It is also increasing the storage and transportation capacity in northern Taiwan, expanding LNG treating facilities, and upgrading product quality to acquire international quality certificates. A third refinery will be constructed jointly with private investors in Kaohsiung. Growing cooperation with mainland China is expected to lead to more global marketing of petroleum products and additional investments in the PRC.

With regard to LNG specifically, Taiwan possesses few natural resources and energy diversification has long been stressed in the country's energy policy to ensure stable and long-term supply. Natural gas, with its high efficiency and low pollution, has been targeted as a real option. Since most of Taiwan's natural gas reserves have been depleted, the government has decided to import LNG from abroad to help improve natural gas supplies. CPC began construction of an LNG receiving terminal project at Yungan, Kaohsiung, in 1984. This project carried a total investment of $1.2 billion US with an annual handling capacity of 1.5 million tons. The terminal began operations in March of 1990 under a 20 year supply contract with Pertamina, the national petroleum company of Indonesia.

Since beginning its work with LNG, CPC has found the demand for this clean and efficient fuel is expanding very fast. Taiwan's economy is booming and the citizens have growing concerns about the environment. CPC began to expand its Yungan project the same year the terminal opened. An additional $700 million US was invested to expand the receiving and storage facilities and the long distance distribution trunkline. This expansion was completed at the end of 1996.

Imported LNG to the Yungan project will now total 4.5 million tons per year. Half of the volume will be supplied by the expanded contract with Pertamina, while Petronas, Malaysia is to supply the other half.

Taipower is the other major energy user in Taiwan. 94% of Taipower stock is currently government-owned, but by the end of this century, the corporation will be made public. Taipower, with its 30,000 employees, is the second largest energy supplier to Taiwan's consumers. LNG represents the third largest of Taipower's energy stocks – the first being oil and the second being coal. Nuclear energy and hydroelectric also play an important role in Taiwan – nuclear power is 29.1% of the total mix and hydroelectric is 7.1%.

Two different types of projects are operated by Taipower – a total of 59 power stations nationwide. The first are projects which are operated completed under the control of the corporation. These range from hydroelectric plants, coal, oil, nuclear and natural gas.

The second type of project are those in which Taipower purchases its energy from independent power producers. These projects total eleven and are either coal, LNG or oil fired.

According to data provided by the Council for Economic Planning and Development, Taiwan's 1997 economic growth rate will be 6.7%. We expect the demand for power to continue growing. Based on Taipower's 1996 Long-Term Power Development Program, our high-peak electricity reserve margin will increase from 5.6% on 1996 to 11.8% in 1997. A reasonable margin would be 20-25% – Taiwan will fall far short. The looming threat of power shortages will, therefore, still exist.

Over the course of the next 13 years – or the year 2010 – Taiwan's energy needs are expected to grow some 3.9%. LNG is the clear winner in energy source increases – the imported supply of LNG is expected to top 8.8% in the same time period – declines are anticipated in nuclear, and coal.

Additionally, our government corporate structure is currently changing rapidly.

Industrial consumption of energy continues to grow at a rapid rate. As Taiwan develops, its energy needs are increasing. Both of the major energy suppliers – CPC and Taipower -- as well as the privately held utilities -- have expressed interest in investing in foreign energy projects in order to secure adequate energy supplies.

I have brought with me details of Taiwan's energy supply and demand trends and would be happy to provide any additional information you may request.

As Alaska's trade representative in Taiwan, I fill several roles. The first is market intelligence – provided necessary information to both potential Alaska customers and to Alaska government and industry. Secondly, in Taiwan, government is very important and I am viewed as the official government contact for the State of Alaska. As a Taiwan national, I am aware of the different ways to approach situations with both government and industry in my country. There are often requests for information from the Taiwan government that they feel best asking of a government official. Finally, information can strategically distributed -- to benefit Alaska's goals -- to target Taiwan companies and officials via my office. Please remember that your trade representatives act as your eyes and ears in very dynamic markets – we can be used in a variety of ways to benefit Alaska.

Thank you very much for the opportunity to address you today.

ENERGY PRESENTATION
Tuesday, March 25, 1997

Korea

Good morning --- I am K.S. Yang-- the Alaska State Trade Representative in Korea. I am pleased to be here today to talk to you about the Korea energy market.

The notion of Korea as a struggling, third world developing country are gone. Korea was the 11th largest market in the world in 1995 and is expected to be among the top 7 by 2010. Korea had a 1996 growth rate of 6.8 percent and slightly slower growth of 6.0 percent is expected in 1997.

Korea has long been Alaska's second largest trading partner with annual exports in the area of $230 million. Coal, timber, seafood and minerals all go to this market -- which has been relatively stable. This picture changed dramatically last year -- 1996 -- with the purchase of North Slope crude by L.G. Caltex of the Lucky Goldstar Group. L.G. Caltex has agreed to a long-term -- 20 years -- contract to purchase 30,000 barrels per day of North Slope crude at an annual cost of some $241 million dollars. Hyundai Oil Refinery Co., Ltd. also purchased 800,000 barrels last year and plans to increase that amount to 2.4 million barrels in 1997. These are some of the energy players Alaska can expect to deal with in the future -- players who doubled Alaska's annual exports to Korea with just two deals.

Since 45,000 tons of LNG was first supplied to the Pyongtaek thermoelectric power plant in late 1986, Korea's LNG consumption has been increased steadily and reached 7.259 million tons during January through October of 1996 -- a 35.0% increase over the same period in 1995.

The increase in LNG consumption is due to the intensified movement of environmental regulations at home and abroad. According to the long-term LNG demand and supply plan released by Korea Gas Corporation recently, Korea's LNG demand is expected to reach 18.23 million tons in 2000 and 29.316 million tons in 2010.

To prepare for the expansion of the nationwide demand, Korea has not only increased LNG imports but also diversified its import sources. Ever since the first LNG import was made in October 1986, Korea has imported LNG from Indonesia, Malaysia, Brunei and Australia. Starting in 1999, Korea is going to import LNG from Qatar. Furthermore, Korea has concerns in the development of overseas gas fields, especially in Russia.

Local consumption of LNG has been steadily increasing and reached 7.117 million tons in 1995, 21.4% increase in comparison to 1994. In 1996 alone (January through October), Korea's LNG consumption 7.259 million tons, showing a 35.0% increase over the previous year.

Imported LNG has been utilized as power generation fuel and city gas. LNG consumption for electricity, which accounts for more than half of the current LNG consumption has shown a rising trend without any fluctuation. City gas consumption has greatly increased, approaching 45.6% of all LNG consumption from January through October 1996 from just 4.6% in 1987.

Total LNG consumption in the first three quarters of 1996 was 7.259 million tons -- 3,812 tons for power generation and 3,307 tons as an input for city gas manufacturing. Consumption for power generation and city gas in 1996 was up 30.8% and 38.8 % respectively, compared with the same period of 1995.

According to the revised long-term LNG demand and supply forecast by Korea Gas Corporation, Korea's demand for LNG is likely to reach 18.223 million tons in 2000 and 29.316 million tons in 2010.

Korea settled on a policy towards diversifying its energy sources and emphasizing the use of clean-burning, environmentally safe fuels in the early 80s. In 1981, an LNG project was approved by the 11th Conference of Economy-Related Ministers and Korea Gas Corporation, the sole LNG importer in Korea, was established in 1983. The first LNG import was made from Indonesia in 1986

To meet the ever-increasing demand for LNG, Korea has increased the import volume and diversified the import sources by purchasing LNG from Malaysia, Brunei, Australia and Qatar to secure a stable energy supply.

Meanwhile, LNG production capacity of Asia- Pacific region is expected to be sharply expanded. The production capacity of Indonesia, Malaysia, Brunei, Australia and Alaska is likely to be up to 80.7 million ton in 2003. In addition, considering that LNG production capacity of Middle East would be increased to 29.4 million tons in 2003, total LNG supply by Asia-Pacific and Middle East regions is estimated to reach 110.1 million tons in early 2000's. Therefore, there is a high chance that LNG market in the Asia-Pacific would be converted to buyer's market in early 2000's, so that fierce competition among suppliers is expected.

There are many LNG projects in various stage of development around the world, beside those projects listed above. Thus, LNG is currently very much a buyer's market and Korea is one of dominant consumers of LNG. Under these circumstances, a favorable long-term contract with Korea is crucial to advance into Korean market.

Korea Gas Corporation has been the sole LNG importer in Korea although any Korean company is allowed to buy LNG subject to approval from the Korean Ministry of Trade, Industry and Resources. The largest LNG end-users in Korea are KEPCO (Korea Electric Power Corporation) and POSCO (Pohang Iron & Steel Co., Ltd.). Korea Gas Corporation is also the exclusive wholesaler of LNG to the local market and distributes LNG to 33 retail city gas companies.

It is worth noting that the growth rate of liquefied natural gas was very high due to Korea's need for economic development and a clean environment. Korea is currently a buyer's market -- we recommend that Alaska form a strong united front to pursue its North Slope natural gas project. Korean participants are likely not only to purchase LNG, but also willingly participate in hard asset financing of the pipeline construction and LNG tankers. An example of a recent Korean deal is seen in Korea Gas Corporation's participation in Ohman's LNG project. KGC has 5% ownership of the

project and signed a 25-year-contract for the purchase of 1.4 million tons of LNG annually beginning in early 2000.

Korea is also a growing market for crude oil -- as I mentioned -- purchases of North Slope oil last year doubled Alaska's exports to Korea, which is fully dependent upon imports from abroad for its entire demand for crude oil. Crude oil is being imported by five oil refiners: Yukong Limited, LG-Caltex Oil Refinery Co., Ltd., Hanwha Energy Co., Ltd., Ssangyong Oil Refining Co., Ltd., and Hyundai Refinery Co., Ltd. in most cases -- and if it is deemed necessary -- the Korea Petroleum Development Corporation would import crude oil for stockpiling purposes.

Korea's crude oil stood at 11 million barrels in 1965, and crude oil imports in 1995 reached 625 million barrels, up 57 times from the 1965 figure -- due largely to a whopping expansion in domestic demand. Taking in mind the first and second world oil crises, the government has adopted a top policy directive designed to ensure a stable supply of crude oil.

Under the policy directive, the government has been exerting strong effort to maintain the optimum level in crude oil imports - - the ratio of crude oil imports under a long-term contract basis to crude oil imports on a spot deal - - and to diversify import sources of crude oil. Recently, however, despite the government's policy of diversifying crude oil import sources with the intention of avoiding over concentrated dependence upon the Middle East, Korea's import dependency on the Middle East was still high at 77.9% in 1995.

Korea imported 625 million barrels of crude oil from 23 countries in 1995, and the 1995 crude oil import amounts reached over U$ 10 billion, thus accounting for 8.0 percent of the nation's overall merchandise imports during the year. Meanwhile, Korea began importing self-developed crude oil from abroad in 1988 through participation in equity ownership for overseas oil field development projects. The 1995 imports of self-developed crude oil came to 3 million barrels -- excluding crude oil sold on the spot -- or 0.5 percent of the 1995 overall crude imports.

Korea will continue to grow in the expanding energy trade of the Pacific Rim. The government plays an important role in guiding this growth. Development of the North Slope natural gas project -- with Korea as a player -- will depend on a well-defined project and well-informed participants. Our office can provide necessary market intelligence -- two-way information between potential buyers and Alaska sellers of all forms of energy resources.

Thank you for this opportunity and I would be happy to answer your questions.

Energy Presentation on Japanese Market

Good morning (afternoon). It is my pleasure to talk about the energy market in Japan for Alaska's energy resources. My name is Kojiro Abe and I am the State of Alaska Trade Representative in Tokyo. I am accompanied today by Mariko Kuroda, the energy specialist on our Japan staff.

To begin, I will give you a brief overview of the history of energy use in Japan.

Japan is the world's fourth largest energy consuming country, following the USA, Russia and China.

In FY 1994, Japan's total energy supply was **577 million kiloliters** of crude oil equivalent. Japan has few indigenous resources, and its dependence on imported energy exceeds 80%, the highest rate among major industrialized countries.

The oil shocks in 1973 and 1978 had a devasting impact on Japan's energy supplies and inflicted considerable damage on Japan's economy. The Japanese government and private sectors were forced to recognize the vital need for national energy security.

Recent guidelines issued by the Japanese government outline three principles of national energy policy for the 1990's:

1. **Energy Security - secure a stable supply of energy**
2. **Economic efficiency**
3. **Environmental issues**

Allow me to explain the current status of each of Japan's main energy supplies:

FY 1994, **oil** occupied 57.4% of Japan's total primary energy supply and was the largest part of Japan's total energy mix. In 1993, imported oil accounted for 99.7% of Japan's oil supply. During the same time period 76.4% of Japan's imported oil came from the Middle East.

In FY 1994, **coal** demand in Japan amounted to 126 million metric tons. Coal makes up 16.4% of Japan's primary energy supply and the country's second largest energy component. Japan is the largest coal importing country in the world.

Due in large part to its lack of natural resources, Japan considers **nuclear energy** as one of its most promising oil-alternative energy. During FY 1995, nuclear power supplied 12.0% of Japan's energy needs -- or third largest energy supplier.

In Japan, **natural gas** use was minimal through the early 1970's, but grew rapidly during the latter part of the decade. In FY 1994, total consumption of natural gas amounted to 59.3 billion m3, about 11% of Japan's total energy supply -- the nation's fourth largest energy product.

Natural gas is expected to play an increasingly important role as a clean burning fuel and one that can reduce Japan's dependence on imported oil.

Most of Japan's natural gas supply comes from imports; in FY 1994, this amounted to 42.4 million tons -- 74.5% was imported from ASEAN countries. To ensure a stable supply of LNG, Japan has been endeavoring to diversify its import sources. 44% of total imports of LNG has come from Indonesia since the middle of 1970's.

Next, let me describe the major players in Japan's LNG industry; they can be divided into three distinct groups: end-user utilities, trading companies, and the government.

The end-users, electric power companies and gas companies, are major players as buyers of LNG. They purchase LNG, but are not willing to invest in energy projects. This is due to the social responsibility held by the utility companies for their customers -- utilities are traditionally very conservative with their investment dollars.

Japanese electric power companies and gas companies make their own long term energy outlook by following Japanese government energy policy and revise it every year. Following their independent studies, utilities choose competitively priced LNG supplies timed to match their needs.

The second type of major energy players are the trading companies. They have been investors in overseas LNG development projects and are very interested in promising future LNG prospects.

The third prong in securing Japan's energy supplies is the government.

In order to secure a stable supply of natural gas, the Japanese government has been trying to improve overseas' investment conditions for Japanese companies. The Japan National Oil Corporation Law was revised in June 1994 for JNOC to be able to provide capital and loan guarantees toward Japanese companies to develop gas fields and the liquification of natural gas.

Finally, I will talk about the outlook for future Japanese energy (LNG) demand.

LNG's future in Japan looks positive for three main reasons: 1) it has the potential to reduce Japan's dependence on imported oil; 2) it can be used to replace delayed nuclear

power supplies; and 3) it is a clean-burning fuel that can be used to reverse the effects of CO2 emissions on the Japanese environment.

According to Japanese end-users, Japan's LNG supply is secured to the year 2005 by current long-term contracts. Some of the contracts are expected to be extended after 2005. Due to demand increases in Japan, however, additional supplies will need to be located to fill the extended contracts and to meet new energy requirements. The Ministry of International Trade & Industry now predicts that Japan's LNG needs in the year 2010 will be 60 million metric tons; Japanese industry estimates that figure to be 70-80 million metric tons.

Given these predictions, there are a number of advantages for Alaska North Slope LNG in Japan:

ONE: Alaska's operating gas reserve has been confirmed.

TWO: The distance from Alaska to Japan is very short - only about one-half of the distance from Japan to the Middle East.

THREE: There already exists a good relationship between Alaska and Japan. We have a track record: Tokyo Electric Power and Tokyo Gas have long purchased Alaska LNG from the Cook Inlet. Since 1969, these utilities have worked through Mitsubishi trading company to secure more than 1 million metric tons per year. **There have been no accidents, no problems, no delays** in the delivery of Alaska LNG. Alaska is considered to be an extremely reliable supplier.

FOUR: Japanese government and utilities want to diversify their LNG sources. Most LNG is imported from Indonesia and the Middle East .

FIVE: North Slope producers -- British Petroleum, ARCO and Exxon are known reliable suppliers.

SIX: Japanese trading companies have shown strong interest in Alaska North Slope LNG and are carefully watching its progress.

SEVEN: Demand for LNG is increasing due to CO2 emission issues and accidents in recent years at Japan's nuclear power plants.

There are, however, some fundamental concerns of Japanese government and industry with regard to Alaska's North Slope gas project:

ONE: Purchasing decisions are long-term. As mentioned earlier, Japanese end-users make long-term decisions by studying demand and supply carefully, they are conservative in nature and take a considerable amount of time to reach a final decision.

TWO: Commercial business negotiations are important. It is critical that the Alaska North Slope gas project be negotiated on a commercial basis. Too much government involvement or the use of political pressure has the potential of making end-users uncomfortable, may discourage them and may cause them to reduce the size of their participation. It must be noted that Japanese government does not have the authority to force end-users to buy any specific LNG.

THREE: It is important for Alaska to speak with one voice -- end-users, trading companies and government officials are often confused by the number of options to develop North Slope gas. Between the

producers, the Alaska government and the pipeline project developers, the message is not always the same. A coordinated front on the part of Alaska will be important to any future Japanese participation in the project.

Demand for LNG by the Japanese market looks promising for any new Pacific Rim project. However, because of existing Pacific Rim competition, it is recommended that the Alaska side offer a coordinated proposal with a competitive price.

Thank you very much for allowing us time today to discuss the potential for Alaska's North Slope natural gas and we would be happy to answer any questions you might have.

Calendar

week in business

ay: The Tourism Working Group meets at the Juneau Fire Station m.

ay: Bartlett Regional Hospital Board of Directors meets at the 5:15 p.m.

ay: Douglas Lions, 7 p.m., Mikes Place in Douglas.

ay: Valley Toastmasters, 6:10 a.m., every Tuesday in the Taku the airport. Call: Kristi 364-2184.

ay: Juneau Planning Commission meets at 7:30 p.m. in Assembly s

lay: The International Union of Operating Engineers, Local #302 ts monthly meeting at 7:30 p.m. in the Operating Engineer's Hall, 214 North Franklin Street.

esday: Resource Alliance meets at 7 a.m. at the Prospector.

esday: Juneau Glacier Valley Rotary Club meets every day at noon in the Airport Taku Room.

day: Alaska Business Roundtable meets at 7 a.m. at the Baranof.

day: Taku Toastmasters meeting, noon, Federal Building, room ery Thursday. Visitors are welcome to attend. For information call son at 364-2222 or Kim Metcalfe Helmar at 586-2113.

sday: A panel of women describe their employment choices and es for new business and support at a seminar called "Take a Risk - ve Careers and Self-Employment," at 7:30 p.m. at the Bill Ray Call 586-6942

day: Juneau Planning Commission meets at 7:30 p.m. in Assembly rs to review the draft socioeconomic impact assessment for ,ton Mine.

y: Juneau Chamber of Commerce luncheon at noon. Errol on discusses Silver Bay Logging's new hangar, jobs and timber

ning up

l 2 and 3: The Southeast Alaska Small Business Development will present a class on Marketing and Business Use of the Internet. o-evening class will be held at the Learning Connection in Vintage 025 Clinton, Suite 240, from 6 to 9 p.m. The class costs $90. Call 62.

l 8: Betty Bender of CareerTrack On-Site Services will present a on How to Give Exceptional Customer Service from 9 a.m. to 4 p.m. tennial Hall. The cost is $75, including lunch. For information call 62.

8-10: The Alaska Bar Association holds its annual convention at nial Hall.

Chinese sign deal to buy oil, timber

ASSOCIATED PRESS

KENAI – Members of the highest-ranking Chinese delegation ever to visit Alaska have signed a letter of intent to buy from $50 million to $100 million worth of North Slope crude oil from British Petroleum.

Chuck Kleeschulte, a spokesman for Sen. Frank Murkowski, R-Alaska, said the first shipments under the new agreement should begin during the second half of this year.

The Chinese also expressed interest in buying Cook Inlet oil during a tour of area production facilities.

"We know the Cook Inlet area is very near Anchorage, and very convenient for tankers to ship crude oil to China," said Xu Suzhi, deputy director of production and management for SINOPEC, China's largest petrochemical company. "We'd like to find some opportunities here."

Xu, who spoke through a translator, was among several high-ranking officials from SINOPEC and the Ministry of Foreign Trade and Economic Cooperation who toured Alaska last week. The group also included representatives of China's largest timber import company.

The Chinese delegation met with Kenai Peninsula Borough Mayor Mike Navarre on Friday before touring Unocal's Steelhead Platform on Cook Inlet.

They returned to Nikiski to look at Unocal's fertilizer plant, Tesoro's refinery and the liquefied natural gas (LNG) plant owned by Phillips Petroleum and Marathon Oil Co.

Xu said China has been unable to meet a rising internal demand for oil and gas from its own stocks.

China has been looking at Alaska as a possible trade partner since last year, when a federal ban ended on the export of North Slope crude oil.

It imported two tanker-loads of Alaska crude earlier this year, and wants more, Xu said.

The door is open for the export of Cook Inlet crude. There has been no ban on exports from the inlet.

China has large reserves of natural gas, but lacks the means to bring domestic gas to market. Meanwhile, it must meet growing demand.

Xu said China is very interested in the proposed natural gas pipeline from Prudhoe Bay to Valdez. Chinese officials met last week in Anchorage with Yukon Pacific Corp., the company trying to build the $15 billion gas line and related shipping facilities.

China realizes that Cook Inlet gas reserves already are committed, she said. But Navarre said that when the gas line from Prudhoe Bay is built, there almost certainly will be a spur to Kenai.

And while people usually talk of building an export facility at Valdez, there's also talk of building one on Cook Inlet, he said.

"That's something we're very interested in," Navarre told Xu.

Larry Porter, who oversees the lab and shipping from the Nikiski plant, said the plant already is near its production capacity of 1.3 million metric tons of LNG.

Phillips and Marathon would have to expand the plant to ship additional product to China, he said.

Xu said China needs LNG, but lacks the facilities to receive and store it. A primary purpose of the trip to Nikiski was to see LNG storage and shipping facilities.

Jim Konst, incoming manager of the LNG plant, said Phillips is negotiating to supply LNG technology to China.

SINOPEC has formed joint venture agreements with several big U.S. petrochemical companies, she said.

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State of Alaska Overseas Representatives
Brief Overview

Mr. Kojiro Abe (Ah-Bay)

* Serves as the State of Alaska's Trade Representative in Tokyo, Japan.
* Contracts formally with the Department of Commerce and Economic Development.
* Has worked for the State since 1982.
* Since May 1996, when the Divisions of Trade and Tourism blended operations in Japan, Mr. Abe has headed up both the state's trade and tourism marketing efforts. From 1982 to 1996, Mr. Abe ran the state's tourism promotions in Japan.
* Prior to his work with the State of Alaska, Mr. Abe represented the Anchorage Convention & Visitors' Bureau in Japan. He also worked in the travel industry in Japan.

Ms. Mariko Kuroda (Coo-Row-Duh)

* Serves as Senior Trade Specialist with the State of Alaska's office in Tokyo, Japan.
* Contracts formally with the Department of Commerce and Economic Development.
* Has worked for the State since 1981.
* Primary focus is on energy issues (including LNG), manufactured products and investment attraction.

Mr. K. S. Yang (Yhang):

* Serves as the State of Alaska's Trade Representative in Seoul, Korea.
* Contracts formally with the Department of Commerce and Economic Development.
* Has served as the State of Alaska's Trade Representatives since 1985, when the state first opened its Korea office.
* Prior to work with the State of Alaska, Mr. Yang worked for many years with the Korean Government, both in Korea and overseas, and in the private sector.

Ms. Ida Yao (Yow):

* Handles trade and tourism issues for the State of Alaska in Taipei, Taiwan.
* Contracts formally with the Department of Commerce and Economic Development.
* First began working with the State of Alaska in February 1996, focusing her efforts primarily on seafood and tourism. Ms. Yao's work for the State in the energy sector is expected to increase in the future.
* Prior to contracting with the State of Alaska, Ms. Yao handled trade, public relations and promotional efforts for several companies developing trade ties in Taiwan, China and elsewhere.

Debby Sedwick, Assistant Commissioner for
Tourism, Trade & Economic Development
March 25, 1997 Presentation

8:30 a.m. House Oil & Gas Committee
4:00 p.m. World Trade & State Federal Relations & International Trade & Tourism Committees

Good morning -- my name is Debby Sedwick and I am the Assistant Commissioner for Tourism, Trade & Economic Development. It is my pleasure today to introduce you to our overseas' representatives who will provide you with a market-side look at Alaska's energy opportunities.

Japan, Korea and Taiwan have long been Alaska's targets for oil, natural gas and coal exports. All are rapidly expanding users of energy and are in the top ranks of Alaska's existing export trade. Japan has imported Cook Inlet natural gas since 1969; Korea Electric Power Corporation has made the largest single annual coal purchase in the Pacific Rim from Alaska since 1988; and all three countries are now importing Alaska North Slope crude.

We are here today to give you some perspective from the buyers in our largest markets. I have with me here -- from Japan, Mr. Kojiro Abe, our trade representative, and Mariko Kuroda, our energy expert in that country.

Mr. K.S. Yang has been Alaska's trade representative in Korea since 1986 and Ms. Ida Yao began representing Alaska in Taiwan in early 1996.

Mr. Abe has worked for the State of Alaska since 1982 and now heads the Tokyo office – supervising all tourism and trade activities. Prior to joining the state office, Mr. Abe represented Anchorage Convention & Visitors Bureau and worked for the travel industry in Japan.

Mariko Kuroda has been with our staff since 1981 and concentrates primarily on energy issues, manufactured goods and investment attraction.

K.S. Yang opened the Alaska State Office in Seoul in 1986. He came out of the Korean diplomatic corps and has strong relationships in the highest levels of government and industry.

Ida Yao is our part-time contractor for Alaska in Taiwan. She works on behalf of seafood and tourism concerns and is beginning to enter the energy arena. Ms. Yao will be giving you an overview today of Taiwan's energy market and major players.

In all three of the countries, government plays a substantially larger role

than in the United States. Government-to-government relations determine the outcome of most commercial transactions. In Japan, national energy policies guide the decisions of the trading companies and the electric power utilities.

In Korea, the government is the major purchaser of energy and, in Taiwan, the government is the ONLY trader in energy. Alaska, as an energy exporter, needs to have experienced staff in place, able to access government officials at all levels.

Each of these three markets has a different way of doing business -- Alaska's representatives are foreign nationals -- they know how the game is played in their own countries. They open -- and keep open-- a different set of doors for Alaska government and industry. They provide a safe means of obtaining market information for potential buyers. They transmit market concerns to Alaska producers. They make introductions at the highest levels to get the deal going and provide advocacy when negotiations are stalled.

So let's begin with Mr. Abe of our Tokyo office and then proceed with presentations from our Korea and Taiwan representatives. We will be

happy to provide any additional information or detail you wish after you've heard the market reports. Thank you very much for allowing us the opportunity to present these country overviews.

I would like to extend a heartfelt thank you to Representative Ramona Barnes. Since I began working with the Division of Trade & Development just a year and one-half ago, Representative Barnes has provided me with insight and leadership in the international trade field. She has proven -- time and time again -- to be informed and proactive when it comes to Alaska's trade arena. I look forward to establishing that same relationship with Representative Cowdary and his new special committee, in the weeks and months ahead.

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Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Special Oil + Gas 4-10-97
" " " " 4-15-97

Mobil Exploration & Producing U.S. Inc.

12450 GREENSPOINT DRIVE
HOUSTON, TEXAS 77060-1991

April 9, 1997

.Chairman Mark Hodgins
House Oil & Gas Committee
Alaska State Legislature
State Capital
Juneau, Alaska 99801-1182

Fax: 907.465.2833

Dear Chairman Hodgins:

RE: Trans Alaska Gas Line

Thank you for your letter regarding the Trans Alaska Gas Line Project. We commend the Alaska Legislature for its forward thinking on this important economic opportunity.

Regrettably, I will be unable to attend the House Oil & Gas Committee Meeting on April 10th. However, Mobil has an interest in the proposed Alaska North Slope LNG Project. In particular, we appreciate your involvement because it appears efforts must be made to improve the project economics in order for it to move forward.

By copy of this letter to your committee aide, Pat Carter, I am requesting that this letter be made a part of the official committee record, and that I be identified as the Mobil contact for future correspondence.

Very truly yours,

J.P. Hollier
Unit Representative
PBU and PTU

JMW/AKLNG.wp6

cc: Mr Pat Carter Fax: 907.465.2833

Official Business

COMMITTEE: [redacted]

DATE: April 15, 1996

Subject of meeting: [redacted]

SIGN-IN

PLEASE PRINT!

NAME	ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Peter DeMay	PALM DESERT, CA	760-340-3831	YPC	—
Ward Whitmore	1044 W. 5th Ave Anchorage, AK 99501	907-265-3100	YPC	—
GEORGE R FINDLING	ANCHORAGE, ~~AK~~	907-263-4104	ARCO	

PREPARED BY
BP EXPLORATION

Transcript
House Oil and Gas Committee
Hearing
4/10/97
8:00 a.m.

(Second Draft 4/15/97)

RE: TRANS-ALASKA GAS LINE PARTICIPANTS
VAN MEURS REPORT - SUGGESTED LEGISLATIVE ACTION

REPRESENTATIVE HODGINS: We're going to go ahead and start the meeting. We're not going to do anything legislatively, so we don't at this time have a quorum, but this is information. Excuse me, we have Representative Kemplen that has joined us. That establishes a quorum of Representative Ryan, Representative Ogan, and myself, Hodgins, as the chair.

Today's meeting of the House Special Committee on Oil and Gas is . . . This is April 10. The meeting is called to order at 8:05 a.m. And I've done the roll call. Today on teleconference we're connected with Anchorage, Kenai. I believe we also have some connections with Houston, San Antonio, Chicago, and Calgary. Is that correct? This will be a listen, only. That is my understanding. We will have testimony from . . .

[Inaudible interjected comment from committee staff member.]

REPRESENTATIVE HODGINS: Okay. Very good. On today's calendar we're going to hear the administration's time line on the Alaska North Slope gas project. This is another step towards facilitating this gas line as this committee has been charged with being the facilitator. We will be talking in very generalities this morning. And we will be looking at a plan that may become a little bit more flexible [inaudible due to coughing recorded on the tape.] However, there are some certain things that we need to

do. And, as I said before, it will be the duty of this committee to make sure that we are a facilitator to the producers and the administration and the people of the state of Alaska who ultimately own 12-1/2 percent of the royalty oil on the North Slope.

On today's presentation we're going to start out with Commissioner Condon of the Dept. of Revenue. He will be presenting the administration's recommendations for legislative action and a time line, as I said, regarding the Trans-Alaska Gas Line. We'll also be hearing from some of the parties interested in participating in the project. And, with that, I would invite Commissioner Condon to begin. Good morning.

COMMISSIONER WILSON CONDON: Good morning, Mr. Chairman. For the record, my name is Wilson Condon. I'm the Commissioner of Revenue and have been assigned by the Governor to spearhead the administration's efforts in looking at issues related to the proposed project to take Alaska North Slope gas to the . . . to market Alaska North Slope gas in the Far East and the project that that would entail. And what you have is a one-page paper which is our proposed work plan to investigate matters which we believe we ought to be looking at now, working towards the possibility of making a proposal of a substantive nature to the legislature. And if it makes sense to do that, this work plan would, we hope, put us in a position to do that next year during the next legislative session.

Starting from . . . working from Dr. van Meur's report, which we've discussed before, this set of tasks pretty much falls out of working from that report as a base. The first question is . . . Well, let's just walk through this very quickly. First of all, should there or should there not be modifications to the fiscal regime that would be

imposed on the project today as a consequence of the state contractual relationship with the producers, that state tax regime that would be imposed on the producers and the pipeline, and the local taxes that would be imposed on the producers and on the pipeline and liquefaction plant owners? And issue number one is whether or not, at this juncture, it would make sense to put any enabling legislation in place to facilitate moving forward over the next year to address the issues that we need to address: and that is whether or not the executive branch will propose such legislation is an issue that's still under consideration. Obviously, the substantive issues that then must be addressed are: Should there be modifications to any of the tax and royalty arrangements that are currently in place? If [the answer is] yes, then how should they be changed? And this sets out a time line for considering those issues and for presenting them to the legislature next year, if we can work our way through those issues that quickly.

The next set of issues is: What about dealing with the federal fiscal system? A point we try to make over and over again is that if this project is constructed, the major beneficiary, fiscally, of all of the interested entities is going to be the United States Treasury. If this project is built in the United States, it will supply a niche in the Far East market and the revenues that are achieved as a consequence of marketing this gas in the Far East would inure to the producers of the gas, the owners of the transportation facility, the state of Alaska, and the federal government. If this project is not constructed, it's not a project that's going to be constructed somewhere else in the United States. There's not going to be an LNG facility in Coos Bay, Oregon. If this project doesn't get a niche in the market, that niche is going to be taken by someone producing gas in Sakhalin or Indonesia or Abu Dhabi or Qatar. And in each and every

one of those instances, those projects would be configured, fiscally, so the United States Government didn't get a share. The economic rent that would be created by the project. So this is a win for the United States, if, in fact, the project is constructed. It's the better part of $30 billion, in nominal dollars, for the federal treasury. And, it makes the project economic in the range of project costs as we've eyeballed them today and in the marketing situation as it exists today with energy price levels where they are. Making this project economic would be aided immensely if the federal government were willing to make some modifications to their own fiscal system. In fact, they could quite easily have a much bigger affect on the economics of this project than state and local governments here in Alaska. And they would be the big winners, if they were to do that. And so the question is: Is there a constructive way that we could approach the federal government and persuade them to look at this project and see it as the benefit that it would be to them?

Moving to the third set of issues—the question of fiscal certainty. This project, if constructed, would be a project where it would be economic (if economic, at all) under the likely sets of energy prices and costs as we see them today . . . if . . . require a substantial part of the life of the project with earnings as projected today would need those earnings over most of the life of the project to be economic. And, as a consequence, it's the kind of a project which, requiring a long pay out, might well require investors to believe that there will be a stable fiscal system (stable tax system) without major changes in tax rates, applicable to the system, to attract investors. And the question is: Is there a way that the state, under the constitutional arrangements that apply to the taxing authority of the people of the state of Alaska as expressed through their legislature,

that some kind of fiscal certainty can, in any way, be assured or guaranteed. We don't believe that it's possible to provide an absolute guarantee. But there may be some vehicles available which would make investors feel comfortable that they'd made a deal with the state of Alaska which would survive. So that set of issues and those issues would necessarily be addressed contemporaneously with a review of state and local . . . overall state and local fiscal systems.

Moving next, the set of issues there called "regulated industry issues" relate to the way in which the federal and state governments regulate pipelines as franchised businesses, as almost (in some instances) as utilities. The pipeline, if constructed, might well have to be a common carrier. If it is a common carrier, What kind of regulation might apply? If it does apply, What kind of changes might be appropriate with respect to the possibility of new gas being discovered and the producers of that gas displacing gas that we committed to the Far East market through this project? And, obviously, there's a very remote chance that somebody's going to find another reservoir up there the size of the Prudhoe Bay reservoir and bring it over and hook it up to this project once constructed and say, you know, since we have the same amount of gas you do, we've got to split the capacity fifty/fifty. And, you know, we're going to take our half to California. The constructors of this project have to believe that the chances of something like that happening are zero in order to put themselves in the position of committing the kind of resources that this project would require. And so the whole set of issues that pertain to the way the government, through the public utilities commission (here in the state of Alaska and the Federal Energy Regulatory Commission at the federal

level), would certificate and regulate the pipeline in terms of what we call economic regulation . . .

The next set of issues are things that are particular things that the state needs to think about in terms of what it does with the pipeline as it focuses on whether or not it ought to proceed, and if it proceeds with the kind of arrangements that we're talking about here. The first one is a socio-economic study. Obviously, where you're talking about possibly putting a fiscal system in place that is back-end loaded that might alter the property tax and remove that as a source of revenue for local governments during construction, the question is going to arise: Well, if we do this and all of the impacts that come with it (in terms of social displacement, need for additional schools and on and on) is it worth it (in terms of finding some way to endure that kind of displacement and pay the social costs that go with it) for the public revenue and other economic benefits that would come with the project. And that's a question that ought to be asked and answered at this time.

How about state participation? [That's] something we should look at during the next year. The question of taking in-kind and taking in-value is an issue that needs to be looked at, at the front end of this project. If the producers build a project and enter into contracts to take 2 billion cubic feet of gas to the Far East and find customers there who sign up for long-term contracts and make those arrangements and then a couple of years into the project the state decides to take its 1/8 share (250 million cubic feet a day) and market it in the Cook Inlet, then you will not have a project size to meet the customer demand that the project was built for. And so, the state, at the front end, is going to have to figure out how . . . what it's going to do with its option. And is it going

to commit itself rather than trying to keep its option open as a means of providing the kind of certainty that this project requires?

In terms of addressing the Alaska hire related issues, we all know that legislation that required Alaska hire is not going to pass constitutional muster. But, nevertheless, there are a lot of things that the state might be able to do in the way of facilitating Alaska hire on this project in terms of training, recruiting, and that sort of thing, which might be matters which would be addressed legislatively at this time.

We put down "other important issues." If the form that this package took at its conclusion was a contractual arrangement between the state, the producers, and the other owners of the pipeline, there's a lot of what we usually refer to as boilerplate that does not/would no go to the heart of the fiscal arrangements, royalty rates, tax rates, and so on, but nevertheless are important. And those are matters which we should take up sooner rather than later.

And then finally there's the question of how to involve all of the various interests that will want to have their input into what goes on. Obviously, this is something that the public ought to care a lot about, and we hope that it does. And we need to stay in touch with the public as we work through this process. Local governments have a special interest because any fiscal package that one puts together to facilitate this project would likely make modifications to the state's ability to collect revenues under the 20-mill property tax while the project was under construction and perhaps during its ramp up. And they're going to necessarily have to have a major voice in how, if at all, those kinds of accommodations get made. At the end of the day, doing something like we are looking at doing here is a legislative policy determination. And the legislature either will

or will not enact legislation that will accomplish this or put a package like this into operation. And so, keeping the legislature informed and involved both while they're in session here and on an interim basis is something which it's going to be very important for us to do. So, I've walked through each of the topics, and I'd be happy to answer any questions, Mr. Chair.

REPRESENTATIVE HODGINS: Thank you, Commissioner Condon. Representative Ryan.

REPRESENTATIVE RYAN: Yes. Good morning Commissioner.

COMMISSIONER WILSON CONDON: Good morning, sir.

REPRESENTATIVE RYAN: You know, I've been very enthusiastic about this project. But also, I've done a bit of trading and a bit of poker playing in my life, and I can see something coming up the road where a fellow is telling me about how wonderful his horse is but, perhaps, I'm going to really need some concessions from you if you want to buy or rent this horse. Dr. van Meurs, in his report, talked about the difficulty of unitizing these fields, that BP would lose approximately 400 million barrels of oil which they wouldn't recover. Mr. Campbell, in an interview the other day, was rather disparaging about the prospects of this project. I hear a lot of ifs coming down as to what we're going to do. And I'm willing to put a lot of work into this to make this thing happen, but I'm not willing to waste my time if it's already predetermined that it's not economically feasible, that we don't have the ability to access this window, that the Japanese markets are telling us in reports that we should have been there already, that we should have done the negotiations, that we're a day late and a dollar short. And, you know, if there's enthusiasm behind this, and if this thing is going to really work the way it

is, why are we hearing a lot of these disparaging things from people that make it look like the state of Alaska is going to have to really make some big concessions to get this, and therefore everybody else's bottom line is going to go up a little bit and we're going to accept the work of the line and perhaps not the revenues we should get. At least that's what I'm . . . It kind of looks to me like that's the way the wedge is being driven. Perhaps I'm being too cynical. Could you give me an opinion on that?

COMMISSIONER WILSON CONDON: Well you're . . . Mr. Chairman, Representative Ryan, you're in a sense paid to be cynical in terms of looking at a project like this. And it clearly is your job to appropriately be just that. And, yes, there are a lot of issues. We have to make sure that if we do something here—if we make concessions—we don't get hoodwinked. Is it possible that we might? Yes. And let's just hope we all do our job and that doesn't happen. Now, even if we are able to put a package like this together, and the legislature takes action on it, it's entirely possible that the project still (even with changes) won't be economic. And we won't know that until we do it and see what happens. It's going to be close. We know that, and yet the potential benefits that are there, I think, make it worth trying. But, that's a judgment. I mean, there are going be people who look at this and say, "When I see the kind of changes we have to make (which is moving our revenue from the front end to the back and so on) it's just not worth it to me." And that'll be a policy choice that everyone that's an important actor in it will have to make as we work through the project. But, there are no guarantees now. There are no guarantees that we'll do a good job. We'll pledge . . . We'll try to do it, and I believe we will. And there are no guarantees that if we do a good job, the project will be built.

REPRESENTATIVE HODGINS: Thank you, Commissioner. Actually where we are sitting now, as the oil and gas committee, the state of Alaska, and the producers we're trying to determine exactly whether this is a feasible project. And in this determination, we need to look at a lot of different aspects that will possibly get the price of this gas line and this project down 15 to 20 percent from what is projected right now. So we're looking at all of the ramifications that the state, the federal, the producers, and the technology that's coming forward to build this line. At this moment, I don't believe we have a single customer for a single BTU of gas. What we have to do (and this is the role of this committee) is to bring forward the issues and to bring forward a single voice—a single protocol, as you'd mentioned last time, Representative Ryan—to go forward to our customers with one voice. And that's what we're trying to facilitate now. And there are a lot of very deep questions that we're to have to ask. And this is a very appropriate time to ask them, to establish whether we are actually going to go forward with this. I know that the producers have formed a steering committee, and they're working amongst themselves trying to figure out if this is even feasible economically. We need to appreciate the fact that they need to make a profit to make this happen. The state of Alaska needs to get some revenue off this. The people of the state of Alaska need to get some revenues off this. So we're all working the same direction on that. It's just how we sort it out at this point. And it's very important that we're all fairly vocal at this point to establish our ground—our parameters for what's important for our people, the state of Alaska, and the people that are going to invest in this line.

Representative Ryan, did you have any follow up on that?

REPRESENTATIVE RYAN: No. My question has been answered.

REPRESENTATIVE HODGINS: Representative Kemplen then Representative Ogan. I would note that Representative Brice has joined us.

REPRESENTATIVE KEMPLEN: Thank you, Mr. Chairman. Commissioner, morning.

COMMISSIONER WILSON CONDON: Good morning. How are you?

REPRESENTATIVE KEMPLEN: Good. This took a lot of work. Now we're doing the budget for next year, providing the resources for the various agencies in the operating budget. And it's been my experience that when you have a project, if you want to shorten the time frame on that project, you can add additional resources in order to get more work out of a limited period of time. And I'm wondering is there . . . Is this . . . I guess this would be a Gantt chart that you've provided us here. Is this . . . Does this . . . Are there opportunities here to shorten the time frame that you've identified if additional resources were provided to your department either for in-house work or contract work?

COMMISSIONER WILSON CONDON: Mr. Chair, Representative Kemplen, the . . . At some point along the way I'm sure that we will request funding for this effort. There is a level of effort that is appropriate to getting this work done. Throwing a lot more people into the effort above and beyond that, I think, might actually slow it up rather than speed it up. And so, the long and the short answer to your question is we do need some additional resources to be able to do this, but I caution against throwing too much at it because I don't think the schedule can be accelerated substantially by doubling up on the amount of people you have working on it.

REPRESENTATIVE KEMPLEN: Okay.

REPRESENTATIVE HODGINS: Follow up, Representative Kemplen?

REPRESENTATIVE KEMPLEN: Thank you, Mr. Chairman. What's your time line for a budget for this project?

COMMISSIONER WILSON CONDON: Representative Kemplen, that's a matter that's still under consideration by the Governor.

REPRESENTATIVE HODGINS: Further questions, Representative Kemplen?

REPRESENTATIVE KEMPLEN: Not right now, thanks.

REPRESENTATIVE HODGINS: Thank you. Representative Ogan.

REPRESENTATIVE OGAN: Thank you, Mr. Chairman. Wilson it's good to see you again. Our trade representatives in the Pacific Rim that we contract with through the Dept. of Commerce gave a presentation to us here a while back, and one of the gentlemen that was speaking emphasized that we're perceived as (not to use the word dysfunctional, but I think it's probably an appropriate word as far as how we deal with the Pacific Rim) that there's not one voice from producers or Yukon Pacific. And he emphasized, very strongly, that that needs to happen this year. You know, that the market window is 2005, and that other people are competing for this. And . . . Do you care to comment on his . . . How would you evaluate that statement?

COMMISSIONER WILSON CONDON: Mr. Chair, Representative Ogan. Yes. I agree with the observation that trade representative made that having different entities from Alaska, or associated with Alaska, talking about proposals to market North Slope gas in the Orient (that are not the same) is confusing. That's a fact.

And the only thing I'd add to that is that the executive branch and the legislative branch of state government have both made a major effort to try to move us to a situation where we're going to the market with one voice. We're not there yet, but that is still an objective that we'd like to achieve.

REPRESENTATIVE HODGINS: Representative Ogan do you have a follow up?

REPRESENTATIVE OGAN: It was my perception that the perception of the Pacific Rim was maybe further exacerbated by the fact that during the MOU that the parties that were signing the understanding to work together wouldn't even sit down at the same table and sign the understanding together. To me (and you don't have to answer this) but to me that's a statement that we need to work together. I mean, we being the state (both the legislature and the administration), the producers, and the pipeline people, and then those that aren't going to work need to . . . It seems kind of . . . This is a little hard but it seems disingenuous to me.

COMMISSIONER WILSON CONDON: Mr. Chair, if I might make a comment there. The MOUs between the state and the producers and between the state and Yukon Pacific are not quite the same because they have somewhat different interests. Yukon Pacific doesn't yet have any gas. And the producers, obviously, have an interest in an enormous amount of gas and are affected differently by the fiscal system. They certainly . . . You know, we had a signing ceremony which included everybody. And without talking on at length about it (I don't think that's appropriate) but one can look at that as a glass half empty or . . . Let's put it differently: 7/8 full or 1/8 empty. And I'd like to emphasize the 7/8 full part.

REPRESENTATIVE HODGINS: Go ahead, Representative Ogan.

REPRESENTATIVE OGAN: Well, I do have to concur that we've made a lot of progress. I mean, you know, in the last year. And I'm looking forward to further progress when everybody sits down at the same table, and everybody shows up at the same table in the market and says, "Okay we're ready for business." And that's my point.

COMMISSIONER WILSON CONDON: Right. Yah, and I understand that and, of course, I've . . . Talking to some of my acquaintances that are involved in this project, you know, that well, you know, the glass is 1/8 empty. Well, it's 7/8 full and that's . . . We're working hard to get the other eighth into the glass.

REPRESENTATIVE HODGINS: Representative Ogan, do you have another?

REPRESENTATIVE OGAN: Yes, thank you, Mr. Chairman. Commissioner Condon, there's been some talk—some speculation—lately on the gas-to-liquids approach with this. Is that even feasible within the time frame of the market window at this point. I mean . . .

COMMISSIONER CONDON: Mr. Chair, Representative Ogan, I don't know the answer to that question for sure. And, in some sense, nobody else does either. The question of whether technology, technological advances, inventions (if you will) are made that change how that process might work may or may not happen. Today, based on what's publicly available, it looks like marketing this gas by taking to tide water and turning it into liquid methane and moving it to market as liquid methane is the most economical thing to do. But we do see large projects that look like they're going to be constructed where we're turning methane, ethane, and propane into more complex

hydrocarbon molecules and making . . . and those would be transportable through the existing TAPS pipeline if you could make them economically on the North Slope. And it would be silly for the interested parties not to continue to look at that. If there is a huge breakthrough, it would be marvelous for all of us. It hasn't happened yet, but it could.

REPRESENTATIVE HODGINS: Other comments? Representative Ogan.

REPRESENTATIVE OGAN: Thank you, Mr. Chairman. Thank you, Mr. Condon.

REPRESENTATIVE HODGINS: Thank you commissioner. Representative Kemplen, you had an additional question?

REPRESENTATIVE KEMPLEN: Yes. Thank you, Mr. Chairman. This time line that you put together, commissioner. If in the conversations that we've had so far with the players in this project and the discussions about the competition that we're up against and . . . How does this time line match up against our . . . the time lines of our competition? Do you see this as being, you know, competitive? Or, do you see . . . From your knowledge of other projects that are out there, do they . . . Is there any of them that you see as having a head start, or do you feel that this right here keeps us right in the ball game, so to speak?

COMMISSIONER WILSON CONDON: Mr. Chair, Representative Kemplen, I don't know what the precise time line is with respect to the other projects that we're really competing head-to-head with, in terms of going through and doing this sort of work. It is something that I could get for you. This is really the best I think we can do

right now in terms of what it's going to take to just get the work done. And that's all we can do, in terms of the competition, is to do our best.

REPRESENTATIVE HODGINS: Further questions, Representative Kemplen?

REPRESENTATIVE KEMPLEN: No.

REPRESENTATIVE HODGINS: Thank you. Representative Ryan.

REPRESENTATIVE RYAN: Thank you, Mr. Chairman. Commissioner you mentioned earlier, in the project, about local hire and the inability of the legislature to be successful in this as far as legislation is concerned because of this attitude the courts take that everybody and his monkey is entitled to everything there is in the world and nobody can have anything proprietary. We, I personally, represent a group of people who desperately need work. I have, according to the 1990 census block, the lowest household income in the city of Anchorage. I plan on doing something about that. My personal feeling is that we should have 80 to 85 perhaps 90 percent local hire by agreement similar to what we've done . . . contractual agreements similar to what we've done on Northstar. And contracts can be made and particular conditions can be made in contracts that can't be made in statute. We know this from labor agreements. I realize the need for multinational companies to run their operations and have people with particular knowledge and expertise that can't be obtained locally, but I'm also interested in people in Alaska not only receiving work but receiving job training so they can develop skills [so] that after the oil fields are done we do have in place a skilled work force. And that's one of the things for which I will be pressing very much as a contractual arrangement. You have had some experience with this through the Northstar. What are your thoughts?

COMMISSIONER WILSON CONDON: Mr. Chair, Representative Ryan, all I can do, at this point, is pledge to do as much as possible to try to make sure that we have done all we can to qualify Alaskans to be able to do this work. And then once qualified, that we do everything we can to make sure they get hired. We want to make sure we don't get ourselves into another constitutional fight about all this, but there's a lot we can do that is perfectly legal and that will give Alaskans the best chance they can possibly have to get good jobs here.

REPRESENTATIVE RYAN: Thank you.

REPRESENTATIVE HODGINS: Thank you, Representative Ryan. Representative Ogan, you had an additional question?

REPRESENTATIVE OGAN: Yes, sir. Thank you, Mr. Chairman. Commissioner Condon, do you think it would be helpful or even appropriate at this time to work on maybe some of the issues at hand legislatively? Like tax deferral and a property tax deferral scheme? Or, would it be more helpful to wait and do more of a comprehensive approach? I mean, if we work on some of this stuff now, we could maybe roll it into a more comprehensive piece of legislation later on. Get some of the issues on the table, especially with the local governments that will be effected by a tax deferral scheme, or something like that.

COMMISSIONER WILSON CONDON: Mr. Chair, Representative Ogan, I think that taking a comprehensive approach to this makes the most sense right now.

REPRESENTATIVE OGAN: Okay. Thank you.

REPRESENTATIVE HODGINS: Further question, Representative Ogan?

REPRESENTATIVE OGAN: No.

REPRESENTATIVE HODGINS: Further questions of the committee? I have one, Commissioner Condon. In negotiations with . . . And obviously the state of Alaska is going to be a 12-1/2 percent owner of the gas through our royalty program. We're actually one of the players. And how does the state of Alaska negotiate with private enterprise? How has that been done in the past? In the context of the question there is [sic] some sensitive areas that are negotiated. Is that negotiated in the open? How do you plan . . . Or how should we be planning on negotiating as a player in this?

COMMISSIONER WILSON CONDON: Mr. Chair, it depends on how the state decides to proceed. If it's going to sell any of its royalty share . . . If it's going to take any of its royalty share of this gas in kind and sell it, there is a set of procedures that the legislature has established for the conduct of those negotiations and their subsequent entering into contracts and contract approval. That's the procedure that's on the books now that the administration will be required to follow if that's the way it proceeds. And it involves . . . The Department of Natural Resources has the statutory authority to conduct those negotiations. The negotiations are not . . . They have the authority to do that in a way that people generally negotiate commercial deals. And that is sit down and trade drafts and ideas. In some instances the state is required to conduct competitive sales. It doesn't always have to do it if certain hurdles are met. And again, I want to back up and make that point. The state can do it competitively, in which case it just offers a contract and takes bids on the contract, or it can do it non-competitively. If it does it non-competitively, there's a set of standards that you've got to meet—that have to

be met to do it non-competitively. Non-competitive contracts are negotiated just like any other contract. There's a process for public review, both at a board level (the Alaska Oil and Gas Royalty Development Advisory Board) and then the statutes call for legislative approval of those contracts. The question of whether the legislature has the authority to compel that kind of review has been something that the executive and legislative branches have disagreed about, in terms of what the legislature can make the executive do, but the executive has always wanted to present those contracts for legislative review, in any event, in every instance. And so that's the process.

REPRESENTATIVE HODGINS: So if I might sum up then, commissioner. In layman's terms the state can negotiate with what would become its partners outside

[End of Side 1 of Tape 1. Begin Side 2 of Tape 1.]

COMMISSIONER WILSON CONDON: It can do that in the context of selling its royalty share of the resource, yes.

REPRESENTATIVE HODGINS: If the state of Alaska becomes a partner in the gas line or any of the infrastructure, is that a different set of rules?

COMMISSIONER WILSON CONDON: There's not an explicit set of rules that are [sic] currently on the books that would apply, as there is with respect to royalty sales.

REPRESENTATIVE HODGINS: Thank you. Any further questions from the committee? Thank you very much. The next segment of this hearing is going to be . . . We have people that are in attendance here, and we have people that are on teleconference. I will list off the folks that are on teleconference that plan on testifying or

that are here. We have Yukon Pacific Corporation, Jeff Lowenfels. We have from Exxon, Beverly Mentzer. She's from Houston. For BP we have Mark Bendersky. It would be in Anchorage. We have also Jim Johnson from Houston for Phillips. We had Ed Patton from Southwest Research in San Antonio. We have other folks that are listening in, and we have a letter from Mobil addressed to this committee, saying that they have an interest and would like to establish that interest in the gas pipeline. There will undoubtedly be other folks that we will visit with in the future. And let me kind of set the tone, and to reiterate what we talked about in testimony with Commissioner Condon, we are still trying to facilitate this project. This project is not a certainty, at this point. This project has to have economic feasibility. And we are in the finding stage—if you will allow me to use that term—the finding stage to develop whether this project is going to be economically feasible. We also have to understand that there are competitors that we're going to have to bring together. The oil industry has fierce competitors. The federal government is going to compete with us for tax dollars. And the local governments are going to compete with us for tax dollars. So, we're having a very difficult and arduous process to go through to get everybody talking one message. And it's going to be quite a long and expensive . . . And I hope that everybody has sufficient patience to see this through. It's going to be quite a long and expensive process to bring all of the competitors together in the oil industry, to bring all the competitors together from the taxation side and government side, and to come forward with one unified message. And we must do that in order to satisfy our customers in the Pacific Rim that will look with disfavor and some concern if we don't have a unified voice. And that's the process that we need to establish at this point. As I mentioned earlier, there is quite a bit

of activity on the steering committee level with BP, Exxon, ARCO and others that are going forward and trying to determine whether this project is even feasible. It's my understanding that there has to be a reduction in the cost of this of approximately 20 percent from what is projected at this point. I am hoping that everybody gets a real sharp pencil and takes a look at where they're sitting and where we're going. And with that in context, it's our job as a committee to facilitate the communications between all of these individuals. And I hope that in our zeal to see this pipeline constructed that we don't forget that we need to be patient, and this needs to be profitable. And the jobs that Representative Ryan talked about are very, very forefront in the minds of all of us. This is the next gigantic project that will put a lot of Alaskans to work and bring a lot of money into our . . . a lot of revenues into our . . . into the state's coffers to where we can fund the programs that we'd like to fund.

With that, I would like to invite Yukon Pacific Corporation. It's my understanding Peter DeMay will be making a presentation. And Paul Fuhs will join. Mr. DeMay, Senior Vice-President, Engineering, if you would introduce yourself, please.

PAUL FUHS: Mr. Chairman, I'll introduce him if that's all right with you.

REPRESENTATIVE HODGINS: Thank you.

PAUL FUHS: I'm Paul Fuhs, representing Yukon Pacific Corporation. Jeff Lowenfels and Wayne Lewis are in Asia, now, collecting additional information from the market, so myself and Peter will be making the presentation this morning. Some of you may already know Peter. Just say, in terms of his credentials, he was the chief project manager for the Trans-Alaska Oil Pipeline, worked for Exxon Corporation for 25

years. And when he left Exxon, he was in charge of half of their world-wide projects. He is currently Senior Vice-President for Engineering for Yukon Pacific Corporation on the gas line.

Mr. Chairman, and members of the committee, this project is critical to the future of Alaska. And I think you've all recognized that through the resolutions that you've passed. And it's also recently been recognized by the mayors of the pipeline corridor who met yesterday in Fairbanks to form an organization called Trans-Alaska Gasline Now. And these are the mayors from the North Slope to Valdez, to help work on promoting this project. The benefits are in jobs, state revenues, and especially in-state use of the gas. This project could change Fairbanks and allow them to use natural gas like Anchorage has enjoyed for many years. I think the urgency of this was also reflected in the recent objections that were filed to Phillips Petroleum Kenai LNG plan for the export license for exporting LNG from Kenai in the years 2004 to 2009. Apparently there's a question about how much gas supply is available in Cook Inlet. So, even if it isn't that 2004 to 2009 period, it's not much longer after that where Southcentral Alaska is going to need additional gas reserves in order to be able to supply residential customers and industrial users.

Mr. Chairman, today we're going to be announcing some new initiatives, that have not been put on the table before, that we hope will help move this project forward. We know that there's a market for it. We've heard in our discussions, our trips to Asia, and also in testimony that's come before this committee . . . On the handout that you have, on page 4, we see the report in **Legislative Digest** about the representatives of OIT that were here. We also have heard from Pedro van Meurs who reported to you that

this project could be nibbled to death by other projects, and if that were to happen that this project might never occur. We also heard from Senator Ted Stevens who addressed a joint session of the legislature and reported that after his visit to Sakhalin, that if we don't get our act together and get going, that Sakhalin could displace the Alaska gasline project.

Yukon Pacific holds the major permits that are necessary for this project. And those are listed on page 3. And, Mr. Chairman, this project cannot proceed without these permits, to meet the time line of 2005 or any reasonable period after that. At the same time, we realize that the project cannot go forward without a gas supply and the cooperation of the producers on the North Slope, in both the Prudhoe Bay units and the Point Thomson units. In other words, we need each other to move this project forward. It's going to take a lot of cooperation to put together a $12 to $15 billion project, which is the largest private project in the history of North America. So, what are the next steps? What is the most important next step to this? And we feel that is the formation of an initial project structure for this. And that's how the Kenai LNG plant was put together. That's how the Trans-Alaska Oil Pipeline was put together. And, today, we are offering an invitation to the oil producers to join with us to form this initial project structure to put together the funding to take the next steps which will prepare us to go to the market. Everything that we should be doing we should be asking ourselves the question: How does this move us closer to being [able] to make an offer to the market? Until we do that, we won't know if we have a project that's economically viable. We can do a lot of economic analysis, but at some point we have to go to the market. As we would see this happening, the Yukon Pacific would bring its permits to the project. We're not going to charge for the permits, although the company has made a substantial investment in those.

Those would be brought to the project just as we would see some of the gas handling facilities on the North Slope brought to the project, some of the facilities that could be used in common on the Alyeska Pipeline System brought to the project to help make this happen in this initial structure. Now, the best case would be to have all the oil companies involved in Prudhoe Bay and in Point Thomson. But if for some reason some of those don't want to participate in the pipeline, they can declare their intention to make their gas available, and the project can move forward. We form this initial project structure. Then we've got a way for people to come into it. We're aware of Japanese trading companies that want to invest in this project, but there's no structure for them to do that. Now we've called this project TAGS (Trans-Alaska Gasline System), but that is a generic term for the project. And what we would see is the formation of a new limited partnership that would have a new name. It wouldn't be Yukon Pacific. It wouldn't be ARCO. It wouldn't be Exxon. It'd be some new . . . the Alaska Gas Company or whatever we're going to call it to form this new limited partnership to move this project forward. What Yukon Pacific would see in that would be an investment by CSX Corporation in 10 to 25 percent of the equity of the investment in this project. In other words, we would be a minority owner of the project. We would see other equity investors as holding the majority of the equity position in it, and then we go for the debt to make the loans to put together the financing for the rest of the project. CSX has the capability to make these kind of commitments. They recently put together a $10 billion deal to purchase ConRail—to perform a merger with ConRail. They own Sealand Corporation, Burlington Northern . . . They're a big company that can make these kind of commitments and are prepared to do that.

As far as the question of whether this project is economic, we believe that it is economic. We've read the Pedro van Meurs report, and I would just say that we've also performed our own economic analysis through a corporation called Credit Swiss First Boston Bank. Now this . . . If you would turn to page 5 of your handout, here, you will see some of the credentials of this company. The one that stands out to me is this company is number one in capital raising for the oil and gas industry in the world in 1995--$6.8 billion raised. This is a substantial company in the oil and gas business, and we asked them to do an economic analysis and also to help put together a financing plan for the project. And this is the report that you have in front of you. If you'll turn to page 6 of the report, you'll see some of the rates of return that they project for the project. And even on the right hand side of the chart with an approximately 50 cents per 1,000 cubic feet cost at the wellhead paid to the producers (for those who don't want to participate in the pipeline project which is a number that meets with about what Pedro van Meurs put in his report), this project is still profitable and economic with about a 14 percent rate of return on equity, which for our corporation is enough for us to invest in this project. And I think it will be for others also. Now what's the difference between this study and the Pedro van Meurs study? The main difference is in the ramp up. Pedro van Meurs said 2.5 million tons a year from the first year throughout. If we were to approach the project on that basis, we would never build it, and we would never invest in a project that only started with 2.5 million tons a year. That's an impossible theoretical projection of the economics of this project. What our market information shows us is starting the project with about 5 to 6 million tons a year and 2.5 to 3 million tons additional in the years until you get up to about 15 million metric tons. That makes the project work. And so that's

the main difference between the Pedro van Meurs study and our study on the economics of this.

Is this project competitive with other projects? I'd like to ask you to turn to page 7 of this handout where you'll see a comparison of some of the other projects, in terms of the capital required to bring on a million tons per year of these projects. And even TAGS at a $15 billion cost is equal to Qatargas (which was the last project that was placed at 6 million metric tons into the Asian market), and when you look at Natuna (a project that's often stated as one of the competitions for Alaska natural gas project) it's about 50 percent more expensive than the Alaska project. Why is that project being pushed? The main reason is because if it's not developed the leases are going to be taken back. These leases were already taken back once from Phillips in Indonesia when they didn't develop the project, and they have a little bit different way of doing their leases there. If you don't produce them, they take it back. So I think that's partly what's driving that project. This idea that Alaska's project is not competitive compared to these other projects is just not true. The fact is it's not that we're not competitive; we're not competing. We're not going to the market with a unified proposal. I also want to say that in addition to the . . . just the straight costs of the project, there are some other intangibles that help bring benefits to this project and help us sell it. Balance of trade payments. Stability and diversity of supply in the Asian market is very important for these other countries that are looking for a supply of their energy. The other thing that I want to point out is that this project has the capacity for total capacity of about 25 million tons per year. And we're going to amortize this pipeline and the gas handling facilities and the liquefaction plant on 14 or 15 million tons. That next 10 million tons is going to

be very economic. That will be some of the most competitive gas in the world. It's at that time also when state revenues substantially go up. The wellhead goes up. The profits for the company go up. So, it's not just the 15 million ton project. It's a potential 25 million ton project.

The last thing I want to address before I turn it over to Peter on some of the engineering is the issue of taxes. As Commissioner Condon said, we agree, the largest beneficiary of this entire project is the federal government—at $26 billion in taxes on this. Now they recently passed a tax bill to help bring on line the deep water drilling in the frontier areas in the Gulf of Mexico. And it would be similar type legislation that would allow us to make this project . . . improve the economics of this project. Depreciation schedules, tax credits from federal corporate income tax, those are the kind of things. And, Mr. Chairman, I hope that this committee and the legislature will recommend to our congressional delegation that they take up these actions in this congressional session to help this project.

In terms of the state, one of the most important aspects to the construction of the pipeline are [sic] the property taxes. And they're charged during the construction phase before there's any revenue. If anything can be done there, that's probably one of the most important. I think it's good for this work to go ahead together and look at wellhead values and severance and ad valorem and all of those, but I just want to caution you that when you get into that, the same problems . . . because of different ownership patterns on the North Slope (of the oil and the gas) you're going to run into that again in the tax situation there, and it's going to affect each company differently. That's going to be a very difficult prospect to put together.

And the last thing I want to say is I don't think Alaska should be expected to give up all its benefits from this project. We think the economics of the project are strong enough that Alaska can get some tax benefits from this, and we're going to need it because there are going to be some impacts from this project that need to be dealt with. In any case, we don't need to wait on going ahead with these others—the project structure, the engineering work, going to the . . . preparing our proposal to the market—while we look at the tax issue. Those should go on concurrently. So, Mr. Chairman, I'd like to turn it over now to Peter DeMay to discuss the next steps for engineering, and what those costs would be, and what it's going to take us to get our cost figure together to be able to go to the market and also the kind of cooperation we're going to need with the producers in analyzing those cost reductions. Peter . . .

MR. DeMAY: Thank you. Well, from my perspective we've been, certainly, looking at this project for a long time. I've been on it for seven years now. And we do have a plan—a work plan—that we've prepared in quite comprehensive detail. This not only covers what's needed for the engineering but the marketing, the financing, the permitting, the legal, every aspect of moving this . . . what it takes to move the project forward. And you might ask: Well, if you've got the work plan why haven't you used it? And why aren't you proceeding with it? Well, the answer is very simple. It's that when we approach the market, the market always comes back at us, and they talk about what they call the LNG links . . . the chain—what it takes to bring the project to fruition. And what they expect from people who are discussing projects with them are [sic] to demonstrate that they have the gas reserves and that they have ample gas reserves for a 20 or 25-year contract term. They also request that we show that we have the

permits, and we can build the project. They also want to be sure that we have the approval of the government to export the gas to the markets. And, finally, they want to be sure that the consortium has the financial resources to bring the finances to the project. Now, in order to get into meaningful discussions with them, that's what you have to start with. And we weren't able to do that. So what we're . . . in our work plan really before we get into the phases that need to be followed, the first thing that needs to be done is to bring the parties together to form this consortium that could bring that strength to the project and to the market. So that's where I'll start—on the basis that the first thing we do is form this consortium and bring these parties together.

Once these parties are brought together, they should all bring the results of their studies and their knowledge of the project. We know that they've been studying the project. We have been studying the project. So, there's an awful lot of information to be brought together. And then we should digest that information and optimize it and take the advantages of all of these studies and anything that will reduce the cost of our project. For instance, as regards the producers at the slope, they certainly are more knowledgeable of what facilities are required to condition the gas at the slope. It would be prudent, on their part, to do the preliminary design of the facilities that are required there. In fact, it would be better if they would go further and say that they not only would design these facilities but they would operate and maintain them. They have all of the operational and maintenance facilities available at the slope. And we could even go so far as to suggest that they actually own the facilities and sell conditioned gas to the project. And that, I think, will even be more economic for the project. We should also be talking with Alyeska. As far as Alyeska goes, we have an agreement with Alyeska to share technical

information. We have full access to all the geotechnical data that they have, their source settlement test work, and whatever other information that is available. And again, we should go further. We should be talking to them about using their infrastructure—using the access ways that they have and the work paths and the Yukon River Bridge and even their pump stations that they're decommissioning, that they have decommissioned and will be decommissioning over the next few years. So there presents a number of opportunities to include these improvements in our project. And then also there have been technological advances that have occurred since we suspended our activities. These are related to the fact that there are in use today larger gas turbines and gas compressors. Our design was based on the size of equipment that was available at the time we were doing our studies. Today, instead of building four 3.5 million metric tons a year LNG plants to get 14 million metric tons, we know that we can build three plants of 5 million metric tons each for 15 million metric tons a year. That not only decreases costs, but it also gives us another ton of LNG. And, also, technical advances have been made in pipeline materials. The steels are now stronger [and of] higher stresses. This will allow us to increase the pressure in the pipeline. And there are current gas pipelines at higher pressures than the one that we have included in our design. Our design is for 2,200 pounds per square inch. Pipelines today are running at 3,000 pounds per square inch. If we can take advantage of that technology, we could reduce the diameter pipeline and, consequently, the cost as well. So there are all of these opportunities to reduce the cost of the project, at least initially, for the initial phase of our activities.

The real thrust of what we call our phase I activities was to confirm the project viability. In other words, get the cost down as much as we can. And our goal

would be to obtain commitments from the consortium members and the market to pursue the development of a financable cost estimate, which is required if there's going to be financing of the project from the commercial community. So after these initial optimization studies that we suggest, we would then agree on what is our plus or minus 25 percent cost estimate. This is not a financable quality estimate, but it is the best estimate that can be produced on the basis of the information that's available. And then we should seek from the producers a start date and their best guess of a net-back price for the gas supply. And then, concurrently with all this activity, we should be developing an LNG pricing strategy or a package with which to go to the LNG buyers. And, ultimately, we hope to obtain from them their best commitment which [would] be a form of a letter of intent or a letter of understanding which would address the volumes of LNG they will be buying, the start up of when the LNG would be required by the market, and the timing and the ramp-up rate. Now, if that can all be accomplished, then we would have hard information from the buyers as to what the start-up rates are, the period of ramp up, and many of the things that we find from all the studies . . . The various studies, the various opinions that people have would be meaningless because we would now have real hard information from the market.

Now, what would it take to do all of these steps? We've concluded that this activity could be completed in about a six-month period and at a cost of about $7 [difficult to distinguish on the tape whether the testifier says $7 billion or $7 million]. Now, if we find out at the end of this study that there is no market, then, obviously, you wouldn't go any further. But, on the basis that we get these letters of intent and letters of understanding from the marketplace, we would then proceed to the next phase of our

work plan. And that would be to produce a financable cost estimate and to obtain commitments for the purchase of LNG from the buyers and also get commitments from the companies that own the gas. And the key steps here would be to complete the preliminary engineering and a detailed execution plan for the project which really defines how the project is going to be executed and prepare a financable estimate. And that is an estimate that has an accuracy of plus or minus 15 percent. In our business that's traditional to have an estimate of that quality and the need to complete the preliminary engineering. In addition to doing the preliminary engineering (in order to meet the target of 2005 for delivery) we also believe that we need to do a bit of detailed accounting, particularly for the long delivery items, and also for the critical contracts for the initial front-end activities of the project. We know that the delivery of the main heat exchangers on the LNG plants (we had actual quotes for these) are [sic] 40 months—40 months from the date of order. And we know that the LNG turbines and compressors are of the same order of magnitude of delivery. So, you're looking at three and a half years before that equipment arrives on site. The most critical path on our project will be the terminal. The LNG marine terminal at Valdez. The problem here is that the site must be prepared. And we will be moving 7 or 8 million cubic yards of material, not only once but perhaps twice. And we have to get access to that site. We would have to design the construction dock so that we could move equipment and people to the site. And we also immediately have to start building temporary facilities to house the employees and support facilities for all of that effort. It is a real difficult project. If you saw the site, you'd really understand why it's critical. So . . . And then we would also have in place the draft contracts for the engineering and procurement contractors. And the design for the site

preparation at the terminal would all have to be complete. So, in reality, we'll be doing more than just preliminary engineering. We'd be doing a bit of detailed design.

Also during this time frame . . . We talked about taxes. We think that's the time frame when . . . It's during this phase when the tax regime would have to be finalized, and the project labor agreement would have to be in place. Of course there are insurance matters to settle, and, of course, the financing would have to start being put into place. And we would also have to convert our state right-of-way from a conditional status to a final status. And then we would have to walk a way and convert these buyers' letters of intent to contracts for the gas purchase from the producers as well as the LNG prices for the LNG in the marketplace. Now, what would it take to do all this work? We have estimated that it would take 24 months to complete this activity, and that the cost of this activity would be $80 million.

Now, if you look to page 2 in the handout you have, you'll find a time line or schedule. And this is a very simple schedule, but I think it tells the story that we want to tell. On here we show phase I (which I said was the six-month effort), and it would be completed by the end of 1997. Phase II which is the preliminary engineering and the financable quality estimate would take 24 months, and that would take us to the beginning of the year 2000. At that point in time, assuming that we were successful in negotiating all the contracts with the buyers and the sellers of the gas, we would initiate the detailed engineering and construction. But that absolutely would require that we have the buyer and seller commitments. And then, if you look at the phase III chart, it shows that it takes five years for us to get to 2005 when the first LNG deliveries would be made to the marketplace. Also you'll see on that line procurement and long delivery items and

award of critical contracts. You see that box. That means that we have to initially award all of those. And if you look at that five-year period and consider it takes three and a half years to get the delivery of those items, that only allows a year and a half after we get that delivery to put that equipment in operation. And that's a very short period of time. And then from then on, on the bottom line, we show the ramp up. We show a four-year period but, obviously, if we have negotiated our contracts, we will know what that ramp-up period will actually be. It may not be four years; it may be three years. So, anyway, this is our best schedule for this job to meet the 2005 date. And, quite frankly, any delay anywhere along the line can very well affect that date. There is not very much slack in this schedule. It's extremely critical from every aspect, particularly the equipment delivery aspect and the initial activities that must occur at the terminal to make this time frame.

PAUL FUHS: Well, Mr. Chairman, I hope that answers your questions from your letter. And I just want to say that we're prepared to cooperate with the people who want to work together on this. And we're ready to get to work.

REPRESENTATIVE HODGINS: I appreciate that Mr. Fuhs and Mr. DeMay. Do we have any questions of Mr. DeMay from the committee? I do plan, before we go on . . . We have quite a number of folks that want to testify on this, and there is the real possibility that we'll be hold this meeting over until next week. We have session at ten o'clock. I've sent a message to the speaker. Hopefully, we can go beyond that. But I want to hear as many questions as possible. This will be a lengthy discussion—a lengthy meeting. And I'm going to give everybody latitude to probably talk a little bit longer than I normally would. So with that, Representative Ryan, you have a question?

REPRESENTATIVE RYAN: Good for you, Mr. Chairman. Are you going to have some of the producers come to the table and testify?

REPRESENTATIVE HODGINS: Yes. Yes. In fact I'll give you the list of folks that will be testifying.

REPRESENTATIVE RYAN: That's fine. I just . . . I need to ask them a particular question about unitizing that field.

REPRESENTATIVE HODGINS: Representative Kemplen.

REPRESENTATIVE KEMPLEN: Yes. Thank you, Mr. Chairman. Mr. Fuhs and Mr. DeMay, the phase I design . . . I was looking here at the Gantt chart that was produced by the Commissioner and kind of comparing it to the critical path chart that you put together here. It seems there is [sic] some critical issues that have to be going on at the same time. But, also, that there are some fairly significant costs that have to be incurred by someone before this project is nailed down, in terms of final commitment. So there is an element of risk involved by whoever is going to absorb those costs. Could you explain to me how you see those costs being paid? Who's going take the risks?

PAUL FUHS: Mr. Kemplen, through the Chair, Representative Kemplen, through this consortium. And that's how all these projects are put together. You get an initial consortium, and they agree amongst themselves who's going to put up the money. We're willing to put up part of the money with the consortium members. And then, those costs that are put in on the front end are generally paid back to those people when the project goes through. It's just part of the overall financing package—engineering and all of that. So you get paid back eventually. But, you're correct you do have to put some risk out on the front end and we're prepared to do that.

REPRESENTATIVE OGAN: So you would say . . . Would it be a fair characterization that maybe we should use the term fish or cut bait, right now, or cut a lot of bait, you know. And so maybe identify those players that are willing . . . that are actually going to fish and then go from there. I mean, is that a fair characterization?

MR. DeMAY: Yes. I would say so, sir.

REPRESENTATIVE OGAN: Thank you.

REPRESENTATIVE HODGINS: Any additional questions of the committee? Thank you very much for your presentation this morning. And if this meeting is held over (which I assume it will be) to conclude this meeting on April 15, would you be available either telephonically or in person to . . . [Inaudible due to multiple voices responding affirmatively]. Thank you very much. With that, I would call on Mark Bendersky from BP. It's my understanding he's at the Anchorage LIO and is able to attend telephonically. Mr. Bendersky, are you there, please?

MARK BENDERSKY: Yes. Can you hear me?

REPRESENTATIVE HODGINS: Yes. I can. Go ahead.

MARK BENDERSKY: Thank you, Mr. Chairman. For the record, my name is Mark Bendersky, and I am the commercial manager for gas for B P Exploration (Alaska). I would like to thank the chairman and committee members for this opportunity to testify today. I have a brief statement. BP is committed to work with the state towards a sound energy future for Alaska. As Alaska's number one investor, we continue to demonstrate this with our involvement in, for example: Badami, Northstar, and our ongoing successful exploration program. While we are not the major owner of gas on the North Slope, we recognize the desire of the state to develop these resources. We believe

REPRESENTATIVE KEMPLEN: Okay.

REPRESENTATIVE HODGINS: Further questions, Representative Kemplen?

REPRESENTATIVE KEMPLEN: Not right now.

REPRESENTATIVE HODGINS: Thank you. Representative Ogan.

REPRESENTATIVE OGAN: Thank you, Mr. Chairman. Mr. DeMay, what areas could you see right now that are critical to improve to the relationship between Yukon Pacific and the producers, right now, to send the unified message that we've heard about? What would greatly facilitate that? Can you think of maybe the first thing that could improve in that area?

MR. DeMAY: Well, Representative Ogan, through the Chair, I . . . We've been talking to the producers for years. All of us have. And, as I mentioned at the start of my presentation, I think it's just simply have together, you want together, and all of those who are aware and willing to take the risk (the financial risk) associated with developing this project. That group has to come together and form an organization. I mean, it's obvious there'll be differences in ownership percentages of all tne parties. And I think once that occurs then an organizational structure will fall out of that. And Yukon Pacific may not be the leader in that. I mean whoever is going to put up the most money will probably have the most influence as to how that proceeds. And I see that's the only way to get that together to go to the market and say, we're together and we can do this project.

REPRESENTATIVE HODGINS: Representative Ogan, please.

that a North Slope LNG scheme is uneconomic currently. We would like to emphasize that modifications to the state's fiscal regime, by itself, is insufficient to make a North Slope LNG project a reality, but it would be an important and significant step. Potential modifications to the federal fiscal regime, significant cost reductions, formation of a project and favorable market conditions are all also required. Our signing of the MOU, last month, set forth a framework for future discussions.

We need to ensure that the many opportunities for gas usage on the North Slope are captured so as to maximize liquids production from old and new fields, TAPS throughput, and revenue generation today. For instance, BP is continuing its work on gas-to-liquids research which could offer interesting options for the future.

BP has worked with the state administration in developing the state's 1997-1998 target work plan that Commissioner Condon has just discussed. We believe that the state's plan has the appropriate scope of work, and we plan to participate in these important discussions.

The state's plan target time frames are very ambitious. You can see that there are a large number of important issues that must be worked, discussed, and agreed.

BP views the word "contract" as shown in the plan as a means to enhance fiscal certainty for potential project sponsors. The contract would include changes to both the state's tax and royalty structure to improve the economic feasibility of a North Slope gas project; and to the fullest extent permitted by the state's constitution, that the state be bound by these contract terms. This contract would reduce the risk to an investor that fiscal terms could change during the life of the contract. As such, the contract sets a framework within which any project could operate if it proceeds forward.

We commit to work with the state on defining fiscal terms to maximize the value of North Slope gas and to that end support Commissioner Condon's efforts. Thank you for the opportunity to testify this morning.

REPRESENTATIVE HODGINS: Thank you, Mr. Bendersky. We'll have some questions from the committee. I have one, and it concerns Richard Campbell, President of BP Exploration. And he was recently quoted in the Anchorage Daily News as saying that his project was a bit of a dinosaur. I would sincerely hope that he was talking about where the oil originally came from. And he isn't talking about . . . that this is a project that isn't going to go forward. He mentioned that there were small, low-cost projects that could possibly displace this. And if that's the case, I would like to know from BP (concerning that statement in the newspaper) what BP's intentions is [sic] with this project. Is it to sell their gas at wellhead, or is it to be an actual participant in this? And I understand that these kind of statements to the press ripple throughout the world to our potential customers. And I find it very difficult to hear this kind of . . . these kind of statements come out. And if you're going to be a player, be a player. And if you're not, please don't . . . please don't send the wrong message to our potential customers in the Orient. Would you care to respond?

MARK BENDERSKY: Thank you.

REPRESENTATIVE HODGINS: What I would like to do while you're thinking about my last statement . . . I would ask if there are questions from the committee towards BP at this point? Representative Ryan.

REPRESENTATIVE RYAN: Yes. Looking at this van Meurs' report and the unitization of the field, it showed that BP had a potential loss (by selling the gas) of

400 million barrels of oil. And I'd like to know what value you put on the oil versus the amount of gas you would get and whether this shows that you folks are going to make or lose money on this project and whether you think it's particularly feasible—that the oil is worth more than the gas. And what would be your intentions in that respect?

MARK BENDERSKY: Thank you, Representative Ryan. I believe the estimated figure of close to 400 million barrels of oil losses was from the field entirely. BP would have the largest share of that oil loss at about half. Those oil losses would start off. . . The annual quantities would start off . . . They would be small initially and they would tend to get larger in the later years of project life. And when we pencil in the economics of those future oil losses against the more near-term gas revenue, if there is an economic project then the near-term gas . . .

[End of Side 2, Tape 1. Begin Side 1, Tape 2.]

. . . its future options with regard to participation in an LNG option. It's also continuing to evaluate how to get the maximum value of using gas on the North Slope in an enhanced oil recovery project, producing natural gas liquids for sale down the TAPS, and other new technologies. We're interested in maximizing the value of gas on the North Slope, and we believe our interests are aligned with the state in this regard, and we are keeping are options open. And I hope you will view this as good news in that we are not solely focused on one potential option that has significant hurdles in its future. We are trying to find what's the best way to do it.

REPRESENTATIVE HODGINS: Further questions, Representative Ryan?

REPRESENTATIVE RYAN: Well, I can understand that people are evaluating options, and knowing the investment that the producers have at present in the field and future investments that will be required, I would think that somewhere along this line someone has made some evaluations. I can't imagine after all these years up on the North Slope and knowing the values and considering that these will probably be future contracts and what the market may bear, that there weren't some more concrete figures. That we're still in the stage of evaluation at this point makes it very difficult to imagine that this project could go forward if the producers haven't fairly well penciled in some rather firm ballpark figures. I mean, are you still in the evaluation stage? At what period of time do you think it's going to take you to come up with a ballpark figure whether it's worth your while to participate in this project?

MARK BENDERSKY: I don't have a good answer for that. The world is constantly changing. We're constantly updating our evaluations and strategy, and the project isn't yet economic. We are working hard to make it so. We're looking at other options, and it's just an ongoing process.

REPRESENTATIVE RYAN: All right. Well I may make a further comment. I know that people from the North of the United Kingdom have a tradition of having a posture of rather dour nature, and you have to realize that statements such as that press interview by Mr. Campbell have given some folks here in the legislature thought as to whether we should revisit some of the things that we've previously . . . have made some agreements. Because we thought we were operating in a good-faith nature, and now we see that perhaps things aren't quite what we expected. So, I think you may pass that on. And perhaps a little caution in the future would be appropriate.

REPRESENTATIVE HODGINS: Representative Ryan, Representative Ogan has asked me to go for a break. We'll talk about the statement that Richard Campbell made, with Mr. Bendersky, when we come off break. We'll be back in five minutes. It'll be a quarter to. So at this point, we'll take a short at ease.

AT EASE

RECONVENE

REPRESENTATIVE HODGINS: . . . with BP, and Mr. Bendersky, are you ready to respond at this point?

MARK BENDERSKY: Mr. Chairman, can you hear me?

REPRESENTATIVE HODGINS: Yes, I can. Thank you.

MARK BENDERSKY: Thank you. For the record, this is Mark Bendersky with British Petroleum. I'd like to first explain what I think the dinosaur comment was all about. It's not a point about the dinosaurs being extinct. It's a point about large animals or large amounts of gas being slow to move and very, very difficult to put into the market. It's been our recent analysis that the smaller projects are more attractive to the market. There are smaller risks for buyers to absorb those projects, and the buyers have told us smaller is better. They use the words "more digestible." I don't think you should also believe that we're not optimistic. I think you should look at our track record. The projects we are doing in Alaska have always been in the state and legislature's best interest, and we intend to try and maximize North Slope gas resources. And to that end I think we're working towards the same goal.

REPRESENTATIVE HODGINS: Thank you, Mr. Bendersky. Representative Ogan.

REPRESENTATIVE OGAN: Thank you, Mr. Chairman. Mr. Bendersky if we don't have any lines in the water yet . . . I'm using the analogy to fish or cut bait. Okay? You know we've been cutting a lot of bait, and we know the fish are there (the fish being the market), and we know where they're going be and when they're going to be there. But I don't see that . . . And, you know, there are other people that are participating in the fleet that have their bait cut, and their hooks are baited, and their lines are in the water. And we haven't even put our lines in the water yet. Why don't we participate in that . . . you know, get passed the talking stage here a little bit and be willing to let the market decide. I mean, I've clearly heard that they're very interested in Alaska gas, not just because the market is not too big for them, but they like to diversify their market. And, certainly, the United States of America is politically very stable. And, you know, let's let the market decide that. But, I just don't think we have any lines in the water. And until we get lines in the water you're not going . . . we're not going to hook any up.

MARK BENDERSKY: Mr. Chairman, Representative Ogan, BP has been working for several years now on evaluations of this project—working very closely with ARCO and Exxon. We've maintained very close contact and continue to maintain very close contact with the market. We intend to continue our joint efforts with ARCO and Exxon through the end of this year. We have a detailed program of work to the end of this year. And we're open minded about how future efforts may evolve.

REPRESENTATIVE HODGINS: Thank you, Mr. Bendersky. Further follow up, Representative Ogan?

REPRESENTATIVE OGAN: And I recognize that there's been a lot of movement, and I don't want to discount that at all. And I appreciate your comments. But I still feel that . . . I guess I share some of the chairman's concerns about comments like that in the press.

MARK BENDERSKY: I'd just like to say that some of the most optimistic people I know come from the British Islands.

REPRESENTATIVE HODGINS: Mr. Bendersky, we're going to be going into session here very shortly—floor session. Rather than to get into further progress on this, I would like to hold this meeting over until 8:00 o'clock, Tuesday, April 15. And we will take up where we left off here. And we will . . . Hopefully, the other folks that are on teleconference, Beverly Mentzer, Jim Johnson, and Ed Patton will be able to join us Tuesday morning—this next Tuesday at 8:00 o'clock. And with that . . . I really hate to drop this at this point, but I hate to get into something very deep that we'd have to cut short and go into session. So with that, thank you very much for all that have participated this morning, and I would hold this meeting over until 8:00 a.m., Tuesday the 15th. Thank you.

PHILLIPS PETROLEUM COMPANY
P.O. BOX 1967
HOUSTON, TEXAS 77251-1967
EXPLORATION AND PRODUCTION GROUP

6330 WEST LOOP SOUTH
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PHILLIPS BUILDING

TELECOPY COVER SHEET

DATE: April 15, 1997

TO: Pat Carter
COMPANY: Alaska State
~~ADDRESS~~: Legislature
~~DEPT~~: Fax # 907-465-2833
CITY/STATE: Anchorage, AK

FROM: J. P. Johnson
COMPANY: Phillips - E&P
RM. 1116 PHONE #. 713-669-2968
HOUSTON, TEXAS
FAX # 713-669-7004

WE ARE SENDING 3 PAGES OF TEXT. (INCLUDING THIS COVER SHEET)

ADDITIONAL MESSAGE: As you requested, Following is a copy of my testimony in the Oil and Gas Committee Hearing this morning.

Jim Johnson

THANK YOU!

My name is Jim Johnson. I am the Onshore Area Manager in Phillips North America Partnership Operations Group in Houston. I have responsibility within my group for the properties which contain Phillips North Slope gas reserves, such as Prudhoe Bay and Point Thomson Unit.

Phillips Petroleum's interest and involvement with a North Slope Gas project would come about in several ways. First, we are an interest owner in North Slope Gas. We have an interest in Prudhoe Bay Unit, where along with our 1 88% interest in the oil rim, we have a .26% in the gas cap. We have much larger interest of 12% in the Point Thomson unit

And, as you may know, Phillips is the majority owner and operator of the Kenai, Alaska LNG facilities; the first LNG project to export LNG into Asia and North America's first and only existing base load LNG operation. The Kenai, Alaska facilities were the first to achieve 27 years of reliable uninterrupted LNG deliveries into Asia and have brought significant benefits to the State in the form of jobs and revenues.

Phillips is supportive of the efforts to facilitate the North Slope LNG project. Consequently, Phillips would be interested in evaluating opportunities to participate in the Trans Alaska Gas Line project as well as opportunities related to potential participation in the LNG liquifaction facilities and shipping elements.

Phillips has examined North Slope gas production, and based on current information we believe that the potential exists for this to be economic. Further refinement, decisions, and action will be needed on several items to bring about a final conclusion in this regard:

- North Slope gas field deliverability and costs

- Costs of required pipelines and other facilities

- Tax and regulatory structure

- Marketing arrangements and prices for the LNG

With our interest in Point Thomson and our past experinece in LNG, we have been in a position to study a number of aspects of these with a good perspective. I would like to comment further on what we feel are some key items.

In the Point Thomson Unit, Phillips has been actively participating along with the operator Exxon and other interest owners in studies to better define the reserves, producibility, and development scenarios of that field. Results in studies currently underway have been encouraging in indicating that potential reserves and production from this field may be better than previously indicated, although it is too early at this point to define specific numbers.

Phillips believes that the Point Thomson gas condensate field could play a pivotal role in facilitating the North Slope LNG project. Point Thomson gas reserves could give the North

Slope pipeline project considerable additional flexibility and viability. It could supply early gas supplies needed to accelerate the potential start up date for the project to coincide with the earliest market opportunities. Point Thomson could be developed to supply significant gas volumes in plenty of time to be ahead of the pipeline. This would allow you to have both early start up of the project to capture market opportunities as well as allowing high recycling of Prudhoe Bay gas to continue for a longer time to benefit oil recovery. Also, Point Thomson could augment PBU gas deliverability in the longer course of the project. Point Thomson, along with any other gas producing fields, could provide the synergy that should yield better economics for everyone.

Finally, having had 27 years experience in marketing LNG into Asia, Phillips concurs that a market "window" for the North Slope LNG project could open as early as 2005 and that competition among supply projects for these markets is and will be fierce. This being the case, Phillips supports the House Oil and Gas Committee efforts to facilitate timely definition of the project structure and, hence, its credibility in the marketplace.

YUKON PACIFIC CORPORATION

ENGINEERING DEPARTMENT

PETER DeMAY

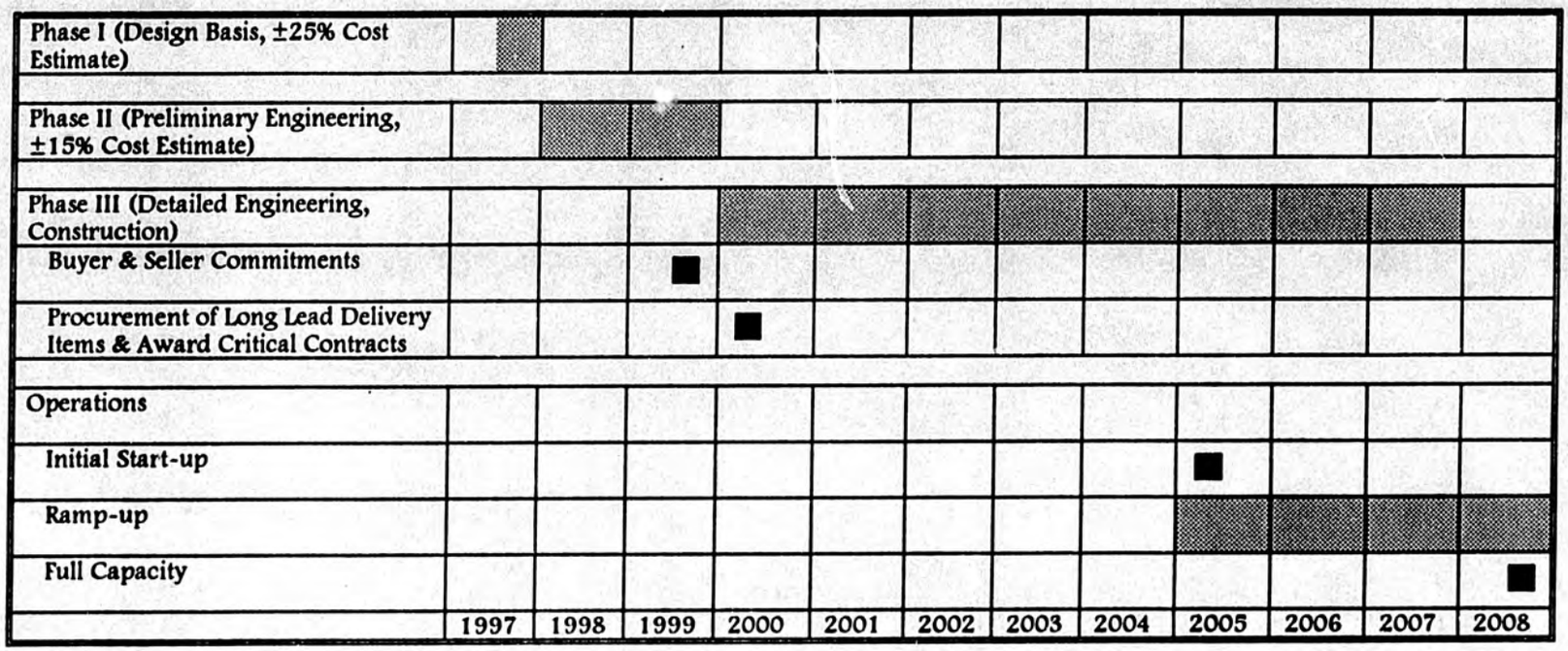
SENIOR VICE PRESIDENT - ENGINEERING

Mr. Peter DeMay's career spans forty-six years, twenty-five of which were with Exxon Research and Engineering Company, where he held numerous project management positions culminating as Chief Project Manager responsible for half of Exxon's worldwide projects.

He was the Vice President for Project Management for Alyeska Pipeline Service Company responsible for the planning, detail design engineering and construction of the Trans-Alaska Pipeline System (TAPS). Following his TAPS position he joined Williams Brothers Engineering Company as President and then joined Fluor Corporation (now Fluor Daniel) as Group President. While at Fluor Mr. DeMay served as the Executive Project Director for the Statpipe Development Project in Norway to move Statfiord gas to the European continent. This was the deepest pipeline laid in the North Sea (over 1,000 feet (305 meters)). Mr. DeMay was also Chairman and Chief Executive Officer of Fluor Daniel Engineers and Constructors in Hong Kong with responsibility for all activities in South Korea, Republic of China on Taiwan, the Phillippines, China, Malaysia, Indonesia, Brunei, Australia and New Zealand.

He joined Yukon Pacific Corporation in 1990 as Senior Vice President responsible for planning, preliminary engineering, optimization studies, cost estimates and technical support for permitting and modeling.

TAGS Phased Development Program
Prepared by Yukon Pacific Corporation



(2)

D. Current Status of TAGS

YPC has advised us that the Company has secured or satisfied all of the major legal approvals and requirements necessary to export North Slope gas to Asia.

These approvals include:

- **Presidential Approval:** *Presidential Finding Concerning Alaska Natural Gas: Removes impediment to Alaska natural gas exports required by Section 12 of the Alaska Natural Gas Transportation Act (15 U.S.C. 719j), January 13, 1988;*
- **Project-Wide Environmental Impact Statement:** *Trans-Alaska Gas System Final Environmental Impact Statement, June 1988 (21 federal and State agencies);*
- **Ahtna Right-of-Way:** *Grants to Yukon Pacific Corporation the right to designate and acquire certain rights in any and all lands acquired by or otherwise available to Ahtna under the Alaska Native Claims Settlement Act of 1971 which are reasonably necessary to construct, maintain, operate or terminate the pipeline, October 14, 1988;*
- **Federal Right-of-Way:** *Right-of-Way Grant for the Trans-Alaska Gas System from The United States of America to The Yukon Pacific Corporation, October 17, 1988;*
- **State Right-of Way:** *Trans-Alaska Gas System Conditional Right-of-Way Lease, December 10, 1988;*
- **DOE's Authorization for Export of Gas:** *DOE/FE Opinion and Order No. 350, Order Granting Authorization to Export Liquefied Natural Gas From Alaska; Limiting of FERC's jurisdiction, November 16, 1989;*
- **Confirmation of Order 350:** *DOE/FE Opinion and Order No. 350-A, Order Denying Requests for Rehearsing and Modifying Prior Order for Purpose of Clarification, March 8, 1990;*
- **Anderson Bay Final Environmental Impact Statement:** *Yukon Pacific Corporation LNG Project: Final Environmental Impact Statement, March 1995;*
- **Order Granting NGA Section 3 Authorization for the Siting, Construction and Operation of LNG Facility:** *Federal Energy Regulatory Commission's approval of Anderson Bay, Port Valdez, Alaska as the Place of Export, May 22, 1995;*
- **Prevention of Significant Deterioration (PSD) application in progress:** *Reserves critical Port Valdez airshed "space" for future LNG plant and marine terminal emissions.*

In addition, YPC has secured Memoranda of Intent ("MOI") with South Korea (Korea Gas Corporation) for 2 million metric tons per annum with an option for an additional 2 million metric tons and Taiwan (Chinese Petroleum Corporation) for 1 million metric tons per annum with an option for an additional 2 million metric tons. Discussions have also been held periodically with Mitsui and Mitsubishi ("MIMI"), trading company representatives of Tokyo Electric Power Company, the world's single largest buyer of LNG. These discussions addressed taking both LNG and an equity interest in the Project.

LEGISLATIVE DIGEST

. . . Resources . . .

Gas pipeline: Is it already too late?

Time may be running out for getting an Alaska gas project before buyers in Asia in time for the first round of new Liquefied Natural Gas import contracts for the post-2005 period, an energy specialist in the state's Tokyo office told the House Oil and Gas Committee. In fact, gas pipeline promoters should be there *now* with a defined project. Mariko Kuroda told committee members that LNG end-users in Japan plan for large LNG import contracts eight to 10 years in advance. But Alaska is not yet at the table with a defined project. It's recognized that an Alaska LNG project will take longer than competitors' projects because of the need to build a pipeline, but the minimum for the project is estimated at eight years. Without specific information on an Alaska project (better cost estimates) the project can't be taken as a realistic option, Kuroda said.

Also in the presentations: Kojiro Abe, head of the state Japan office; K.S. Yang, the state trade representative in South Korea; and Ida Yao, a part-time trade representative in Taiwan. All spoke on growing energy needs in Asian markets. *Another message all the trade representatives gave the committee: Alaska needs to present a "unified" front on the gas project.* Different groups visit the region — Yukon Pacific Corp., state government delegations, and more recently, North Slope gas producers — with slightly different messages. It's confusing the market, they warned.

Heard in the Halls:

Legislators are anxious to hustle through a "gas pipeline" package this year. Watch for more action on this after the Easter recess.

Sale of Four Dam Pool (Cont.)

Continued from Page 3

consider other alternatives for the projects." Negotiations between AEA and the utilities broke off a year ago when the utilities would not make a serious offer for the purchase. With Gravel's group on the scene offering the state its full asking price, the utility group has now asked to resume negotiations.

HB-128: Water quality science panel

The House Resources Committee, March 27, approved a water quality bill intended to gather scientific data to be used to "Alaskanize" water quality standards set by the EPA. HB-128 sets up the Water Science Oversight Board which will seek federal and private sector funds for a five-year research effort. Members of the five-person board are required to have scientific credentials and Alaska-based experience on water quality issues. They include the commissioner of the Department of Environmental Conservation, one appointee of the president of the University of Alaska and another named directly by the governor. The governor would appoint the final two members from lists of three persons nominated by the House speaker and Senate president. This provision could be a legal defect, the Department of Law warned, over the separation of powers language in the constitution. It could provide a basis for a court challenge of recommendations of the panel.

AHFC: The cash cow?

Alaska Housing Finance Corp. is likely to see more of its earnings diverted to non-AHFC purposes. Watch for the agency's capital budget to be "rewritten" — and reduced — from the governor's $36 million capital request. The informal understanding was that about half of the big state housing agency's annual $103 million earnings would be used for AHFC's own capital needs, including building maintenance, new construction of low-income housing and AHFC grants to rural nonprofit housing agencies to match federal funds (on a 4 to 1 dollar match). The other $50 million of AHFC's earnings is the "dividend" which could be spent for any purpose. But Gov. Knowles violated this unwritten deal, reducing the AHFC capital budget to $36 million this year and diverting $14 million to other state capital needs. Legislators are unhappy about that, but predictions are they will take more of the AHFC money for their own capital projects.

CS First Boston Is a Leading Global Investment Bank

- CS First Boston consistently ranks among the top firms in the world in its key business areas, which include project finance and the energy industry.
  - "1995 Project Finance Bond House of the Year" by *International Finance Review*
  - 3 of the 4 Project Finance "Deals of the Year" in 1995 by *Institutional Investor*
  - 2 "Deals of the Year" in 1995 by *Project Finance International* Magazine
  - 2 of "Ten Most Creative Deals of the Year" in 1995 by *Infrastructure Magazine*

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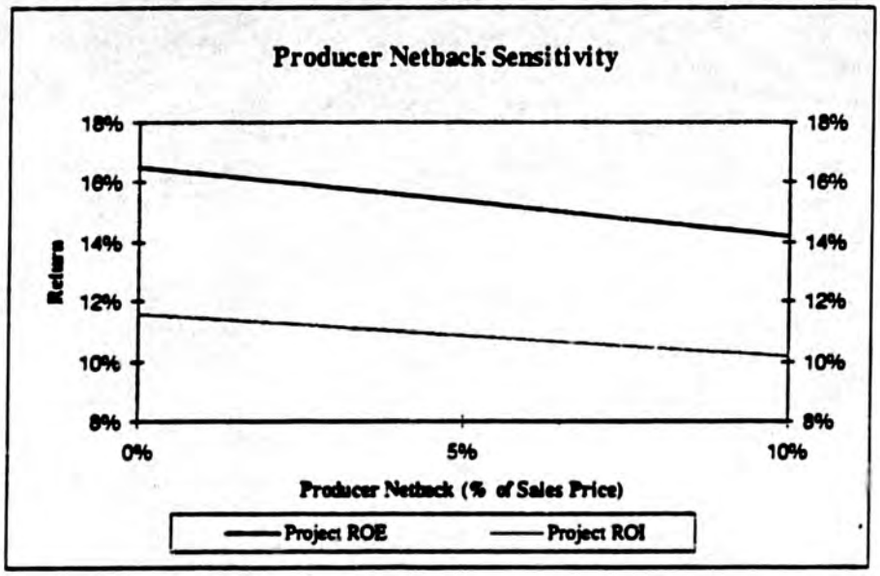
- #1 in capital raising for oil and gas industry in 1995 – $6.8 billion raised
  - Global coordinator for the $4 billion IPO for ENI – 1995 "Deal of the Year" by *International Finance Review*
  - Lead manager for the $1 billion debt issue for Petronas – 1995 "Deal of the Year" by *Institutional Investor* and *International Finance Review*

Trans-Alaska Gas System

Producer netback: The producers could receive a payment of economic rent in the form of a positive netback. The returns to the Project under a number of positive netback sensitivities are as follows:

Producer Netback Sensitivities

NOMINAL AFTER-TAX	PROJECT ROE	PROJECT ROI
Netback at 10% of LNG sales price	14.2%	10.2%
Netback at 5% of LNG sales price	15.4	10.9
Reference Case (0% netback)	**16.5**	**11.6**



Where the Project is required to pay a netback price to the producers for gas sales to the Project and the producers are also Project Sponsors, payment of the netback revenues will have the following impact on their overall returns:

NOMINAL AFTER-TAX	ROE TO PRODUCER	ROI TO PRODUCER
Netback at 10% of LNG sales price	16.3%	11.3%
Netback at 5% of LNG sales price	16.3	11.4
Reference Case (0% netback)	**16.5**	**11.6**

While the Project's returns decline from instituting a netback price on the sale of gas to the Project, the returns to the State of Alaska increase from the imposition of royalty and severance taxes. Aggregate revenues to the State of Alaska increase to $16.1 billion over the life of the Project with a netback of 10%[9].

[9] If a 4% effective tax rate were assumed, revenue to the State of Alaska would be $10.8 billion.

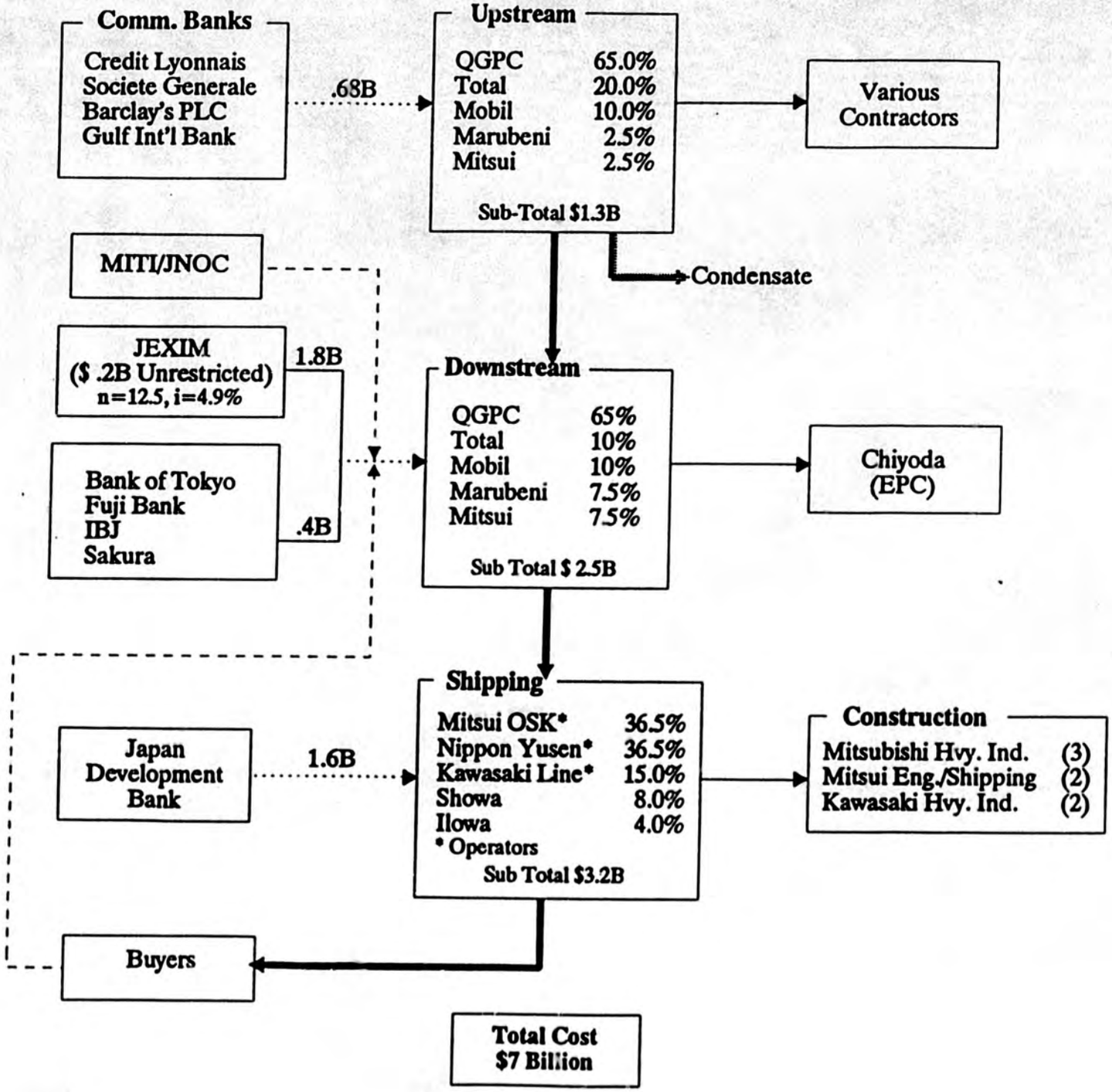
Grass Roots LNG Projects
Cost Comparison

Project	Production (MMTPA*)	Estimated Cost $ Billions	Cost in $ Billions per MMT	Capital ** per MMBTU
Alaska TAGS	15	13.6	0.91	0.70
TAGS at higher cost	15	15.0	1.00	
Qatargas	6	6.0	1.00	
Natuna Island	15	21.3	1.42	1
Sakhalin	6	7.9	1.32	1.0

* million metric tons per annum

** does not reflect capitalized interest, cost of gas, time value of money or operating exp

Qatargas
Project Scheme
6 MMT



Legend

Gas Flow — Contracts
Guarantee ····· Debt

Advisors

JP Morgan - Project Wide
Citibank - QGPC

Potential LNG Projects for Pacific Rim Markets

PROJECT	SPONSORS	GRASSROOTS OR EXPANSION	PEAK VOLUME (MMTPA)	ESTIMATED COSTS ($BN)	COST PER MMTPA ($BN)	COMMENTS
QATARGAS (QATAR)	QGPC (65%) Mobil (10%) Total (10%) Marubeni (7.5%) Mitsui (7.5%)	Grassroots	6	6-7	1-1.2	Two-train project. Financing stage. Upstream financing pending final agreement; to be provided by international banks and European ECA's. Downstream and ship financing in place; provided by JExim, Japanese banks and Japan Development Bank. Chubu Electric of Japan signed up for 4 MMTPA in first phase; seven other utilities will take an additional 2 MMTPA in second phase.
RAS LAFFAN (QATAR)	QGPC (70%) Mobil (30%)	Grassroots	4.4	4.8	1.1	Two-train project. Project to be financed in its entirety, as opposed to Qatargas in which upstream and downstream parts obtained separate financings. Limited recourse financing likely for 70% of project cost. Debt arrangers - IBJ and Credit Suisse, mostly covered by ECA's, primarily USExim and JExim. JGC Corp/MW Kellogg selected as contractor. Sponsor completion support. Work on the EPC contract started on March 1, 1996. Korea Gas Corporation ("KGC") is buying 2.4 MMTPA with first shipment due August 1999. Hoping to sign up KGC for further 3 MMTPA. Negotiations are underway with Taiwan for approximately 2.5 MMTPA. (Capital costs estimate assume ten tankers of $200 million each.)
OMAN LNG (OMAN)	Govt. of Oman Shell Others	Grassroots	6.6	6.4	1.0	Two-train project. Each train will have a capacity for 3.3 MMTPA. Limited recourse financing for 80% of downstream project cost. Bank group selected. Underwriting commitments expected to be finalized in August and financial closing expected first half of 1997. $1.5 bn of $2.25 bn facility covered by ECA's with 8.5 year tenor, but final terms subject to negotiation outcome. A further $1.3-1.4 bn will be needed to develop upstream reserves and build pipeline. Bids for EPC contract expected in May and will determine ECA financing sources. Korea Gas Corporation ("KGC") has signed up for 4 MMTPA and further offtakes are being negotiated. (Capital costs estimate assume ten tankers of $200 million each.)
MLNG DUA (MALAYSIA)	Petronas (60%) Shell (17.5%) Mitsubishi (17.5%) Sarawak State (5%)	Expansion	8	6	0.8	First three-train phase had original capacity of 2.0 MMTPA each which were later expanded to 2.7 MMTPA each. Currently selling LNG to Japan, South Korea and Taiwan. The second phase three-train expansion (MLNG Dua) will take gas from Central Luconia (25 TCF reserves). A $770 million, nine-year limited recourse loan for MLNG Dua was recently signed with 11 Japanese (led by IBJ), 8 Asian and 4 U.S. banks. JExim was also involved. JGC, MW Kellogg and Sime as contractors.
MLNG III (MALAYSIA)	Petronas, Occidental, Shell, Nippon Oil	Grassroots/ Expansion	NA	NA	NA	Joint venture agreement executed in 1995. Gas volume, offshore Sarawak, is estimated at 2.9 TCF, with Occidental as the operator with a 37.5% interest in the gas discoveries and a 10% interest in the new LNG plant. Development of the gas field is scheduled to commence with the detailed upstream facility design in 1996. Estimated startup date in 2001.

(Continued on next page)

Potential LNG Projects for Pacific Rim Markets (continued)

PROJECT	SPONSORS	GRASSROOTS OR EXPANSION	PEAK VOLUME (MMTPA)	ESTIMATED COSTS ($BN)	COST PER MMTPA ($BN)	COMMENTS
NORTH WEST SHELF, INCLUDING GORGON (AUSTRALIA)	Shell Woodside BHP BP Chevron MIMI	Expansion	16	11.4	0.7	According to Shell, combining northern Carnavon Basin fields with southern fields (i.e. Gorgon) which have a paucity of liquids would satisfy Australia's domestic demand, extension of existing Japanese export contracts to 2023/2025, and new 20 year contracts. Gas from both sub-basins could be routed to existing three-train LNG plant, helping in the expansion of liquefaction capacity. Potential reserves could exceed 30 TCF. Time bracket for bringing next expansion to full capacity ranged from 2003-2005, by which time two to three trains, each delivering 3.5 MMTPA, would be needed. Analysts predict expansion would need to be underway by end of 1997. Projected cost $11.35 bn.
GORGON	Shell (28.6%) Texaco (28.6%) Chevron (28.6%) Ampolex (14.2%)	Grassroots				See North West Shelf above.
TAGS (U.S.)	Yukon Pacific and others	Grassroots	15	13	0.9	Four-train project. Financial feasibility stage. Permits obtained. Strong government support. Memoranda of intent received from Korea Gas Corporation for 2 MMTPA and Chinese Petroleum Corporation for 1 MMTPA.
NATUNA (INDONESIA)	Pertamina (50%) Exxon (50%)	Grassroots	15	40	2.7	12-train project. Phase one will involve six trains, but only two will be built initially. Huge reserves (46 TCF). Project would keep Indonesia as a leading supplier of LNG well into the 21st century. Exxon actively promoting it. However, the project's economics are questionable, at best. Some analysts suggest the project would require $4.5-$5.0 per MMBtu, well above prevailing price of $3.0-$3.7 for LNG landed in Japan. Poor economics attributable to high percentage of carbon dioxide (around 71%).
YEMEN	Exxon, Hunt Total	Grassroots	5	9	1.8	Total recently appointed to conduct a feasibility study.
PAPUA NEW GUINEA	BP, Chevron Ampolex	Grassroots	4	7	1.8	Prospect of an LNG project in the future if more gas is found.
SAKHALIN (RUSSIA)	Shell Marathon	Grassroots	6	5	0.8	Highly speculative. Discussion have been going on for at least two decades.
IRIAN JAYA (INDONESIA)	Pertamina Arco	Grassroots	NA	NA	NA	Recent discovery. Undergoing detailed study. Reserves thought to be around 5-15 TCF with carbon dioxide content of only 10%. May be developed in preference to the more expensive Natuna project.

Sources: *Project Finance International, Financial Times, Oil and Gas Journal, Anchorage Daily News, Reuters, Competition for Capital in the International Oil and Gas Industry, APS Review Gas Market Trends, International Gas Report, 1995 Occidental Petroleum Corp. annual report.*

Alaska North Slope Gas Project

1997-1998 Target Work Plan	April	May	June	July	August	September	October	November	December	January	February	March
State/Local Fiscal Modifications												
Initial Enabling Legislation	?	?										
Establish Options/Issues (taxes & royalties)		X	X	X	X							
Evaluate Netback Methodology			X	X	X	X	X	X	X	X		
Recommend Fiscal Terms							X					
Prepare Detailed Legislation							X	X	X	X	X	
Prepare Detailed Contract Terms							X	X	X	X	X	
Federal Fiscal Modifications												
Evaluate Options/Issues			X	X	X	X						
Discussions with Federal Representatives			X	X	X	X						
Recommend Action Plan							X					
Implement Action Plan							X	X	X	X	X	X
Fiscal Certainty												
Initial Enabling Legislation	?	?										
Prepare Detailed Legislation						X	X	X	X	X	X	
Prepare Detailed Contract Terms						X	X	X	X	X	X	
"Regulated Industry" Issues (e.g. common carrier status, tariffs, etc.)												
Pipeline Regulation	X	X	X	X	X	X	X	X	X	X	X	X
Jurisdiction		X	X	X	X	X	X	X	X	X	X	X
Tariff Methodology				X	X	X	X	X	X	X	X	X
Pipeline Rules						X	X	X	X	X	X	X
Implement Action Plan							X	X	X	X	X	X
Alaskan Issues												
Perform Socioeconomic Study				X	X	X	X	X				
State Participation						X	X	X	X	X	X	X
TIK/TIV - Identify Issues						X	X	X	X	X	X	X
TIK/TIV - LNG								X	X	X	X	X
TIK/TIV - Instate Gas								X	X	X	X	X
Alaska Hire - Establish Criteria	X	X	X	X	X	X						
Prepare Alaska Hire Legislation							X	X	X	X	X	X
Other Important Issues												
Prepare Boilerplate Legislative Language			X	X	X							
Prepare Boilerplate Contractual Language			X	X	X							
Public Discussions												
Discussions with Public	X	X	X	X	X	X	X	X	X	X	X	X
Discussions with Local Government	X	X	X	X	X	X	X	X	X	X	X	X
Discussions with Legislature	X	X	X	X	X	X	X	X	X	X	X	X

*Taxes include property, corporate income and severances taxes

Mobil Exploration & Producing U.S. Inc.

12450 GREENSPOINT DRIVE
HOUSTON, TEXAS 77060-1991

April 9, 1997

.Chairman Mark Hodgins Fax: 907.465.2833
House Oil & Gas Committee
Alaska State Legislature
State Capital
Juneau, Alaska 99801-1182

Dear Chairman Hodgins:

RE: Trans Alaska Gas Line

Thank you for your letter regarding the Trans Alaska Gas Line Project. We commend the Alaska Legislature for its forward thinking on this important economic opportunity.

Regrettably, I will be unable to attend the House Oil & Gas Committee Meeting on April 10th. However, Mobil has an interest in the proposed Alaska North Slope LNG Project. In particular, we appreciate your involvement because it appears efforts must be made to improve the project economics in order for it to move forward.

By copy of this letter to your committee aide, Pat Carter, I am requesting that this letter be made a part of the official committee record, and that I be identified as the Mobil contact for future correspondence.

Very truly yours,

J.P. Hollier
Unit Representative
PBU and PTU

JMW/AKLNO.wp6

cc: Mr Pat Carter Fax: 907.465.2833

0-LS0904\A
Cramer
4/9/97

HOUSE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY

Introduced:
Referred:

A RESOLUTION

Encouraging federal legislation to improve federal fiscal terms for a trans-Alaska gas pipeline.

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

WHEREAS Alaska's North Slope, including the Prudhoe Bay and Point Thomson oil and gas fields, hold at least 35 trillion cubic feet of proven natural gas reserves, an amount sufficient to supply a large natural gas export project in the state; and

WHEREAS companies operating in the state, including permit holders, oil and gas leaseholders, and other parties, have indicated an interest in investing in a trans-Alaska gas pipeline if it is economically feasible; and

WHEREAS a study recently commissioned by the State of Alaska prepared by Dr. Pedro Van Meurs indicates that the project economics could be substantially improved through changes in federal tax laws related to this project; and

WHEREAS the United States Congress recently passed similar tax changes to facilitate development of frontier deep water oil and gas development in the Gulf of Mexico; and

WHEREAS Dr. Van Meurs' report estimated federal tax revenues under the current

structure to be $26,000,000,000, none of which will be realized if the project is not completed; and

WHEREAS there would be substantial additional benefits to the United States from the project, including increased employment opportunities across the nation and an improved trade balance with Asian countries; and

WHEREAS liquefied natural gas projects proposed for other countries are competing to meet the Asian market demand for liquefied natural gas in the 2005 to 2010 market window and could displace the Alaska project;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the United States Congress to enact tax legislation that would improve the economics and likelihood of an Alaska liquefied natural gas export project; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the Governor to use his best efforts to support passage of this federal legislation.

COPIES of this resolution shall be sent to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

Official Business

COMMITTEE:

HOUSE OIL AND GAS

DATE: April 10, 1997

SIGN-IN

Subject of meeting:

TRANS-ALASKA GAS LINE PARTICIPANTS

PLEASE PRINT!

NAME	ADDRESS (MAILING) & (ZIP)	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Paul Fuhs	JUNEAU		YUKON PACIFIC	YES
Peter DeMay	Anchorage		Yukon Pacific	Yes.
GEORGE FINDLING	ANCHORAGE		ARCO ALASKA	YES.
MIKE MACY	ANCHORAGE		TAGS ENVIRON. REVIEW COMM.	NO

P.01 FAX NO. 9072581261 APR-10-97 THU 8:20 ANCHORAGE LIO

Testimony 10 min allowed - time limit

LEGISLATIVE TELECONFERENCE NETWORK

SIGN-IN SHEET

70580

SPONSOR: House Special Oil + Gas

SUBJECT: Trans AK Gas Line Participants

START/END TIME: 8:00 DATE: 4-10

PLEASE PRINT

	Name/Representing	Address	Zip	Phone No.	Testify	Observe	Bill No.
1.	Mark Bendersky / BP	[redacted] 600 E Benson Blvd [redacted]	99508	564-4666	X		
2.							
3.							
4.	Testimony						
5.							
6.							
7.							
8.							
9.							
10.							
11.							
12.							
13.							
14.							
15.							

CSHB 250 RES

"An Act establishing a North Slope Gas Commercialization Team to develop recommendations regarding a North Slope gas project; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** FINDINGS. The Legislature finds that

(1) *no changes*

(2) **DELETE**

(3) **DELETE** - Page 2, line 1: ",...at considerable cost,..."

(4) **DELETE** - Page 2, line 6: ",...the project is uneconomic now and that, given certain assumptions,..."
DELETE - Page 2, line 8-11: *Beginning with* ",...in at least two....the projects profitability;"

(5) **DELETE** - Page 2, line 13: ",...substantially,..."

(6) **DELETE** - Page 2, lines 21-31: *Beginning with* ",...establishing a framework for,...."

(7) **DELETE** - Page 3, line 1:

(8) **DELETE** - Page 3, lines 3-7: ",.... and encourage the governor,..."
SUBSITUTE - ",.... recognizes that a window of opportunity now exists and encourages the Governor to work with leaseholders of North Slope natural gas resources, permit holders, the legislature, and the federal government to develop and complete an LNG project to transport and market North Slope natural gas by the year 2005;"

(9) **DELETE** - Page 3, lines 8-10: "modification of the ,...*through* ,... favorable market conditions, and"
Keep "modifications to the federal tax regimes are also required;"

(10) **DELETE** - Page 3, lines 15-22: sub-sections (A) – (F). *Keep* (G)

(11) **DELETE** - page 3, lines 26-27: ",...leascholders of North Slope gas resources and others,...."
SUBSITUTE - "potential project sponsors"

*** Sec.2.** (a) **ADD** - Page 3, line 31: and royalty structure **"on natural gas,"** to improve the,...

(3) **DELETE** - Page 4, lines 5-6:

(5) **DELETE** - Page 4, line 7:

(6) **DELETE** - Page 4, line 9:

SUBSITUTE - "four members of the House of Representatives and four members of Senate, or their designee, as designated by the Speaker of the House and the President of the Senate."

(b) **DELETE** - Page 4, lines 10-12:

(d)(1) **ADD** - **"Identification of preliminary sponsor group and,..."** recommended terms that could be,....

(d)(2)(B) **DELETE** - Page 4, line 31: ",...long term,..."

(d)(3) **AMEND** - Page 5, line 12: *Amend to read* **"Additional recommendations"**

(d)(A)(B) **DELETE** - Page 5, lines 13-16:

(e) **AMEND** - Page 5, line 18: *amend date to* **"January 12, 1998."**

DELETE - Page 5, lines 18-24: ",... and notify the Legislature,..."

* **Sec. 3.**(a) **DELETE** - Page 5, line 26: ",...suggestions for or,..."

SUBSITUTE - "written"

CSHB 250

Page 2, line 29 **ADD** – …interest in the project, **"and who continue to show an interest in the project,"** and to make…

Page 3, lines 8-10 **DELETE**

Page 3, lines 17-18 **DELETE - "identification of the preliminary sponsor group, which has declared an interest in the project, and"**

PHILLIPS PETROLEUM COMPANY

P.O. BOX 1967
HOUSTON, TEXAS 77251-1967
EXPLORATION AND PRODUCTION GROUP

6330 WEST LOOP SOUTH
BELLAIRE, TEXAS 77401
PHILLIPS BUILDING

TELECOPY COVER SHEET

DATE: April 15, 1997

TO: Pat Carter
COMPANY: Alaska State
~~ADDRESS~~: Legislature
~~DEPT~~: Fax # 907-465-2833
CITY/STATE: Anchorage, AK

FROM: J. P. Johnson
COMPANY: Phillips - E&P
RM. 1116 PHONE #. 713-669-2968
HOUSTON, TEXAS
FAX # 713-669-7004

WE ARE SENDING 3 PAGES OF TEXT. (INCLUDING THIS COVER SHEET)

ADDITIONAL MESSAGE: As you requested, following is a copy of my testimony in the Oil and Gas Committee Hearing this morning.

Jim Johnson

THANK YOU!

My name is Jim Johnson. I am the Onshore Area Manager in Phillips North America Partnership Operations Group in Houston. I have responsibility within my group for the properties which contain Phillips North Slope gas reserves, such as Prudhoe Bay and Point Thomson Unit.

Phillips Petroleum's interest and involvement with a North Slope Gas project would come about in several ways. First, we are an interest owner in North Slope Gas. We have an interest in Prudhoe Bay Unit, where along with our 1.88% interest in the oil rim, we have a .26% in the gas cap. We have much larger interest of 12% in the Point Thomson unit.

And, as you may know, Phillips is the majority owner and operator of the Kenai, Alaska LNG facilities; the first LNG project to export LNG into Asia and North America's first and only existing base load LNG operation. The Kenai, Alaska facilities were the first to achieve 27 years of reliable uninterrupted LNG deliveries into Asia and have brought significant benefits to the State in the form of jobs and revenues.

Phillips is supportive of the efforts to facilitate the North Slope LNG project. Consequently, Phillips would be interested in evaluating opportunities to participate in the Trans Alaska Gas Line project as well as opportunities related to potential participation in the LNG liquifaction facilities and shipping elements.

Phillips has examined North Slope gas production, and based on current information we believe that the potential exists for this to be economic. Further refinement, decisions, and action will be needed on several items to bring about a final conclusion in this regard:

- North Slope gas field deliverability and costs

- Costs of required pipelines and other facilities

- Tax and regulatory structure

- Marketing arrangements and prices for the LNG

With our interest in Point Thomson and our past experinece in LNG, we have been in a position to study a number of aspects of these with a good perspective. I would like to comment further on what we feel are some key items.

In the Point Thomson Unit, Phillips has been actively participating along with the operator Exxon and other interest owners in studies to better define the reserves, producibility, and development scenarios of that field. Results in studies currently underway have been encouraging in indicating that potential reserves and production from this field may be better than previously indicated, although it is too early at this point to define specific numbers.

Phillips believes that the Point Thomson gas condensate field could play a pivotal role in facilitating the North Slope LNG project. Point Thomson gas reserves could give the North

Slope pipeline project considerable additional flexibility and viability. It could supply early gas supplies needed to accelerate the potential start up date for the project to coincide with the earliest market opportunities. Point Thomson could be developed to supply significant gas volumes in plenty of time to be ahead of the pipeline. This would allow you to have both early start up of the project to capture market opportunities as well as allowing high recycling of Prudhoe Bay gas to continue for a longer time to benefit oil recovery. Also, Point Thomson could augment PBU gas deliverability in the longer course of the project. Point Thomson, along with any other gas producing fields, could provide the synergy that should yield better economics for everyone.

Finally, having had 27 years experience in marketing LNG into Asia, Phillips concurs that a market "window" for the North Slope LNG project could open as early as 2005 and that competition among supply projects for these markets is and will be fierce. This being the case, Phillips supports the House Oil and Gas Committee efforts to facilitate timely definition of the project structure and, hence, its credibility in the marketplace.

Sponsor Statement

HJR 35

Encouraging federal legislation to improve federal fiscal terms for a trans-Alaska gas pipeline.

HJR 35 is a statement by the 20th Alaska Legislature urging Alaska's congressional delegation to enact legislation that would seek to improve the competitiveness of the trans-Alaska gas pipeline.

The State of Alaska recently commissioned a report, by Dr. Pedro Van Meurs, on the economic viability of the trans-Alaska gas line. Dr. Van Meurs found that the project would need some state and federal fiscal adjustments in order to stimulate the project investment structure. **HJR 35** will encourage Alaska's congressional delegation to sponsor the fiscal legislation necessary to complete the federal portion of the fiscal package.

There is already ample justification to adopt favorable legislation for the gas line from a federal perspective. The trans-Alaska gas line project would establish a substantial new source of taxable income. Billions of dollars would be generated in federal corporate income tax. Based on a scenario of $3.50 per million cubic feet (mcf) and an estimated cost of $12 billion the project would generate approximately $26.7 billion in tax income for the federal government over a 30 year period. The project could also improve the United States trade deficit with Asian countries.

We have heard, repeatedly, that the Asian market window for natural gas sales will begin around 2005. The Asian market is eager to purchase north slope gas and Alaska must proceed immediately with the gas project if we are to participate in this market window. Fierce competition among suppliers is expected from foreign gas projects and therefore Alaska needs to offer a coordinated proposal at a competitive price. Given the short time frame for establishing an economically viable project, it is important to begin the formation of a fiscal platform as soon as possible. By coordinating our efforts we will shorten the timetable needed to bring this project on line and thereby increase Alaska's ability to establish a place in the competitive LNG market.

The need for a unified message from Alaska is critical in portraying fiscal and political stability as well as instilling confidence within the Asian marketplace. It is imperative that the Federal government, State of Alaska, and Local governments work together toward a unified position that will enhance the economic competitiveness to bring this project from concept into actuality. **HJR 35** will assist in that capacity.

House Bill 250/Senate Bill 174: An Act establishing a North Slope Gas Commercialization Team to develop recommendations regarding a North Slope gas project; and providing for an effective date.

Section 1. Findings.

Sets out findings regarding North Slope gas reserves, need for tax and royalty changes to increase the competitiveness of the proposed North Slope gas project, need for project cost reductions, recently signed Memoranda of Understanding, and appropriateness for a North Slope Gas Commercializaton Team.

Section 2. North Slope Gas Commercialization Team; Report.

Establishes North Slope Gas Commercialization Team. Members are Commissioners of Revenue, Natural Resources, Commerce & Economic Development and Labor, the Attorney General and other members to be appointed by the Governor. The team has the responsibility for analyzing relevant information regarding ways to improve the economic feasibility and competitiveness of the project. The team shall prepare a report including recommended contractual and legislative changes necessary to assist the project. Report to be delivered by February 13, 1998; or, if work so not completed, team shall provide interim report by February 13, 1998, along with discussion of remaining work to be done and reasons for need for additional time.

Section 3. Meetings and Records.

The North Slope Gas Commercialization Team, while it is clearly a public entity, is not a "public body" within the meaning of the public meetings act. The North Slope Gas Commercialization Team may keep some documents confidential.

Section 4. Legal Assistance.

The Department of Law shall provide legal assistance to the North Slope Gas Commercialization Team.

Section 5. Permanent Record Retention; Confidentiality.

On or before the date the final report is issued, the North Slope Gas Commercialization Team shall transfer all records related to the Team's work to the Department of Revenue. The Department of Revenue shall continue to keep confidential any documents that were required to be kept confidential under Section 3 of the Act.

Section 6.

Repeal provisions.

Section 7.

Effective immediately.

TONY KNOWLES
GOVERNOR



P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 28, 1997

Ans'd.....

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801

Dear Speaker Phillips:

Re: HB250, North Slope Gas Commercialization Team

Thank you for your interest and concerns raised in your April 22nd letter regarding HB 250, the bill I introduced on the proposed North Slope gas project. I consider this legislation to be of high priority this session because of its great potential for advancing one of the most exciting prospects for Alaskan jobs and future state revenues.

First, you are concerned the North Slope Gas Commercialization Team does not have a clearly identified goal to work toward. As you well know, economic viability is a constantly moving target. In today's circumstances, a project might be viable, while in tomorrow's circumstances, it might not be. We are trying to develop a state fiscal system which, in combination with improvements in other factors such as capitol costs and federal fiscal changes, would result in a combined project risk and rate of return comparable to the most attractive worldwide greenfield LNG projects.

Second, you are concerned that, since there is no existing project sponsor structure for the project, the Commercialization Team will not have a distinct group of people with whom to negotiate. I agree that the commercial entities interested in the Alaska project will need to organize themselves to facilitate negotiations. However, I do not believe it is necessary or advisable for the State to participate in that process. Representatives from the Far East markets have consistently and staunchly suggested to us the government should not be involved in dictating any of the commercial aspects of the project.

I suggest the Commercialization Team negotiate with any parties that come forward and request to be involved in the process. Clearly, gas owners and non-gas owners will have different interests in different segments of the process. I hope the Team will be able to include the appropriate interested parties at the appropriate times.

Third, you are concerned with the February 13, 1998 deadline, and the accompanying release clause which permits the Commercialization Team to submit its final report later than that date. I agree we can't let too much time pass before providing a final package of recommendations to the legislature. I am concerned we are asking the Commercialization Team to do a tremendous amount of work between now and next year. However, I support your suggestion to move the date the Commercialization Team reports to me and the Alaska Legislature to January 12, and removing the release clause.

Finally, you expressed concern about the size of the fiscal note accompanying the bill. The people who have been spending the most time on this effort for my Administration, Wil Condon, John Shively, and Bruce Botelho, have been doing so in addition to other large responsibilities. For us to do a responsible job in protecting the public interest in our negotiations with potential project sponsors, our staff will need additional resources. The fiscal note includes a small amount for staff support and travel, along with money for a consultant to address the socioeconomic impacts of the project on our state, and a consultant to continue to advise the state on important fiscal matters. I believe, in fact, this is the bare minimum we can get by with and still do a responsible job. We will supply the appropriate committees with additional budget details in support of the fiscal note.

I hope this response adequately addresses your concerns and that you will work to secure passage of this important legislation this session.

Sincerely,

Tony Knowles
Governor

TONY KNOWLES
GOVERNOR

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 11, 1997

The Honorable Mike Miller
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Miller:

Developing our enormous North Slope natural gas resources is a significant opportunity for creating Alaska jobs and providing a secure economic base upon which to build Alaska's future. This bill I transmit today establishes the North Slope Gas Commercialization Team to identify and develop steps the state can take, in cooperation with the North Slope leaseholders and other potential sponsors, to make a North Slope gas project a reality.

To date, the development of North Slope natural gas resources has not been economically feasible or competitive with alternative sources of energy. North Slope leaseholders estimate a $15 billion cost for the facilities to develop these resources, including a gas conditioning plant, an 800-mile pipeline, a liquefaction plant to convert natural gas into liquefied natural gas (LNG), LNG storage facilities, and LNG tankers.

There is relatively little the state can do to reduce the capital costs of a North Slope gas project. There are steps the state can take to improve a project's economic feasibility and competitiveness. The state has received guidance from a report commissioned by the Department of Revenue. This report reviews Alaska's tax and royalty structure, evaluates the competitiveness of the project internationally, and recommends in general terms possible modifications to the state's tax and royalty structure to improve the economic feasibility and competitiveness of a project.

The Administration also has received guidance from the legislature. In House Concurrent Resolution 1, the legislature requested the governor and North Slope gas resource leaseholders develop a contract to execute with sponsors of an LNG project, as well as appropriate enabling legislation. The contract and legislation would establish the nature, degree, and duration of the fiscal terms that would best facilitate a project.

This bill creates the administrative structure necessary to evaluate recommended changes to the tax and royalty system and carry out the wishes of the legislature as expressed in HCR 1. The North Slope Gas Commercialization Team would determine how to improve the economic feasibility and competitiveness of a North Slope gas project while protecting the public interest. The team also could help develop legislation to enable the state to enter into the contract, provide a stable fiscal and regulatory structure for the project, aid permitting, ensure a maximum number of Alaska residents and Alaska businesses are hired to construct and operate the project, protect the environment, health and safety of workers and the public, and provide natural gas to Alaska communities.

This bill is an important step forward in developing Alaska's North Slope natural gas resources. I urge your prompt consideration and passage of this bill.

Sincerely,

Tony Knowles
Governor

ALASKA STATE LEGISLATURE

SPEAKER OF THE HOUSE GAIL PHILLIPS

April 22, 1997

The Honorable Tony Knowles
Governor, State of Alaska
PO Box 110001
Juneau, Alaska 99811-0001

RE: North Slope Gas Commercialization Team

Dear Governor ~~Knowles~~ Tony -

Thank you for your continued support and work on the trans-Alaska Gas Line. This project will provide thousands of jobs for Alaskans and help propel Alaska into the 21st century. However, the introduction of HB 250 has raised some concerns within the Legislature.

One of the main concerns is that the Commercialization Team does not have a defined goal to work toward. The team is tasked with attempting to identify terms within the state fiscal structure to enhance the economics of the project in order to make it economically viable. I would suggest that the bill should define a target for economic feasibility. This will give the team a goal that should enhance the likelihood of success.

Potential project sponsors, who have voluntarily declared an interest and who continue to show interest in the project, will be critical to the success of the Commercialization Team. The project sponsors will likely have differing goals and I believe that the process would be assisted if the potential sponsors began the formation of a sponsor structure with which the Commercialization Team could begin negotiations. To attempt to negotiate with each individual potential sponsor would be unnecessarily cumbersome and almost certainly doom the Team to failure.

I am also concerned with some of the language contained in Section 2 (e). Specifically, the deadline of February 13, and the language that gives the Commercialization Team the alternative to not have their work completed by the proposed deadline – "...except if the North slope Gas Commercialization Team determines that additional work needs to be done to develop a comprehensive set of recommendations, the team shall, by February 13, 1998, provide to the Governor and the legislature an interim report on the work that the team has completed, the work remaining to be done, the reasons for the additional time

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needed, and the anticipated date on which the final report will be provided to the Governor and notification of the report's availability will be provided to the Legislature." This language will likely guarantee that the Commercialization Team will miss the deadline and I strongly suggest that it be removed from the bill. As we both know, deadlines can be extremely effective as a motivational tool. I would also suggest the date be amended to the first day of the legislative session, January 12, 1998.

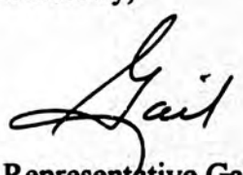
There is also a great deal of concern over the fiscal note. The current fiscal note appears to be unnecessarily high since all of the team members already work for the state.

In closing, I respectfully request that you address the following concerns as soon as possible.

- What will the Commercialization Team use as a target to determine commercial viability?
- Who will the Commercialization Team negotiate fiscal terms with?
- A firm deadline of January 12, 1998 without the extension clause.
- Explanation of the large fiscal note.

Given the lateness in the legislative session I respectfully ask that you respond to this letter on or before the end of the day Thursday, April 24, 1997. Thank you for your consideration and I await your timely response.

Sincerely,



Representative Gail Phillips
Speaker of the House

cc: Representative Ramona Barnes, Chair, House World Trade Committee
Representative Mark Hodgins, Chair, House Oil & Gas Committee
Representative Scott Ogan, Co-Chair, House Resources Committee
Representative Bill Hudson, Co-Chair, House Resources Committee
Representative Mark Hanley, Co-Chair, House Finance Committee
Representative Gene Therriault, Co-Chair, House Finance Committee
Senator Rick Halford, Chair, Senate Resources Committee
Senator Drue Pearce, Co-Chair, Senate Finance Committee
Senator Burt Sharp, Co-Chair, Senate Finance Committee

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MEMORANDUM April 18, 1997

SUBJECT: Draft CSHB 250 ( ): confidential records considerations (Work Order No. 20-GH0110\B)

TO: Representative Mark Hodgins
ATTN: Pat Carter

FROM: Jack Chenoweth
Legislative Counsel

If there were no bill or no provision in this bill addressing the disclosure of otherwise confidential information, then it appears to me that --

-- under AS 38.05.036(b), information relating to royalty and net profits paid by lessees, that may be examined or audited by the Department of Revenue, thereafter is to be held confidential by the Department of Revenue "to the extent required under oil and gas agreements, contracts, or leases, or by [AS 38.05] or AS 43.05.230;

-- AS 09.25.100 speaks of the confidentiality of certain information in the possession of the Department of Revenue and the disclosure of that information when production is required "in an official investigation", though "official investigation" is not defined;

-- the Department of Law has concluded that AS 43.05.230, in conjunction with AS 09.25.100, permits disclosure of confidential tax records--presumably this extends to records relating to royalty and net profit payments, too--to members of the Legislature (Opinion of the Attorney General, January 12, 1989, copy enclosed);

-- there seems to be at least a tacit understanding that confidential information may be disclosed to legislators under certain circumstances if only because AS 24.60.060 makes the unauthorized disclosure of information made confidential by law and obtained by a legislator or legislative employee in the course of official duties both an ethics violation and the subject of possible criminal prosecution (AS 11.56.860, misuse of confidential information punishable as a class A misdemeanor).

All of this does, of course, concern itself with information made confidential by law--particularly information relating to taxes and to royalty and net profits payments. Our earlier phone discussion, and sec. 3(c) of the bill draft, also touched on the degree of protection offered for "proprietary information." "Proprietary information" is not a term that appears in the Public Records provisions, AS 09.25.100 - 09.25.220, nor in the Alaska Land Act, AS 38.05, nor in the tax title, AS 43. So it looks to me that proprietary information would not enjoy treatment on the same basis as information obtained in the course of administration of tax laws and of royalty and net profit payment arrangements on leases. Also, please note that there is no fixed definition of "proprietary information" in either the Alaska Statutes or in regulations implementing and interpreting existing statutes, and without a certain definition there may be disagreement as whether particular information is or is not truly "proprietary".

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Enclosure