

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2920 SCOMM 128: HOUSE SPEC.COMM. ON OIL AND GAS, 2001-02



Department of Energy
Washington, D.C. 20585

July 13, 1984

Honorable Raymond J. O'Connor
Chairman
Federal Energy Regulatory Commission
825 North Capitol Street, N. E.
Washington, D. C. 20426

Dear Mr. Chairman:

I am writing concerning Order No. 380 now pending before the Commission that appears to have ramifications for the natural gas trade framework we are working to establish. I write with an appreciation for the care and understanding that the Commission has given to this important ruling.

Although the ruling addresses the variable costs in minimum bill obligations between gas purchasers and pipeline suppliers, its possible effects on upstream contracts were recognized by the Commission. The potential impact on international gas contracts, particularly between U. S. buyers and Canadian sellers, has been the subject of comments submitted to the Commission by these parties. In addition, the Canadian National Energy Board has taken the unusual step of formally communicating its views to the Commission. Most of these comments reflect serious concern over the impact of Order 380 on existing import arrangements.

It is not my purpose to endorse these comments or to propose any particular course of action for the Commission. The comments speak well for themselves, and the Commission properly has the responsibility to weigh their merits along with other considerations on this issue. My purpose is to share information that may assist the Commission in evaluating the comments and that will ensure that this ruling supports our policy initiatives relating to natural gas trade.

From our perspective, the objectives of Order 380 appear consistent with the gas imports policy guidelines issued by the Secretary of Energy last February. These guidelines were established to promote and construct a gas trade framework in which natural gas imported into the United States is competitive in the markets served. Order 380 promotes competition and is a clear and positive step in support of a deregulated gas marketplace.

Honorable Raymond J. O'Connor
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In issuing the policy guidelines, the Secretary recognized that gas import arrangements reflect the laws and regulations of the exporter's government as well as our own. The policy statement set forth the criteria to be employed by our regulatory authorities in authorizing future gas imports, and urged parties to current gas import contracts to voluntarily renegotiate their arrangements if necessary to bring them into conformity with the new policy. Implicit in the policy is the requirement that gas imported into the United States must be competitively priced.

As a result of the new policy, reinforced by the weakening of the markets for imported gas, Canadian and U. S. commercial parties have been actively renegotiating their gas purchase arrangements. The Economic Regulatory Administration received reports from U. S. importers on this activity in mid-April that indicated progress in achieving more competitive arrangements. Simultaneously, the Canadian federal government, in coordination with the gas producing provinces, undertook a comprehensive review of Canadian export pricing policy.

The price of Canadian gas has been government administered and has been significantly above the U. S. market-clearing levels. The inflexibility of this price has restricted the ability of our importers to renegotiate fully competitive arrangements with Canadian exporters. We were thus pleased with today's announcement by Canada's new energy minister of the change to market-oriented pricing for Canadian gas exports. This significant action frees U. S. buyers and Canadian sellers to begin renegotiating pricing components of their contracts, if necessary, to make their arrangements market competitive. This announcement has come in time that should be ample for the commercial parties to review their contracts before the beginning of the next contract year this fall.

Canadian authorities believe that Order 380, as issued, could adversely affect the orderly transition to the market-competitive gas trade framework being established. In view of the just announced action by Canada on gas export pricing, we believe this concern merits consideration. Our position is that Canadian gas must compete in the U. S. marketplace on an equal basis with domestic supplies, and that the transition should occur as soon as possible but in an orderly manner.

In addition to the possible effect of Order 380 on the transition to competitive gas import arrangements, there is special concern in Canada over the consequences of this ruling on the pre-built portions of the Alaska Natural Gas Transportation System (ANGTS).

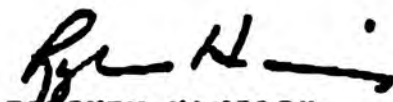
Honorable Raymond J. O'Connor
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The reasons for this concern have been expressed by the National Energy Board and the commercial parties involved in the ANGTS pre-build in communications to the Commission. We believe these concerns also merit consideration. As currently financed and utilized, the ANGTS pre-build poses challenging problems for both of our agencies as we work to further competition in the gas industry. We should ensure that our respective regulatory processes allow the commercial parties to find solutions for making this system more competitive.

I trust this information will be useful to the Commission in its deliberations. As stated before, it is not my purpose to propose any specific course of action for the Commission. It is appropriate, however, to share with you our perspective on the trade facet of this important ruling.

This letter reflects the views of the Department of State, as well as the Department of Energy.

Sincerely,



RAYBURN HANZLIK
Administrator
Economic Regulatory Administration

cc: Honorable Georgiana Sheldon
Honorable A. G. Sousa
Honorable Oliver G. Richard III
Honorable Charles Stalon

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

Dear Mr. Chairman:

I am writing to bring to your attention several Canadian expressions of concern received at the Department of State about the impact FERC Order 380 relating to minimum commodity bills could have on the export of Canadian gas to the United States.

We have been discussing with the Canadians for over a year in our bilateral Energy Consultative Mechanism (ECM) how to return our bilateral gas trade to a market-sensitive basis. At the last full meeting of the ECM we made good progress and our two Governments issued a joint statement which included the following paragraph:

"The two sides reaffirmed the importance of a stable long-term natural gas relationship. They emphasized such a relationship provides the United States with security of supply and provides Canada with security of demand for the export of gas surplus to its foreseeable domestic requirements. They recognized that in the long run Canadian gas would have to be competitive in U.S. markets, taking into consideration the security provided by the long-term reserve-based nature of Canadian gas export contracts. They further acknowledged, however, that meeting the objective of competitive conditions may require flexibility and adjustments in response to changes occurring in U.S. gas markets. To this end, the two Governments recognized the importance of holding on-going consultations on the natural gas marketing issue and agreed to meet regularly to discuss common objectives, respective natural gas policies and policy developments."

The Honorable
Raymond O'Connor,
Chairman,
Federal Energy Regulatory Commission,
825 North Capitol Street, NE,
Washington, D.C.

As reflected in this joint statement, the goal of our discussions with the Canadians is the same as what we understand to be the goal of FERC Order 380, namely enhancing competition in the market place.

On June 22, Mr. Geoffrey Edge, Chairman of the Canadian National Energy Board, along with members of the Canadian Embassy, briefed Department of State officials on the adverse impact they fear Order 380 could have on Canadian gas exports. When Ambassador Gotlieb came to see me on June 29, he said the Canadian Government had been surprised by Order 380. He outlined Canadian concerns and left the attached letter. On July 3, at the request of the Canadian Government pursuant to Section 8 of the Agreement between Canada and the United States of America on principles applicable to a Northern Natural Gas Pipeline, Mr. Edge and Mitchell Sharp, Commissioner of the Northern Border Pipeline Agency, met with representatives of the Department of Energy and the Department of State to explain further their view that implementation of Order 380 in its present form could have potential adverse effects on our present and future bilateral gas trade.

I understand that the Canadians have also written FERC on this subject. I will not attempt to cover all the Canadian concerns, but during their meetings with us, the Canadians emphasized first the progress they believe they have made toward a market-sensitive gas export policy. Second, citing the 1980 FERC Prebuild orders, the Canadians made it clear they believe that if FERC Order 380 is put into effect in its present form, we will not be living up to what they regard as our commitments regarding the financing, construction, and operation of the Prebuild section of the Alaskan Natural Gas Transportation System (ANGTS). The Canadians emphasized in this regard the importance of special problems for the Prebuild, a project that has been supported by the U.S. Government based on private financing. (See letter of President Carter to Prime Minister Trudeau of July 17, 1980 and the waiver package submitted by President Reagan to Congress in October, 1981 and approved on December 15, 1981.) Finally, they said that, although they accept the objective of increased market competition inherent in FERC Order 380, they need time to renegotiate gas export contracts in order to put them on a more market-sensitive basis.

As a further step, just today, the new Canadian Government has announced what we consider a significant new gas export pricing policy based on negotiated prices between buyers and

sellers reflecting market conditions, and subject to criteria set by the National Energy Board. We expect Canadian experts to brief us the week of July 16 through our bilateral Energy Consultative Mechanism on this new Canadian gas export policy, which will be in effect for the new gas contract year beginning November 1, 1984.

Since the Commission still has before it FERC Order 380, I wanted the record of Canadian concerns expressed to the Department of State to be available, so that you would be aware of them in the context of our foreign relations with Canada. You may include this letter and -- with the concurrence of Canadian authorities -- Ambassador Gottlieb's letter to me in the public record in any proceedings before the FERC.

Sincerely,

Allen Wallis
Allen Wallis

Enclosure:
As stated.

Canadian Embassy



Ambassade du Canada

1746 Massachusetts Ave., N.W.
Washington, D.C. 20036

June 29, 1984

Mr. W. Allen Wallis
Under Secretary for
Economic Affairs
Room 7256
Department of State
2201 C Street
Washington, D.C. 20520

Dear Mr. Wallis,

Our two governments have been consulting closely and constructively for over a year and a half on the future of our bilateral natural gas trade.

In light of this cooperation, the new U.S. gas import policy guidelines announced in February and aimed at ensuring that imports enter the United States on a competitive, market oriented basis were drafted so as to permit the kind of arrangements which are essential to Canada's remaining a reliable supplier. For its part, the Canadian Government affirmed that Canadian gas will be competitive in the long term in the U.S. market. A comprehensive review of Canadian gas export policy was undertaken and is now near completion.

I am writing to bring to your attention a recent development that could complicate further progress in this important endeavor.

On May 25 the Federal Energy Regulatory Commission issued Order 380 relating to minimum commodity bills between U.S. pipelines and their buyers. We recognize that this Order is not directed at imports, but that it seeks to address what the FERC has identified as an unnecessary restraint on competition within the U.S. natural gas industry. We have, may I emphasize, no reason to question this objective.

Close study of the Order and discussion with the Canadian industry have convinced my Government that, if implemented in its present form, the Order could have serious adverse effects on present and future bilateral gas trade.

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These effects go right to the heart of the basis on which Canadian companies are able to supply gas to the export market: the assurance of a revenue stream on which to finance the production and transport of surplus gas from the wellhead to the international border. The serious implications of this do not appear to have been addressed to date in the FERC proceedings.

Because of the potential seriousness of the matter, our National Energy Board has taken the unusual step of making a formal submission to the FERC proceeding on Order 380. I am attaching a copy of the Board's submission and hope you will examine carefully the concerns it raises. Moreover, as you know, in view of the special nature of the project, the Canadian Government has already requested consultations on the implications of Order 380 on the Prebuild, under article 8 of the Northern Gas Pipeline Agreement. These consultations are scheduled for July 3 in Washington, D.C. As well, we understand that several Canadian and U.S. companies have formally requested rehearing.

We are hopeful that Canadian concerns relating to Order 380 will be resolved through the FERC review proceedings and the Prebuild consultations. We believe that this should be possible without prejudicing the objectives of the rulemaking. At the same time, we are seeking your assurance that we will be given an opportunity for further high level discussions as necessary between our two governments before any final actions are taken on this Order, which could adversely affect our long term gas trade.

Yours sincerely,

ORIGINAL SIGNED BY

Allan Gottlieb

A SIGNED COPY

Allan Gottlieb
Ambassador

Foothills Pipe Lines Ltd.

ROBERT L. PIERCE, O.C.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

February 10, 1992

Mr. D.W. Campbell
Commissioner, Northern Pipeline Agency
Lester B. Pearson Bldg.
125 Sussex Drive
Ottawa, Ontario K1A 0G2

Dear Mr. Campbell:

On January 14, 1992, Mr. Michael J. Bayer, the U.S. Federal Inspector for the Alaska Natural Gas Transportation System ("ANGTS") sent President Bush a report which essentially recommends that the United States abandon its support for the completion of the project. Among other things, Mr. Bayer recommends (1) the repeal of the Alaska Natural Gas Transportation Act ("ANGTA"), which limits the ability of U.S. regulatory and agencies to interfere with the construction of the ANGTS; (2) termination of long-standing agreements with Canada relating to the project; (3) withdrawal of a 1977 presidential decision approving the project; and (4) abolition of the Office of the Federal Inspector.

While Foothills does not object to the abolition of the Office of the Federal Inspector, we believe the Canadian government must strongly protest Mr. Bayer's other recommendations. In our opinion, there is no justification for the United States to repudiate its commitments to Canada on the ANGTS, or to otherwise abandon its support for this important bilateral project.

As you are aware, one of the important cornerstones of the ANGTS is the 1977 "Agreement Between the United States of America and Canada on Principles Applicable to a Northern Natural Gas Pipeline." That agreement--which is still in full force and effect--was designated to provide benefits and protections to *both* the United States and Canada, with respect to the delivery of gas from *both* Alaska and Canada's Mackenzie Delta. Significantly, the agreement commits the United States and Canada to take all measures necessary, including legislative measures, to facilitate the construction and operation of the ANGTS.

When the Canadian government approved the "prebuilding" of the existing Foothills system in 1980, in order to provide new Canadian gas exports to the United States, it required additional assurances that the United States government would remain committed to the completion of the entire project. As a result, the U.S. Congress passed a resolution on July 1, 1980, declaring, among other things, that completion of the ANGTS "enjoys the

highest level of Congressional support..." In addition, President Carter sent the Canadian Prime Minister a letter on July 17, 1980, stating:

"I can assure you that the U.S. Government not only remains committed to the project; I am able to state with confidence that the U.S. Government now is satisfied that the entire Alaska Natural Gas Transportation System will be completed."

In light of these commitments, both the Canadian government and Foothills have frequently expressed their concern over the proposal of Yukon Pacific Corporation to export large volumes of North Slope gas to the Pacific Rim. In response, the United States has consistently asserted that its approval of such exports was not a retreat from the bilateral commitments on the ANGTS. For example, in his 1988 generic finding on Alaskan gas exports, President Reagan stated: "I do not believe this finding should hinder completion of the Alaska Natural Gas Transportation System ("ANGTS"). Moreover, the Department of Energy's 1989 decision authorizing gas exports by Yukon Pacific stated that "DOE does not believe approval of the proposed TAGS export to be inconsistent with the U.S. Government's commitment to ANGTS."

Similar representations have been made directly to Foothills through the years. For example, United States Trade representative Clayton Yeutter sent a letter to Foothills Chairman on July 31, 1987, stating:

"...I am sensitive to existing commitments which could be adversely affected by a decision on ANS exports, and the Administration is pledged to meet certain commitments to the Government of Canada. *I can assure you we will meet our commitments fully.*" (emphasis added).

On the basis of the United States' commitments, which have been reaffirmed repeatedly during the past fifteen years, Foothills has invested approximately \$1 billion in Phase I of the project -- i.e., the "prebuild" phase, and many million additional dollars in Phase II, including AFUDC (allowance for funds used during construction).

These investments have been made with the understanding that the United States would continue to honour its commitments on the ANGTS, just as Canada has honoured its commitments. Under these circumstances, it would be patently unfair for the United States to now abandon the project, without regard to the impact on the project's sponsors.

We recognize that completion of the ANGTS has been delayed as a result of the gas surplus which has characterized North American gas markets during recent years. That is no reason, however, to destroy the important work which has been done in both countries. The foundation of the project has

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been laid, and it should remain intact, so that Alaskan gas can move to the lower forty-eight states when it is needed--as surely it will be.

Your assistance on this matter is appreciated. If you have any questions, do not hesitate to give me a call.

Yours sincerely,

R.L. Pierce
Chairman and
Chief Executive Officer

:js

February 7, 1992

The Honorable George Bush
The White House
Washington, D.C. 20500

Dear Mr. President:

On January 14, 1992, Mr. Michael J. Bayer, the Federal Inspector for the Alaska Natural Gas Transportation System, sent you a report containing certain recommendations with respect to ANGTS.

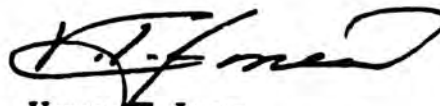
On behalf of Alaskan Northwest Natural Gas Transportation Company, the general partnership responsible for the Alaskan segment of the ANGTS project, we reiterate our continued support for the project. ANGTS represents the most economic and environmentally sound means of moving Alaskan North Slope gas to market, and the existing legislative and regulatory framework assures that ANGTS can be expeditiously completed when market conditions warrant.

As sponsor of the uncompleted U.S. segment of ANGTS, we urge you to continue honoring the assurances and the commitments made by the government of the United States to the Canadian government in respect to ANGTS. We believe it is important for the United States and Canada to maintain a cooperative working relationship in the energy area as well as other areas of common interest. Moreover, there is no need to burden Congress with the extensive legislative process that would result from a proposal to repeal ANGTA.

We certainly understand, however, the need for maintaining prudent and efficient budget procedures within the Executive Branch while at the same time fulfilling its oversight responsibilities under ANGTA. If the need for such efficiency suggests elimination of OFI and transfer or consolidation of oversight responsibility within an appropriate department of DOE then we encourage your consideration of appropriate legislative and executive action necessary to implement such reorganization.

We appreciate your attention to this matter and are available to discuss this matter with your staff if that is desired.

Respectfully,



Vernon T. Jones
Chairman of the Board of
Partners of Alaskan
Northwest Natural Gas
Transportation Company

cc: His Excellency
Derek H. Burney
The Ambassador of Canada



No. 026

The Embassy of Canada presents its compliments to the Department of State and has the honour to draw to the Department's attention certain recommendations made to the President of the United States by the Federal Inspector of the Alaska Natural Gas Transportation System in his Report on the Construction of the Alaska Gas Transportation System dated January 14, 1992.

Among the Federal Inspector's ten recommendations are six that are relevant to Canada:

- repeal the Alaska Natural Gas Transportation Act;
- eliminate the exclusive ANGTS route to transport Alaska North Slope gas to the Lower 48;
- eliminate the ANGTS project sponsors' unique legal monopoly status;
- withdraw the President's Decision and Report, rescind Executive Order 12142 and withdraw Reorganization Plan No. 1 of 1979;
- terminate the 1977 Agreement of Principles with Canada;
- terminate the 1980 Procurement Procedures Agreement with Canada.

The Canadian Government expects that the United States will continue to honour its obligations under the 1977 Agreement of Principles and subsequent assurances given to the Government of Canada with respect to the pipeline. Any action giving effect to the above-noted recommendations would be contrary to the obligations of the United States and would not be acceptable to Canada.

The Embassy of Canada avails itself of this opportunity to renew to the Department of State the assurances of its highest consideration.

Washington, D.C.

14 February 1992



J. BARNETT JOHNSON, LOUISIANA, CHAIRMAN
 DALE BARNES, ARIZONA
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 BILL BRADLEY, NEW JERSEY
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 GARY S. BARNWORTH, CHIEF CLERK FOR THE SENATE

United States Senate

COMMITTEE ON
 ENERGY AND NATURAL RESOURCES
 Washington, DC 20510-6110

March 12, 1992

President George Bush
 Executive Office of the President
 1600 Pennsylvania Ave., NW
 Washington, DC 20500

Dear Mr. President:

On January 14, 1992, the Office of the Federal Inspector for the Alaska Natural Gas Transportation System (ANGTS) sent you a report which, among other things, recommends abrogation of the Alaska Natural Gas Transportation Act, the 1977 Presidential and Congressional decisions approving the ANGTS, and the U.S./Canadian agreements which underpin the project. According to an article which appeared in a recent edition of Inside P.E.R.C., the White House has decided to embrace these recommendations. More specifically, the article states that Nicholas Calio, Assistant to the President for Legislative Affairs, has sent a letter to the Chairman of the House Subcommittee on Energy and Power, stating that the "the president looks forward to working with you to repeal ANGTS authorities in a time frame consistent with the FY-93 budget."

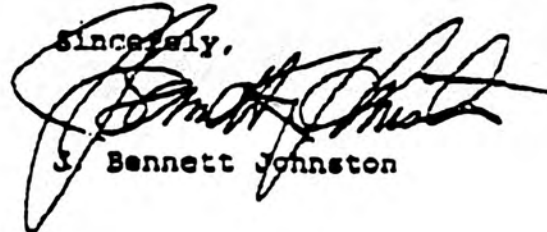
If these press reports are correct, I strongly urge that you reconsider the actions which have been proposed by the Federal Inspector. While completion of the ANGTS has been delayed as a result of current market conditions, it is clear that the American consumers will eventually need access to Alaskan North Slope gas. It is likewise clear that the ANGTS -- which has been approved by both the United States and Canadian governments -- would be the most economic and environmentally sound means of providing that access.

Significantly, a repeal of the Alaska Natural Gas Transportation Act would expand the authority of the regulatory agencies and the courts to delay the completion of the ANGTS. Moreover, termination of the U.S.-Canadian agreements would leave the United States without any obligation by Canada to permit an overland pipeline across Canadian soil to provide access of Alaskan gas when it is needed. Termination of the U.S.-Canadian agreements would also leave U.S. consumers without agreed-upon protections on such matters as pipeline capacity, rates, tariffs, and taxes.

President Bush, page 2

Finally, there is simply no reason at this point for the Administration, Congress, and the Canadian government to become involved in a debate on the future of Alaskan gas. There are more pressing problems, particularly the economy, which deserve our immediate attention.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Bennett Johnston", written over the typed name.

J. Bennett Johnston

Canadian Embassy



Ambassade du Canada

501 Pennsylvania Avenue, N.W.
Washington, DC

August 19, 1999

Mr. James J. Hoecker, Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Room 11A-1
Washington, D.C. 20426

Dear Chairman Hoecker,

I am writing with regard to the "Order Accepting and Suspending Tariff Sheets, Subject to Refund and Hearing" on the Northern Border Pipeline Company (Docket No. RP99-322-0000), issued on June 30, 1999.

In this Order, the Commission states that the Alaska Natural Gas Transportation System (ANGTS) is "no longer viable". Given that the United States and Canada remain bound by the 1977 "Agreement Between the United States of America and Canada on Principles Applicable to a Northern Natural Gas Pipeline" and that the Commission cannot modify action which was approved by Congress, I suspect that it was not the Commission's intention to create uncertainty with regard to the ANGTS.

It would therefore be helpful if the Commission would clarify the meaning of the phrase in question so as to alleviate any concern which may have occurred among interested parties.

*But Reg'd!
RC -*

Yours sincerely,

Raymond Chretien

Raymond Chretien

cc: All FERC Commissioners

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
Vicky A. Bailey, William L. Massey,
Linda Breathitt, and Curt Hébert, Jr.

Northern Border Pipeline Company) Docket Nos. RP99-322-001
) RP96-45-000

ORDER ON CLARIFICATION AND REHEARING
AND CONSOLIDATING PROCEEDINGS

(Issued August 31, 1999)

Northern Border Pipeline Company (Northern Border) filed tariff sheets proposing to increase its rates by \$30 million and to make other changes. In an order issued June 30, 1999, the Commission accepted and suspended the tariff sheets for the maximum five-month period, to be effective December 1, 1999, subject to refund, conditions, and the outcome of a hearing.¹ Foothills Pipe Lines Ltd. (Foothills); Husky Gas Marketing Inc., ProGas U.S.A., Inc., and Renaissance Energy (U.S.) Inc. (collectively, Husky); Pan-Alberta Gas Ltd. and Pan-Alberta Gas (U.S.) Inc. (Pan-Alberta/PAGUS); Amerada Hess Corporation (Amerada Hess); and Northern Border ask for clarification or rehearing of various aspects of the June 30 order.

Northern Border was originally planned as part of the Alaskan Natural Gas Transportation System (ANGTS), which would transport gas from Alaska through Canada and into the lower 48 states of the U.S.² Northern Border was to be the eastern leg of the lower-48 state portion of the system, serving Midwest markets. In the early 1980s, the Canadian and lower-48 state portions of the system were built before the Alaskan portion, which has still not been constructed. Northern Border has subsequently expanded its system several times.

¹87 FERC ¶ 61,380 (1999).

²Alaska Natural Gas Transportation Act of 1976, 15 U.S.C. 719 *et seq.*; Presidential Decision Designating Transportation System (September 22, 1977), approved by Public Law 95-158 (November 9, 1977; 91 Stat. 1268).

Discussion

For the reasons discussed below, the Commission grants in part and denies in part the requests for clarification or rehearing.

A. Cost-of-service tariff

Foothills, whose subsidiaries are responsible for owning, constructing, and operating the 2,000 mile Canadian segment of the ANGTS, filed a request for clarification, or in the alternative, rehearing of a statement concerning ANGTS that the Commission made in the context of its discussion of Northern Border's tariff.

Norther Border has what is known as a cost-of-service tariff. Its rates are not based on fully allocated costs or projected units of service during a test period, but rather on the pipeline's incurred costs which are allocated to its firm services with adjustments every six months.³ As Northern Border explained, its cost-of-service tariff permits recovery of its cost of service on an actual monthly basis as opposed to designing rates on the basis of an historical, illustrative test year.⁴

In their protests to Northern Border's filing, Husky and Pan-Alberta/PAGUS objected to Northern Border's continued use of a cost-of-service tariff, and requested the Commission set that issue for hearing. The June 30 order included the issue of Northern Border's continued use of its cost-of-service tariff in the hearing established on Northern Border's filing. The Commission observed that the original pipeline was 822 miles and commenced service in September, 1982, while currently, Northern Border's pipeline

³76 FERC ¶ 61,141 at 61,766 (1996). Revenues from interruptible transportation are credited prior to the allocation of incurred costs to firm service.

⁴Letter of Transmittal at 1, Docket No. RP99-322-000 (May 28, 1999). Thus, in Order No. 582, the Commission stated that "[b]ecause of the nature of cost-of-service tariffs, Northern Border would only file under section 154.314 when changes in an approved rate of return or services are proposed." Therefore, instead of the schedules required by section 154.312, Northern Border filed Statements L, M, O, and P, and other information under section 154.314 required to support its filing. At Northern Border's request, the Commission waived the filing requirements in waiver of sections 154.301(a), which concerns the filing of statements and schedules described in sections 154.312; 154.303, which requires statements filed pursuant to section 154.312 to be based on a test period; section 154.311, which requires the updating of certain filed statements; and sections 154.312(a) through (q), which concern the composition of required statements.

extends a total of 1,215 miles and Northern Border has plans for further expansion. The Commission concluded there should be an investigation into the continued viability of Northern Border's cost-of-service tariff under section 5 of the NGA "because the ANGTS is no longer viable and Northern Border has expanded beyond its original pipeline area." ⁵ In accordance with these findings, the Commission set the matter for hearing.

Foothills does not object to the Commission's decision to set the issue of whether Northern Border should retain a cost-of-service tariff for hearing. However, it asks the Commission to clarify its statement that ANGTS is no longer viable. Foothills asserts the Canadian segment was built in reliance on commitments and assurances given the Canadian government by the United States President and Congress and by the Commission regarding the ANGTS project. ⁶ Foothills asserts there is no factual evidence for the Commission's statement concerning viability and that the Commission has previously set this issue for hearing without making such a finding. ⁷

The Commission grants the motion for clarification. The Commission's intent was to indicate that the immediate conditions surrounding Northern Border's cost-of-service tariff warrant review of that tariff. The Commission did not intend to indicate that the ANGTS project would not be fully implemented or that the Commission would not honor its commitments to that project. The only matter at issue here is Northern Border's rates. The Commission intended to find only that under current circumstances there should be an investigation as to whether Northern Border's current cost-of-service tariff is just and reasonable, and if not, what the just and reasonable tariff should be. The Commission is thus setting the cost-of-service tariff for hearing since the cost-of-service tariff is of primary importance to the determination of Northern Border's rates. Further, Foothills does not object to setting the issue for hearing. Also, circumstances on Northern Border such as its physical configuration have changed over the years, and the intervenors have specifically protested this cost collection mechanism. Further, Foothills does not object to setting the issue for hearing. The intervenors may explore the justness and reasonableness of the cost-of-service tariff through discovery and at hearing.

⁵87 FERC at 62,412.

⁶Agreement on Principles Applicable to a Northern Natural Gas Pipeline (September 20, 1977) (included in Presidential Decision Designating Transportation System).

⁷73 FERC ¶ 61,399 (1995), reh'g denied, 74 FERC ¶ 61,214 (1996).

B. The Chicago Project costs

In this rate case, Northern Border has rolled costs of its expansion facilities known as the Chicago Project into its system rates. The Chicago Project consists of facility improvements to expand the capacity of the pipeline's mainline and to extend its existing terminus by 243 miles from Harper, Iowa, to a new terminus south of Chicago, Illinois. The Commission approved the facilities and certificated them on August 1, 1997.⁸ The Commission analyzed the rate impact of rolling in the costs of the expansion facilities and found that it was nine percent. Since the rate impact was greater than five percent, the Commission stated that Northern Border was not entitled to a presumption of rolled-in rate treatment. However, on analyzing the benefits to system operations in relation to the nine percent rate impact, the Commission found that Northern Border should be permitted to roll the expansion costs into its existing rates.⁹

On August 1, 1997, the same day it issued the certificate for the Chicago Project, the Commission approved a settlement between Northern Border and its customers in Docket No. RP96-45-000, Northern Border's last general section 4 rate proceeding before this one.¹⁰ The settlement included provisions governing the Chicago Project costs. It contained a "Project Cost Containment Mechanism" (PCCM) which established a "Target Cost" for the Chicago Project of \$796.8 million¹¹ and provided for the treatment of cost overruns and cost savings. The PCCM capped overruns by providing that Northern Border could include the first \$6 million of overruns in its rates; could recover 50 percent of the overruns between \$6 million and five percent of the Target Cost, and was precluded from recovering overrun costs over five percent of the Target Cost.¹²

⁸Preliminary Determination, 76 FERC ¶ 61,141 (1996); Order Issuing Certificate, 80 FERC ¶ 61,152 (1997).

⁹80 FERC at 61,631-32 applying "Pricing Policy Statement for New and Existing Facilities Constructed by Interstate Natural Gas Pipelines (Pricing Policy)," 71 FERC ¶ 61,241 (1995), order denying reh'g, 75 FERC ¶ 61,105 (1996).

¹⁰Order Approving Settlement as Modified, 80 FERC ¶ 61,150 (1997).

¹¹This figure included adjustments for inflation and scope changes, \$50 million for contingencies, and \$75 million for project management costs. The estimated cost of the project in the certificate order issued August 1, 1997, was \$792.6 million. 80 FERC at 61,625.

¹²80 FERC at 61,610.

In the settlement order, the Commission also required Northern Border to file revised cost estimates to be used as the Target Cost for the PCCM within 30 days after final certification of the project in order to reflect the final design changes and the routing approved in the certificate, as well as the inflation factor to be used.¹³ The Commission gave the parties the opportunity to comment on the revised costs. The Commission stated that the final PCCM would be based on the revised cost projections approved by the Commission. On September 2, 1997, Northern Border filed a revised Target Cost of \$839,579,123¹⁴ which the Commission accepted by Letter Order on April 6, 1998. The settlement also required Northern Border to file a final report on its costs of constructing the Chicago Project, to be served on all the parties in the settlement docket, after the expansion is completed.

The Chicago Project apparently was put in service in December, 1998. On December 22, 1998, Northern Border preliminarily advised the Commission that no adjustment to its rate base was warranted due to the PCCM. Intervenors in this proceeding state that on June 22, 1999, Northern Border made its final report describing the cost of the Chicago Project.

Several of the parties protesting or commenting on Northern Border's rate filing in this proceeding requested that issues concerning the application of the PCCM be addressed and resolved in this proceeding, rather than the settlement docket. However, the June 30 order concluded that, since the settlement provided for the final PCCM cost report to be filed in the settlement proceeding in Docket No. RP96-45-000, all issues pertaining to the PCCM should be pursued in that docket when the final report was filed.

On rehearing, Husky and Pan-Alberta/PAGUS ask the Commission to clarify or grant rehearing that the propriety of rolling in the Chicago costs is an issue in the hearing in this case despite the Commission's statement in the June 30 order that all issues pertaining to the PCCM mechanism to control those costs should be pursued in the settlement proceeding. Amerada Hess asks the Commission to consolidate Docket No. RP96-45-000 with this docket.

While the Commission approved rolling in the costs of the Chicago Project in the Order Issuing Certificate, the Commission also recognized in that order that circumstances could change when the Chicago Project was completed and put in service. Thus, the Commission expressly recognized that parties could challenge the rolled-in pricing in

¹³80 FERC at 61,614-15.

¹⁴Docket No. RP96-45-005.

Northern Border's next rate proceeding (i.e., this one) if there were changes in circumstances such as cost overruns resulting in a rate increase greater than the pipeline's projected rate increase, failure to realize claimed operational benefits, or inclusion of overrun costs in excess of the estimated costs in Northern Border's amended application.¹⁵ Consequently, the issue of rolled-in rate treatment may be examined in the hearing in this docket.

The Commission also grants Amerada Hess's request that the settlement docket, Docket No. RP96-45-000, be consolidated with this docket. The Chicago costs or a portion of them are included in this rate filing. The amount of these costs that can be included in the rates in this filing is governed by the settlement in Docket No. RP96-45-000. That issue is also relevant to resolution of the issue whether rolled-in rate treatment of the Chicago Project is appropriate. Consequently, the resolution of the amount of Chicago Project costs to be included in the rates in this filing, as well as whether the roll-in of those costs is still appropriate, would be facilitated if the two dockets are considered together. For this reason, the Commission finds Docket Nos. RP96-45-000 and RP99-322-000 should be consolidated. The Commission also requires Northern Border to file a copy of the document referred to above that is dated June 22, 1999 and shows the total costs of the Chicago Project and other matters with the Commission within ten days of the issuance of this order. The presiding ALJ in this proceeding is to determine whether this document is the final report under the settlement and, if it is not, to set a date for the filing of the final report. The ALJ in this proceeding is to conduct any further proceedings appropriate to the PCCM and the settlement in Docket No. RP96-45-000.

D. Depreciation

Northern Border asks the Commission to clarify its statement in the June 30 order that there is not enough information concerning its depreciation rates and it should consider filing supplemental direct testimony to support those rates. It asserts it has made no change to its depreciation rates so that the burden of proof is on an opposing party to show that the existing depreciation rates are unjust and unreasonable.

Northern Border's depreciation rates were established in the settlement in Docket No. RP96-45-000, and there is no explanation in this docket as to how they were derived. The Commission recently considered a similar case in Northwest Pipeline Corp., 87 FERC ¶ 61,266 (1999). There the Commission held that the burden of proving that unchanged

¹⁵80 FERC at 61,633. The Commission also noted that under the settlement in Docket No. RP96-45-000, Northern Border agreed to absorb a portion of cost overruns pursuant to the PCCM. 80 FERC at 61,633 n.41.

depreciation rates are just and reasonable is on the pipeline, where the pipeline proposes an overall rate increase. . Here, as there, the pipeline had filed under Section 4 of the NGA to increase its rates. The Commission found the pipeline's burden of supporting its proposed rate increase includes the burden of supporting the dollar amount of each item in the cost of service since each item in the pipeline's proposed cost of service is a part of the pipeline's proposed rate increase.¹⁶ The Commission stated this includes unchanged cost of service items, citing National Fuel Gas Supply Corp., 51 FERC ¶ 61,122 at 61,334 (1990), and Algonquin Gas Transmission Co., 64 FERC ¶ 61,293 at 63,029 n.16 (1993).

The Commission noted in Northwest that it has specifically held that it has authority to act under Section 4 of the NGA to reduce a depreciation rate and order refunds, even where the pipeline has not proposed a change in its depreciation rate, as long as the as-filed depreciation rate is a part of a proposed overall rate increase. Tennessee Gas Pipeline Co., 25 FERC ¶ 61,020 at 61,108 (1983), reh'g denied on this issue, 26 FERC ¶ 61,109 at 61,263-64 (1984). The Commission observed that it had distinguished a prior decision of the U.S. Court of Appeals for the District of Columbia Circuit holding that the Commission must proceed under NGA Section 5 to change existing cost allocation methods.¹⁷ The Commission found the Court did not preclude a review under Section 4 of cost of service components integral to an overall rate increase.

The Commission also held in Northwest that its holding is consistent with the Court's statement in Western Resources, Inc. v FERC, 9 F.3d 1568, 1579 (D.C. Cir. 1993), that "[w]e appreciate that minor deviations from the pipeline's proposed rate based, for example, upon differences as to the extent of specific cost items, may be handled in a Section 4 proceeding." The Commission found there that the change in depreciation rate proposed by the opponents in Northwest had a relatively minor effect on the pipeline's overall cost of service, and so might the Commission find here.

Since the burden of proving that its depreciation rates are just and reasonable is on Northern Border, the pipeline must file direct testimony under 18 C.F.R. § 154.301(c) as part of its case-in-chief if it intends to sustain that burden.

¹⁶See also 18 C.F.R. 154.301(c) (1999).

¹⁷Public Service Commission of New York v. FERC, 642 F.2d 1335 (D.C. Cir. 1980), cert. denied, 454 U.S. 879 (1981).

The Commission orders:

(A) The requests for clarification and rehearing are granted or denied as discussed in the body of this order.

(B) Docket No. RP96-45-000 is consolidated with this docket and the presiding ALJ in this docket is to take all appropriate actions with respect to Docket No. RP96-45-000 as discussed in the body of this order.

(C) Northern Border is required to file a copy of the document dated June 22, 1999 describing the total costs of the Chicago Project and other matters within ten days of this order.

By the Commission.

(SEAL)

David P. Boergers
David P. Boergers,
Secretary.

SCOMM

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**TESTIMONY BEFORE ALASKA
LEGISLATIVE COMMITTEES (DRAFT)**

Graphic 1 (Cover Sheet--blue flame)

Good morning. My name is Joe Marushack from Phillips Alaska. With me are Ken Konrad from BP Exploration and Robbie Schilhab from ExxonMobil. Together we comprise the Management Committee of the North American Natural Gas Pipeline Group. We appreciate the opportunity to appear before you today to discuss the project. Each of us will participate in the presentation.

At the outset, let us say that we fully understand and share the strong interest Alaskans and others have in ANS gas commercialization. An economically viable project would encourage new investment exploring for and developing North Slope gas, provide construction and employment opportunities, maximize state royalty and tax revenues over the long term, and create the potential for increased access to gas in Alaska. From a producer prospective, an economic project will provide the value that our shareholders expect from us. We are highly motivated to progress an Alaskan gas project

Recognizing your interest, the Project Team plans to provide periodic updates to you on project status as various milestones are reached. The

Team also plans to engage in ongoing dialogue with appropriate government agencies and other parties. The evaluation and route selection process cannot be done in isolation. We want to move a project along most efficiently and so it must be an inclusive process that provides opportunities for interested parties to participate. This is an Alaskan project, but it is also an international project of enormous scale. To be successful, it will require the full cooperation of Alaska, the US federal government, the Canadian federal government, as well as affected provinces, territories, First Nations, and many other interested stakeholders.

At the same time, those participating in the dialogue must be open and realistic. There are many groups with many viewpoints. To be successful, we must listen to and respect these viewpoints. And we must not lose sight of our objective: a commercially viable gas pipeline that can deliver natural gas from the North Slope to the lower-48 states at costs competitive with other supplies in the U.S. and Canada. We do not have a full feasibility cost estimate at this time that addresses all the technical, permitting and logistics issues of the two pipeline routes. That's why we have to consider the costs and benefits of both major pipeline routes before selecting one. Indeed, it is our obligation, and for permit filing purposes a requirement, to evaluate alternative options with the governments, communities, regulators, and our

shareholders. We recognize that Alaskans are concerned about the route selection process and with the huge investment required we have committed to establishing a factual basis for the evaluation.

Graphic 2 (Presentation Overview)

The next graphic outlines the various topics we plan to cover. I'll briefly address the resource background, and the market. Next Ken will provide you with an update of the ongoing work effort. Lastly Robbie will get into the details of the permit applications, deliverables and plans

Graphic 3 (Project Overview)

On December 6, 2000, the three major Alaska North Slope gas producers--BP, ExxonMobil and Phillips--announced a joint work program to evaluate and progress an Alaskan Gas Pipeline Project. The project would ultimately involve a large diameter pipeline system to deliver gas from Alaska's North Slope to Canada and the lower-48 states.

The three producers will share the costs and leadership of the project equally. The initial work program is expected to cost at least \$75 million. Staffing levels are anticipated to total about 90 full time equivalent personnel from the three companies, with significant contractor support.

The work effort will be primarily managed and staffed in Anchorage, with other work locations in the U.S. and Canada.

The work team has initiated the first steps in progressing the project.

Key program activities over the next year include:

- Conceptual design of the world's largest CO₂ treating plant; and
- Conceptual designs for a large diameter pipeline, high-efficiency compressor stations and a NGL recovery plant.

We'll discuss three of these facilities in more detail a little later in the presentation to give you a better understanding of the size and magnitude of our work effort and the facilities being evaluated

Other program activities include:

- Project costing;
- Environmental field surveys;
- Permitting requirements and plans;
- Design of a commercial structure; and
- Overall viability of the project.

A focus of the work effort will be on route evaluation and selection, leading to filings with U.S. and Canadian regulatory authorities--the Federal Energy Regulatory Commission (FERC) in the U.S., and National Energy Board

(NEB) in Canada. The target objective is to file FERC, NEB and other appropriate applications in late 2001.

This is a very aggressive target. Once the work planning process is finalized we will understand the timing better. Of course, the filings are contingent on developing a commercially viable project that can competitively deliver gas to the lower-48 states. The latter is especially important since there are potential competing sources of gas that could also supply these markets. A competitive project also means that no cost overruns can be tolerated, especially in a gas project of this magnitude and we will utilize our company and contractor resources to realistically understand all of the costs and risks.

Graphic 4 (Alaska Gas Resources & Major Producers)

Turning to slide 4, this is the first of three graphics covering North Slope Gas Resources and Gas Market Outlook.

It shows the major North Slope gas resources and their locations. Developed fields are depicted in green and include, from west to east, Alpine, Kuparuk, Milne Point, Prudhoe Bay, Endicott, and Badami. Major discoveries not yet developed are in yellow and include Northstar, Liberty and Point Thomson. The known North Slope natural gas resource totals

about 35 Tcf. The total potential gas resource on the North Slope has been estimated over the years at around 100 Tcf. Industry's ability to realize the full potential resource will in large part be dependent on an efficient transportation system which yields attractive netbacks, and hence the incentive to explore and develop. It is worth noting that there is potentially enough gas on the North Slope for projects other than a gas pipeline to Canada and the Lower 48 states if market conditions are supportive. For reference, the pie shaped chart to the right shows the relative ANS gas ownership interests for the 35Tcf of known resource. Through the state's royalty share it is obvious the state has an important position in the resource.

Graphic 5: Current Gas Utilization

Gas historically has played a significant role in improving Prudhoe Bay's oil recovery. In the 1970's, an estimated 9.6 billion barrels were originally forecasted to be recoverable from Prudhoe Bay. As of today, we've recovered over 10 billion barrels and are still counting, with over 3 billion barrels remaining to be produced. This improved recovery is achieved with the help of the world's largest gas processing system.

The overall process is summarized in the slide 5 schematic. This image shows Reservoir Gas being routed through our Central Gas Facility where

Natural Gas Liquids are extracted, then blended with crude, which is then transported down TAPS. Current NGL production rates run at about 50 mbd to TAPS, with the sale of another 25 mbd to the neighboring Kuparuk oil field for use in their miscible gas enhanced oil recovery project.

Miscible Injectant is also manufactured at the CGF, for use in enhancing oil recovery from the waterflood areas within Prudhoe Bay.

The remaining dry gas is compressed and re-injected into the Prudhoe gas cap. This re-injection process enhances oil recovery by maintaining reservoir pressure, and also helps vaporize residual oil that is then cycled back and re-produced.

The gas resource at Prudhoe will continue to be used to improve oil recovery and until we are able to export gas from the Slope by whatever means.

Graphic 6 (Market Environment Demand Growth: 2000-2020)

Turning to slide 6, we often get asked why we believe the time is now more appropriate for a gas pipeline project from the North Slope to the Lower 48. The Lower 48 gas market is the largest in the world, with the best transportation infrastructure and the ability to move gas from a single hub to many market sectors. It's a market where gas can be sold long term or

short term, priced at spot or fixed, float with the general market or locked in with caps and collars. It is also a growing market due to the historic abundance of the energy and the environmentally friendly aspects of the source. The U.S. Energy Information Agency projects a continuing increase in demand for natural gas through the year 2020. Natural gas demand for the commercial, residential, and industrial sectors increases at steady but modest rates.

Demand for the power generation sector, on the other hand, is projected to increase from about 11Bcf/d to over 30Bcf/d between 2000 and 2020. Power generation is driving expected growth in natural gas demand, accounting for 64 percent of total expected demand growth during this 20-year period. Overall the use of natural gas in the Lower 48 is forecast to grow from about 56 BCFD to 86 BCFD by 2020. .

Our current view is that 3-5Bcf/day of North Slope gas could be supplied from Alaska into the Lower 48. We should also point out that there are many supply sources that will be competing to meet this projected demand growth. Those that are most economically viable will succeed. Our gas will be competing against Mackenzie Delta, Eastern Canadian gas, deepwater gulf gas, coal bed methane, tight sands and LNG sources. But we know that existing conventional gas resources cannot keep pace with demand and

we want Alaska's gas to be one of those new sources. I'll now turn the microphone over to Ken for a look at the Project Team's early efforts.

Graphic 7 (Organizational Structure)

Let's turn now to the organizational structure of the Project Team. A three-member Management Committee composed of Robbie Schilhab of ExxonMobil, Joe Marushack of Phillips and Ken Konrad of BP will lead the day-to-day operation of the Project Team. Below the Management Committee are seven groups consisting of engineering, commercial, environmental and regulatory, legal, and external affairs specialists. This chart shows several of the key leadership positions on the team.

Team members shown in red are from Phillips, those in green from BP, and those in blue from ExxonMobil. Company staff is being drawn about equally from the three producers. This will allow us to access top quality people from each organization and ensure full alignment as we proceed through our work program. We are currently engaged in a major effort to fill remaining organizational slots. About 50 team members are in place or have been identified.

Graphic 8 (Objectives)

Our team has set itself a few key objectives.

First, we want to create a project that can succeed – an economically viable project that is sufficiently robust to attract the billions and billions of dollars investment that will be required to get gas to market.

North American gas prices have spiked during the past year to \$5 - \$10/mcf from historic levels of around \$2/mcf. The duration of this current price spike is impossible to predict. What we do know is that the laws of supply and demand have not been repealed – just as they were not repealed during the oil price spike in the early 1980's or the U.S. gas "shortage" of the 1970's. An Alaskan project needs to look past short-term volatility to the fundamental long term – 10, 20, 30 and 40 year - supply trends, and the cost of those competing supplies.

A variety of studies reveal that there is still an enormous gas resource in the US. Some of this gas can be economically developed at \$2/mcf, the average price for gas over the past decade. Much of this gas requires higher prices or technological advances to be economic. We need to establish Alaskan gas as a competitive source of supply against these alternative sources of supply.

Clearly we believe Alaskan gas can be made competitive, otherwise we wouldn't be investing our dollars and our people in this effort. But we do need to be realistic – Alaska is still a long distance from the market and our cost challenges are very real.

Of course the real prize for Alaska is not to simply make the known resource base of 35 Tcf competitive. The larger prize is creating a highly efficient and expandable transportation system that yields a high field netback providing an incentive for investors to explore for and develop new gas fields. Incentive to move past 35 Tcf towards 100 Tcf and beyond. Incentive to create a second industry on the North Slope – an exploration and development industry centered on gas – and the associated long term jobs and revenues.

Our second objective is to establish sufficient engineering, commercial and environmental definitions to support permit applications by year-end 2001. This is not a simple undertaking and as mentioned earlier, it is an aggressive time target but it remains our goal. We will cover some of the specific application requirements later.

Our third objective, assuming we are successful with the first two, is to prepare for the next phase of activity. Project applications are not an end but a beginning. A further ramp up in activity including advancing engineering

design, working through the permitting process and preparing detailed project execution plans.

Graphic 9 (Scope of Project)

This graphic shows the overall scope of our study, which I'll speak to in 4 parts. First, nearly all the known gas on the North Slope has carbon dioxide content above required sales gas specifications and thus needs to be treated before gas can be sold to end consumers. Gas treatment facilities on the North Slope would condition the gas for sale by removing CO₂ from the gas stream, compressing the gas and cooling the gas before entering the pipeline. It is worth noting that these gas treatment facilities would be largest such facilities ever built, anywhere.

Next, a pipeline from the North Slope into northern Alberta. Two major routes will be engineered and evaluated – 1) a northern route which runs offshore north Alaska to the Mackenzie delta and then up the Mackenzie valley to Northern Alberta; and 2) a southern route which broadly parallels TAPS to Fairbanks and then follows the Alaska Highway into northern Alberta.

The specific detailed routing along these two routes as well as the termination point in northern Alberta will be part of the work program.

The next area of study will look at pipelines from Northern Alberta to end markets in the U.S. because simply getting gas to Alberta is not enough. Pipeline infrastructure in Alberta has grown over the years and currently there is some excess pipeline capacity. However, many expect that capacity to be fully utilized as more supply comes on stream over the next few years. In any event, volumes from an Alaskan project will be sufficiently large that some significant expansion of capacity will be required.

The joint team will engineer and evaluate a new build pipeline(s) from northern Alberta into U.S. markets. At the same time we will meet with existing pipeline operators to determine if there are cost effective expansion opportunities on existing systems.

In aggregate, these two pipeline segments – Alaska to Alberta and Alberta to Market – represent a pipeline system 4-5 times the length of the Trans Alaska Pipeline System. This is an enormous undertaking.

Finally, gas delivered to market will need to meet specifications relating to the heating value of the gas. North Slope gas contains various amounts of ethane, propane and other gas components commonly called NGL's or natural gas liquids. Some of these components may need to be removed from North Slope gas to meet end sale specifications. Additionally, there

may be an opportunity to export additional gas liquids to enhance overall economics.

We will be looking at various options for placing NGL facilities along the export system. The location and nature of these facilities will be determined in the study

Graphic 10 (Conceptual Pipeline System Components)

I just provided an overview of some of the major facilities that would be associated with a gas pipeline system from the North Slope to Canada and the lower-48 states. Now I will discuss a few more of the specifics associated with the pipeline itself.

The pipeline being considered will utilize 21st century technology and will be designed to the highest standards. Many things have changed since the major pipeline studies of the 1970's and by leveraging today's technology we can design a system that is more cost effective and a system that meets the highest environmental standards.

We will design a new system from the bottom up to match today's needs with modern technology. Pipeline diameter, throughput rates, operating pressure, compressor station design and location, construction methods and pipeline termination point will all be re-addressed. The end result will be a

more cost effective system with a smaller "footprint", less fuel consumed along the system and lower emissions.

Our work program will determine a specific design but at this point there are some general attributes we can share today. The pipeline will be buried along its length with temperature carefully controlled to not disrupt the permafrost. In this sense, once installed, it will be almost invisible.

The pipeline would be plus or minus 48 inches in diameter and operate at a pressure of perhaps 2500psi or more. It would utilize advanced high strength steel. However, even with high strength steel, the steel requirements for this system will be enormous. Consider a pipeline system 4-5 times the length of TAPS with a wall thickness of around one inch. Literally hundreds of millions of tons of steel.

This efficient pipeline design would require fewer compressor stations and with today's automation and communication systems, these stations can be built as not normally manned facilities. While highly efficient, the total installed horsepower necessary to move gas from Alaska to end markets will still be many times the total installed horsepower on TAPS.

Between compressor stations there would be block valve stations as necessary to ensure safe and efficient operability and maintenance.

Intermediate pigging facilities would enable monitoring of the pipeline system with "smart pigs", again ensuring long term safe operations.

Graphic 11 (Current status)

This is clearly a big undertaking and we are currently moving aggressively to get the team fully staffed. We currently have about 50 staff identified to date with 90 or so positions expected to be filled by April.

Of course we will also need the support of contractors. A number of requests for proposals have been issued for various work packages. These include front-end engineering design and costing for various scopes of work, land and environmental surveys as well as legal support both in the U.S. and Canada. We will speak to these in more detail later.

A key current activity is developing greater detail on all the work scopes and objectives for each component of the study. This will allow us to identify the critical path issues we will need to address to meet our aggressive time targets.

We are in the process of finalizing our near term work schedule and are already initiating specific plans for early field surveys, some of which are seasonal in nature and thus very time sensitive. Now I'll turn the

microphone over to Robbie Schilhab who will describe some of the FERC certificate requirements.

Graphics 12 and 13 (FERC Certificate Requirements)

Conducting our joint work program is not an option for us. It is an absolute requirement. The next two charts show the information required on an application for a FERC Certificate of Public Convenience and Necessity. It's voluminous and detailed. There is a comparable set of requirements for applications filed with Canada's National Energy Board.

The information required includes:

- A description of the legal entity applying for the certificate.
- Descriptions and locations of the pipeline, associated plants, compressor stations, and other facilities; flow diagrams; and information on construction and operations management practices.
- Data on natural gas supply and demand, and
- Estimates of facility costs, method of financing the project, anticipated revenues and expenses, and a model and methodology for calculating tariffs.

FERC also imposes a number of other requirements.

- The application must include a mile-by-mile description of water resources; fish, wildlife and vegetation; geology; soils; and air quality and noise along the pipeline route. Given the length of the pipeline segments to be evaluated, this requirement potentially means 5,800 separate descriptions.
- Other required reports include the socio-economic impacts of the project; cultural resources that may be impacted; land use, recreation and esthetics in affected areas; alternatives considered; and project reliability and safety.

It will require a massive undertaking to gather, evaluate and report the information required by FERC.

Graphics 14 and 15 (Work Program Deliverables)

This chart and the next show the work program deliverables expected from the various work groups. The results will be used in determining the economic viability of a pipeline project and then if warranted in the evaluation of the gas pipeline routes and in FERC and NEB filings.

As shown in this chart, the Technical groups are responsible for the design basis and scope for pipeline systems to bring ANS gas to market. This includes plant and pipeline components for an integrated project, cost

estimates, and both a plan and schedule for project implementation. The Technical group will also be responsible for providing some of the information required for applications for regulatory permits.

The Environmental and Regulatory group is responsible for environmental field studies for Northern and Southern routes, development of plans for filing permit applications, and the completion of applications to be filed with FERC and NEB.

As indicated on the next chart, deliverables from the Commercial group include a plan to move natural gas from Alberta to the lower-48 states, a model and methodology for determining pipeline tariffs, a plan to finance the project, the structure and ownership of the project, and studies to determine the social and economic impacts of the project. The group will also provide the commercial elements needed to complete FERC and NEB applications.

Finally, the External Affairs group will lead the community consultation program, help coordinate U.S. and Canadian external affairs activities, facilitate discussions with government agencies and officials and other interested parties, and provide communications support. This group will have a major role in arranging periodic status updates for you.

Graphic 16 (Initial Contract Packages)

Our work scope covers great breadth and depth, from the North Slope to Canada and the Lower-48 markets. A major area of current activity is the identification and selection of qualified contractors. Requests for Proposal (RFPs) were issued on January 17 covering ~~9~~¹⁰ distinct contract areas. These include front-end engineering design; environmental and land surveys in Alaska, the lower-48 and Canada; and regulatory and permitting requirements. In addition, legal firms in the U.S. and Canada are being selected through a separate process.

On January 25, a pre-bid conference was held to brief potential contractors on the initial work we are planning and the criteria that will be used in awarding contracts. Team members have also begun interviewing contractors who will be submitting bids to assess their qualifications.

The timing of contract awards will vary based on the size and complexity of the individual packages and the ability to conclude contract negotiations. We are currently receiving and reviewing bid submissions, and anticipate that successful bidders will begin work before the end of the first quarter of this year.

Finally, each group is currently planning its work program. This includes identifying what it needs to achieve, when the work needs to be done, and

what information will be needed from other groups. The various groups are also identifying critical issues that will affect their work and that of the entire Project, and options for addressing them. All of this information will then be integrated into detailed work schedules that will help guide the Team's efforts during the months ahead. All of the groups are in the process of developing more detailed near-term work schedules.

Graphic 17 (Near Term Plan)

The final chart shows what we will be doing over the next couple of months.

As indicated earlier, we will continue to bring additional personnel on to the Project Team. By April, the personnel complement is expected to reach about 90 people on the team with additional support provided by the firms awarded the various contracts.

There will be additional effort to determine in greater detail the work scope and end products for each group and for the overall Project Team.

We do not currently have definitive milestones for completion of the many Project components. The Project Team will be working to better define a timeline over the next few weeks.

Lastly, we expect to execute most, if not all initial contracts over the next two months. The exact timing of contract awards will vary based on the size and complexity of the individual packages and the ability to conclude contract negotiations. It is important that both parties have a thorough understanding of the terms, expectations and schedule for each contract before the document is signed.

Conclusion (No graphic)

Before concluding, I would like to summarize some of the key points we made today.

First, the three major North Slope producers have agreed to a joint work program to evaluate and progress a North American Natural Gas Pipeline Project that could ultimately culminate in the construction of a large-diameter pipeline system to deliver gas from Alaska's North Slope to Canada and the lower-48 states. And we are fully engaged in this effort now.

Second, an Alaskan Natural Gas project that can deliver cost-competitive natural gas to customers can play an important role in meeting the nation's energy needs, while providing substantial economic benefits to Alaskans, leaseholders and others.

Third, no option should be precluded at this point. It is important that all parties fully understand the costs and benefits associated with the various options. Much of the information to be generated and analyzed is also needed to complete applications for FERC and the NEB. We urge the Legislature to allow this critical work, to be completed and not prematurely attempt to preclude any development option. It's in the States and all parties' best interest to fully understand the options on how to best proceed.

Finally, given the strong interest in this project, the Project Team plans to provide periodic updates to you as various milestones are reached and to engage in an ongoing and meaningful dialogue with government agencies and other interested parties.

We'll be glad to answer your questions.



North American Natural Gas Pipeline Group

House Special Committee on Oil and Gas

February 8, 2001

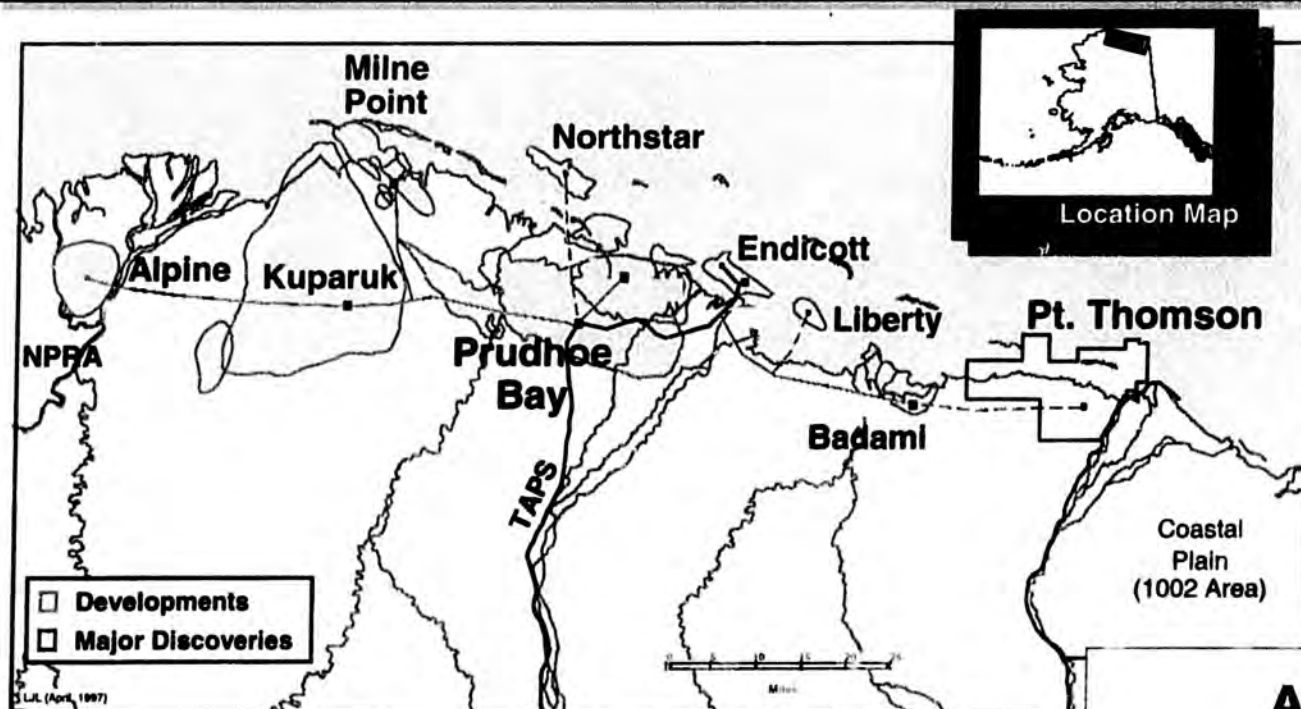
Presentation Overview

- Project Overview
- North Slope Gas Resources and Gas Market Outlook
- Organization
- Current Status of Team Effort
- Conceptual Pipeline System Components
- FERC Certificate Requirements
- Work Program Deliverables
- Initial Contract Package
- Near Term Plan

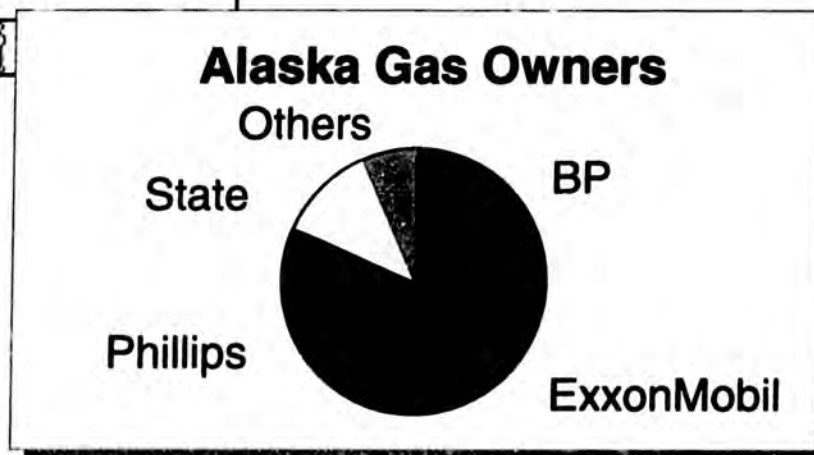
Project Overview

- BP, ExxonMobil and Phillips have agreed to a joint work program
- Project - a large diameter pipeline system to deliver gas from Alaska's North Slope to Canada and Lower-48 states
- Key program activities over next year will be conceptual design of world's largest CO₂ treating plant, a large diameter pipeline, high efficiency compressor stations, and a NGL recovery plant; project costing; environmental field surveys; permitting considerations; commercial structure; and overall viability
- Focus will be on route evaluation and commercialization leading to filings with U.S. and Canadian regulatory agencies
- Costs and leadership will be shared equally among the three producers
 - Initial program: at least \$75 million
 - Approximately 90 person staff plus contractor support

Alaska Gas Resources & Major Producers

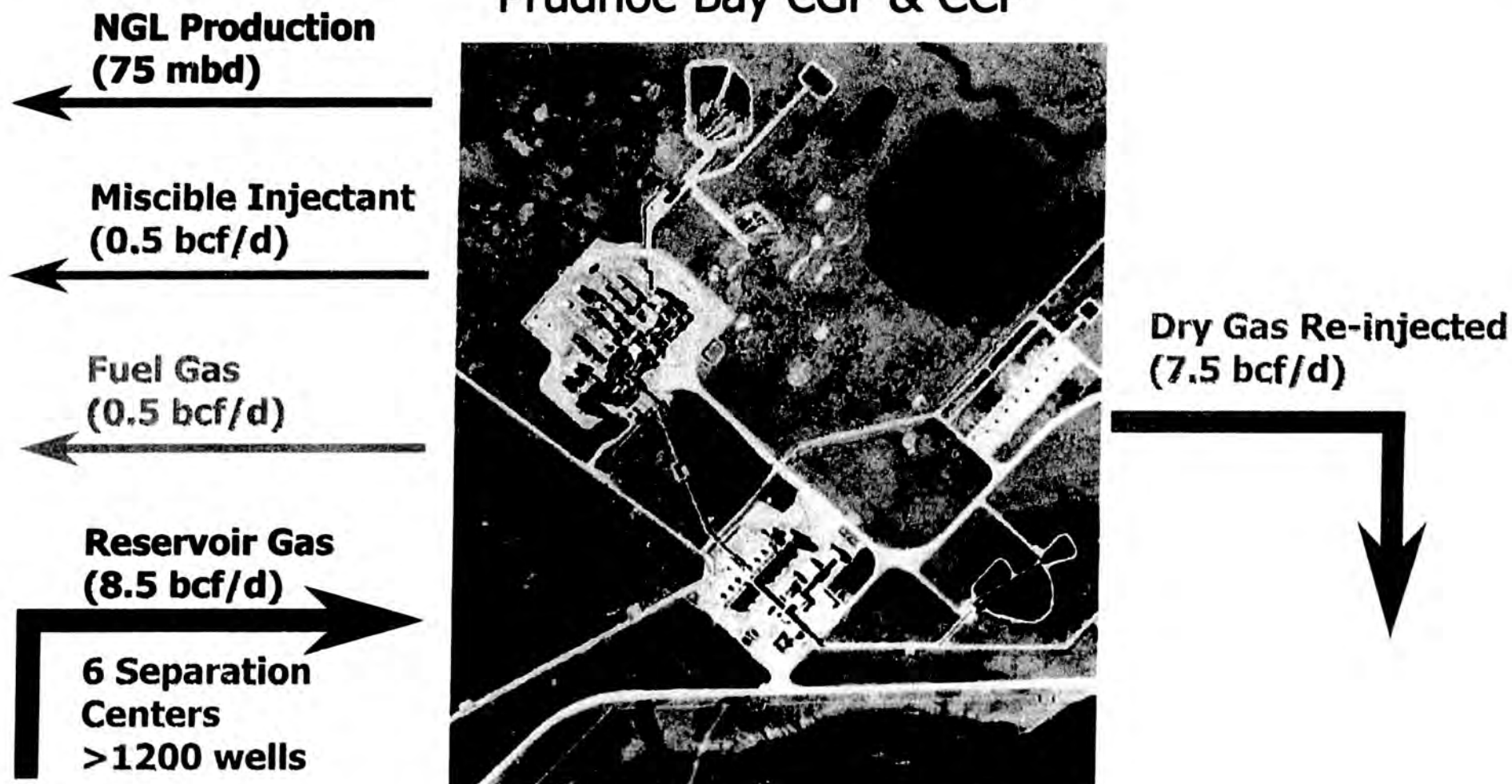


- North Slope known resource ~ 35 Tcf
- Prudhoe Bay – 8 Bcf/d of production currently
- Reinjects into reservoir
- Ultimate resource estimates ~100 Tcf



Current Gas Utilization

Prudhoe Bay CGF & CCP

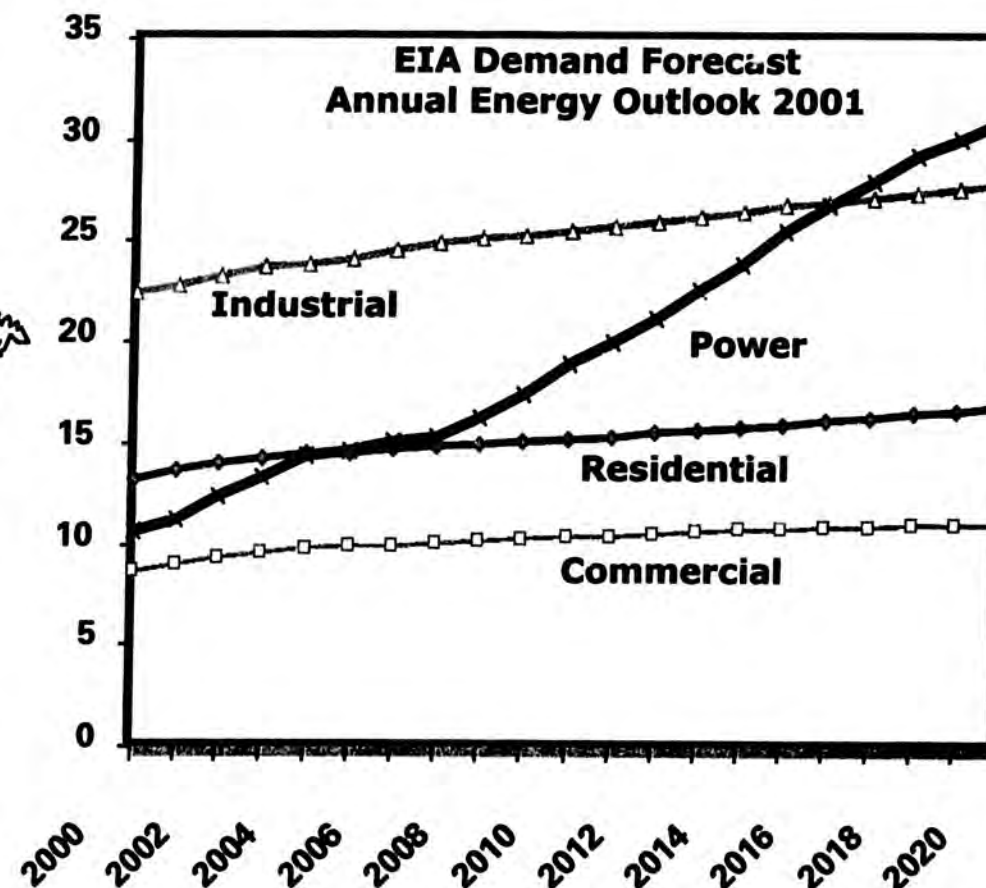


- Enabling billions of barrels of additional oil recovery

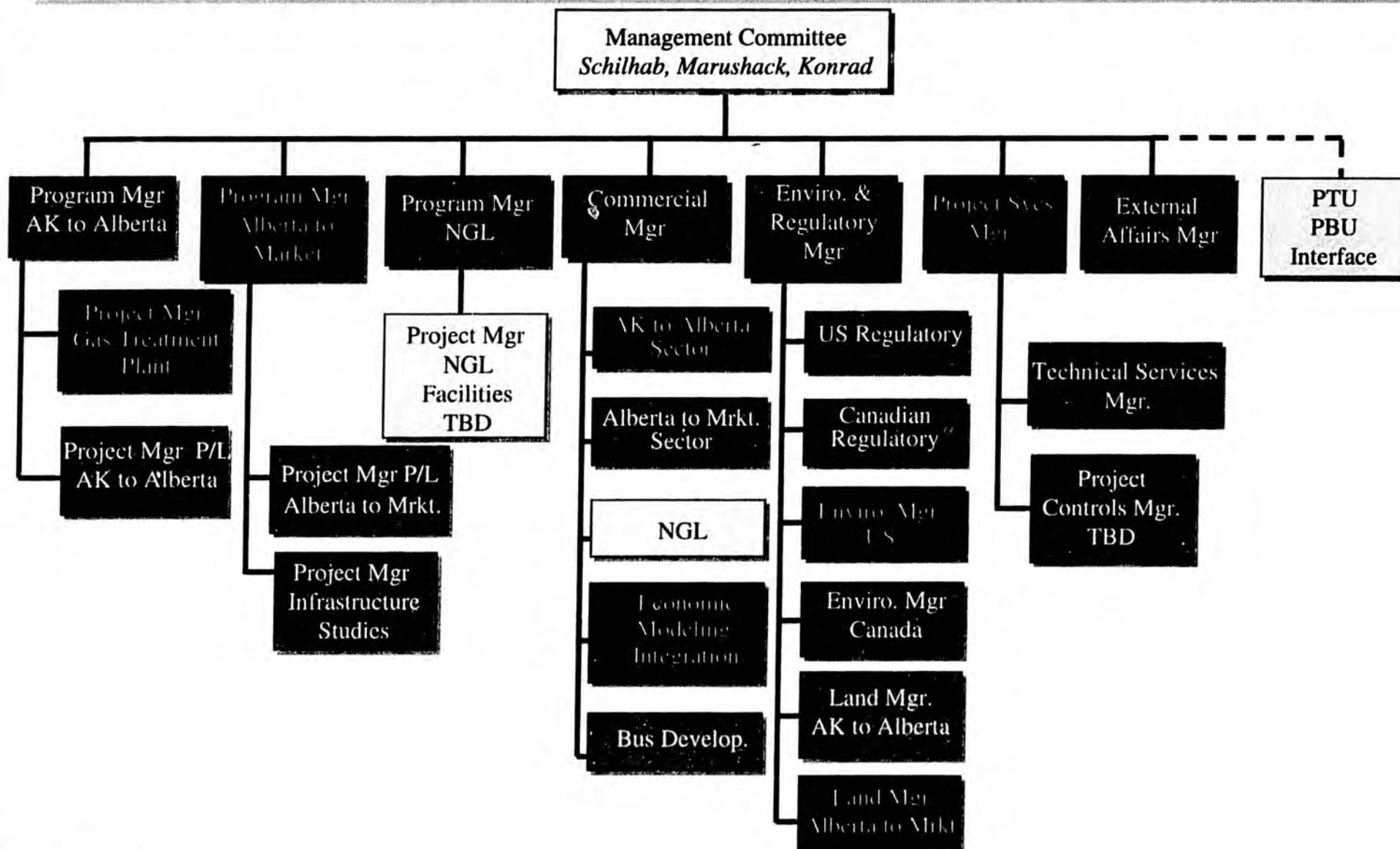
U.S. Supply and Market



Bcf/d



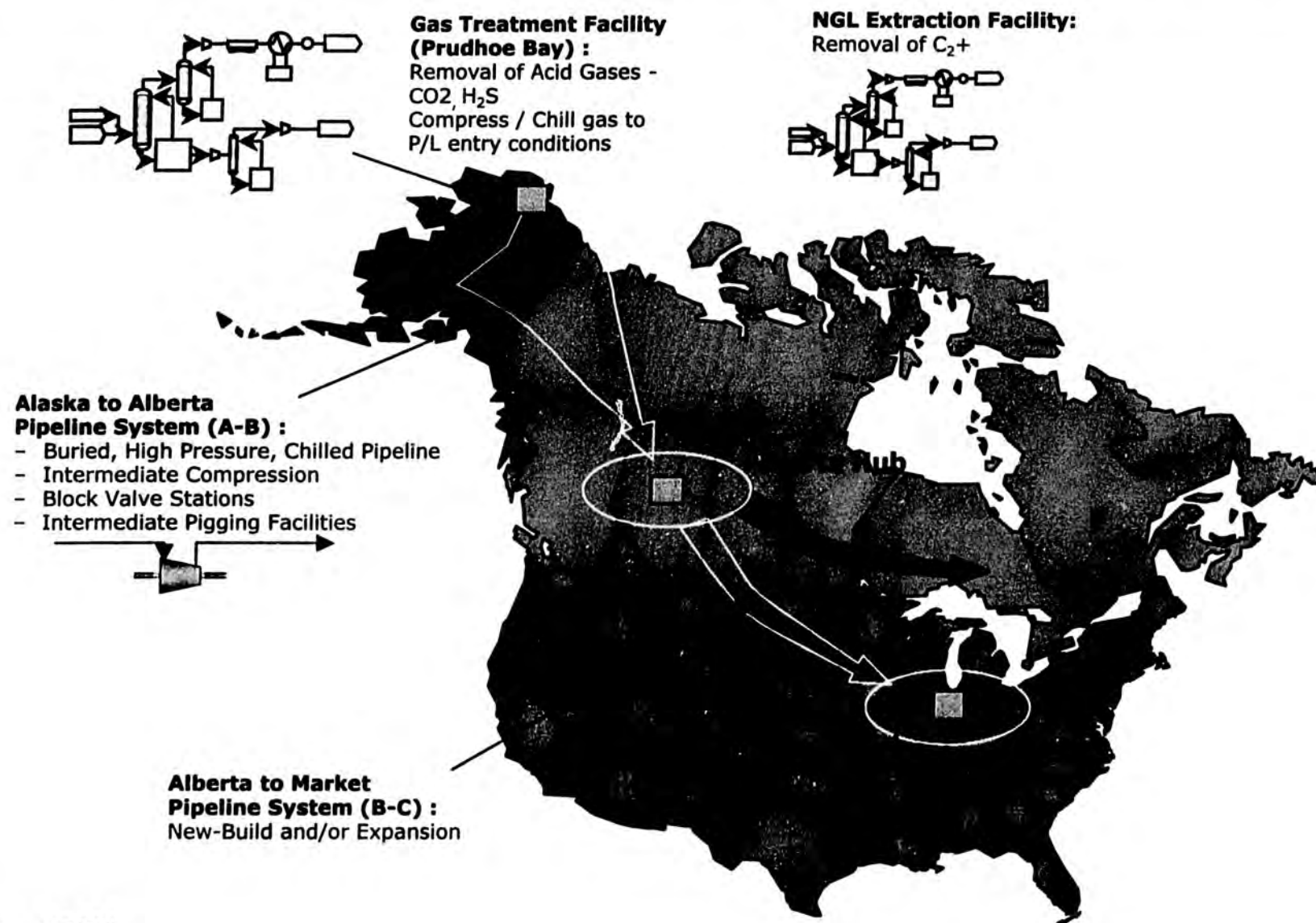
Joint Team Organizational Chart



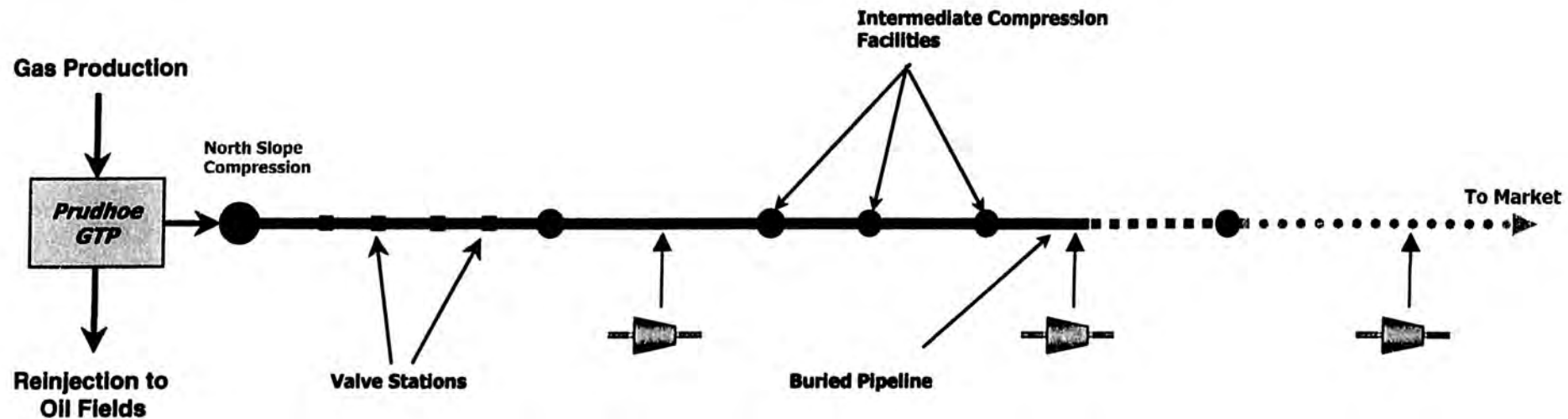
Joint Team Objectives

- Create an economic project (competitive cost of supply)
- Develop sufficient technical information to support FERC/NEB application as soon as possible (target - year end 2001)
- Prepare for next phase of activity

Overall Project Scope



Conceptual Pipeline System Components



- Pipeline system is comprised of four main facilities:
 - Buried pipeline (~48", ~2500psi, high strength steel)
 - Intermediate compression facilities
 - Block valve stations
 - Intermediate pigging facilities

Joint Team Current Status

- Staffing
 - 50 team members to date, expect 90 by April 2001
- Request for Proposal issued to secure contracts in key areas
 - Front-end engineering design; cost estimate
 - Environmental and land surveys
 - Selecting U.S. and Canadian legal teams
- Work program planning
 - Aligning work scopes and objectives
 - Identifying critical path issues
 - Finalizing near-term work schedule
 - Initiating plans for early field surveys

FERC Certificate of Public Convenience and Necessity

General Requirements – 18 CFR 157

- Legal entity development
- Facility descriptions
 - Locations (line, compressor stations, plants)
 - Flow diagrams
 - Construction and Operations Management Practices
- Natural Gas Supply and Demand Data
- Economics
 - Costs of Facilities
 - Financing
 - Revenues and Expenses
 - Tariffs
- Alternatives analysis
- Environmental Review (18 CFR 80)

FERC Certificate of Public Convenience and Necessity

Environmental Requirements – 18 CFR 380

- General project description
- Milepost by milepost descriptions
 - Water resources
 - Fish, wildlife, vegetation
 - Geology
 - Soils
 - Air quality and noise
- Other reports
 - Socio-economic impacts
 - Cultural resources
 - Land use, recreation, esthetics
 - Alternatives considered
 - Reliability and safety

Work Program Deliverables

Technical Teams

- Design basis and scope for pipeline systems to market
 - Plant and pipeline components
 - Integrated project
- Cost estimates
- Project execution plan / work schedules
- Inputs to regulatory permits and process

Environmental / Regulatory Team

- Environmental field studies for Northern and Southern routes
- Permitting plans
- Completed FERC/NEB application
- Completed ROW application
- Other permit applications as appropriate

Work Program Deliverables

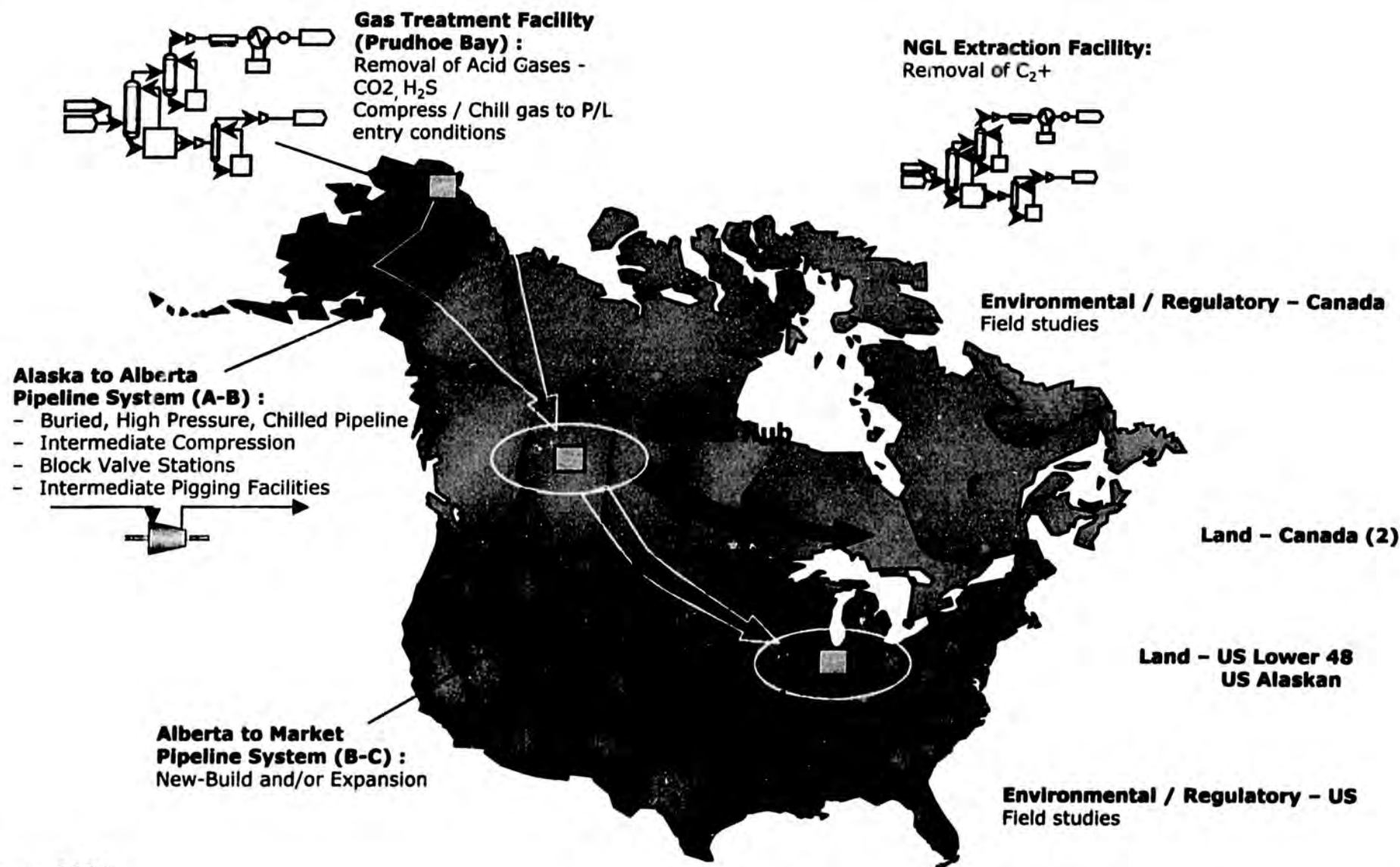
Commercial Team

- Plan to move gas from Alberta to U.S.
- Tariff model and methodology
- Financing plan
- Project structure / ownership
- Socio-economic studies
- Commercial elements of FERC/NEB applications

External Affairs Team

- Consultations with Communities and Alaska Natives
- U.S./Canada external affairs coordination
- Facilitate engagement with governments, other interested parties
- Communications support

Major Scopes of Work (RFPs)



Near Term Plan

- Continue to build team
- Finalize work scope
- Define work schedule
- Execute contracts

ARTICLE VII. HEALTH, EDUCATION AND WELFARE.

SECTION 1. PUBLIC EDUCATION. The legislature shall by general law establish and maintain a system of public schools open to all children of the State, and may provide for other public educational institutions. Schools and institutions so established shall be free from sectarian control. No money shall be paid from public funds for the direct benefit of any religious or other private educational institution.

SECTION 2. STATE UNIVERSITY. The University of Alaska is hereby established as the state university and constituted a body corporate. It shall have title to all real and personal property now or hereafter set aside for or conveyed to it. Its property shall be administered and disposed of according to law.

SECTION 3. BOARD OF REGENTS OF UNIVERSITY. The University of Alaska shall be governed by a board of regents. The regents shall be appointed by the governor, subject to confirmation by a majority of the members of the legislature in joint session. The board shall, in accordance with law, formulate policy and appoint the president of the university. He shall be the executive officer of the board.

SECTION 4. PUBLIC HEALTH. The legislature shall provide for the promotion and protection of public health.

SECTION 5. PUBLIC WELFARE. The legislature shall provide for public welfare.

ARTICLE VIII. NATURAL RESOURCES.

SECTION 1. STATEMENT OF POLICY. It is the policy of the State to encourage the settlement of its land and the development of its re-

sources by making them available for maximum use consistent with the public interest.

SECTION 2. GENERAL AUTHORITY. The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

SECTION 3. COMMON USE. Wherever occurring in their natural state, fish, wildlife, and waters are reserved to the people for common use.

SECTION 4. SUSTAINED YIELD. Fish, forests, wildlife, grasslands, and all other replenishable resources belonging to the State shall be utilized, developed, and maintained on the sustained yield principle, subject to preferences among beneficial uses.

SECTION 5. FACILITIES AND IMPROVEMENTS. The legislature may provide for facilities, improvements, and services to assure greater utilization, development, reclamation, and settlement of lands, and to assure fuller utilization and development of the fisheries, wildlife, and waters.

SECTION 6. STATE PUBLIC DOMAIN. Lands and interests therein, including submerged and tidal lands, possessed or acquired by the State, and not used or intended exclusively for governmental purposes, constitute the state public domain. The legislature shall provide for the selection of lands granted to the State by the United States, and for the administration of the state public domain.

SECTION 7. SPECIAL PURPOSE SITES. The legislature may provide for the acquisition of sites, objects, and areas of natural beauty or of historic, cultural, recreational, or scientific value. It may reserve them from the public domain and provide for their administration and preservation for the use, enjoyment, and welfare of the people.

SECTION 8. LEASES. The legislature may provide for the leasing of, and the issuance of permits for exploration of, any part of the public domain or interest therein, subject to reasonable concurrent uses. Leases and permits shall provide, among other conditions, for payment by the party at fault for damage or injury arising from noncompliance with terms governing concurrent use, and for forfeiture in the event of breach of conditions.

SECTION 9. SALES AND GRANTS. Subject to the provisions of this section, the legislature may provide for the sale or grant of state lands, or interests therein, and establish sales procedures. All sales or grants shall contain such reservations to the State of all resources as may be required by Congress or the State and shall provide for access to these resources. Reservation of access shall not unnecessarily impair the owners' use, prevent the control of trespass, or preclude compensation for damages.

SECTION 10. PUBLIC NOTICE. No disposals or leases of state lands, or interests therein, shall be made without prior public notice and other safeguards of the public interest as may be prescribed by law.

SECTION 11. MINERAL RIGHTS. Discovery and appropriation shall be the basis for establishing a right in those minerals reserved to the State which, upon the date of ratification of this constitution by the people of Alaska, were subject to location under the federal mining laws. Prior discovery, location, and filing, as prescribed by law, shall establish a prior right to these minerals and also a prior right to permits, leases, and transferable licenses for their extraction. Continuation of these rights shall depend upon the performance of annual labor, or the payment of fees, rents, or royalties, or upon other requirements as may be prescribed by law. Surface uses of land by a mineral claimant shall be limited to those necessary for the extraction or basic processing of the mineral deposits, or for both. Discovery and appropriation shall initiate a right,

subject to further requirements of law, to patent of mineral lands if authorized by the State and not prohibited by Congress. The provisions of this section shall apply to all other minerals reserved to the State which by law are declared subject to appropriation.

SECTION 12. MINERAL LEASES AND PERMITS. The legislature shall provide for the issuance, types and terms of leases for coal, oil, gas, oil shale, sodium, phosphate, potash, sulfur, pumice, and other minerals as may be prescribed by law. Leases and permits giving the exclusive right of exploration for these minerals for specific periods and areas, subject to reasonable concurrent exploration as to different classes of minerals, may be authorized by law. Like leases and permits giving the exclusive right of prospecting by geophysical, geochemical, and similar methods for all minerals may also be authorized by law.

SECTION 13. WATER RIGHTS. All surface and subsurface waters reserved to the people for common use, except mineral and medicinal waters, are subject to appropriation. Priority of appropriation shall give prior right. Except for public water supply, an appropriation of water shall be limited to stated purposes and subject to preferences among beneficial uses, concurrent or otherwise, as prescribed by law, and to the general reservation of fish and wildlife.

SECTION 14. ACCESS TO NAVIGABLE WATERS. Free access to the navigable or public waters of the State, as defined by the legislature, shall not be denied any citizen of the United States or resident of the State, except that the legislature may by general law regulate and limit such access for other beneficial uses or public purposes.

SECTION 15. NO EXCLUSIVE RIGHT OF FISHERY. No exclusive right or special privilege of fishery shall be created or authorized in the natural waters of the State. This section does not restrict the power of the State to limit entry

while in session and are entitled to travel expenses going to and from sessions. Presiding officers may receive additional compensation.

SECTION 8. REGULAR SESSIONS. The legislature shall convene in regular session each year on the fourth Monday in January, but the month and day may be changed by law. The legislature shall adjourn from regular session no later than one hundred twenty consecutive calendar days from the date it convenes except that a regular session may be extended once for up to ten consecutive calendar days. An extension of the regular session requires the affirmative vote of at least two-thirds of the membership of each house of the legislature. The legislature shall adopt as part of the uniform rules of procedure deadlines for scheduling session work not inconsistent with provisions controlling the length of the session.

SECTION 9. SPECIAL SESSIONS. Special sessions may be called by the governor or by vote of two-thirds of the legislators. The vote may be conducted by the legislative council or as prescribed by law. At special sessions called by the governor, legislation shall be limited to subjects designated in his proclamation calling the session, to subjects presented by him, and the reconsideration of bills vetoed by him after adjournment of the last regular session. Special sessions are limited to thirty days.

SECTION 10. ADJOURNMENT. Neither house may adjourn or recess for longer than three days unless the other concurs. If the two houses cannot agree on the time of adjournment and either house certifies the disagreement to the governor, he may adjourn the legislature.

SECTION 11. INTERIM COMMITTEES. There shall be a legislative council, and the legislature may establish other interim committees. The council and other interim committees may meet between legislative sessions. They may perform duties and employ personnel as provided by the legislature. Their members may receive an allowance for expenses while performing their duties.

SECTION 12. RULES. The houses of each legislature shall adopt uniform rules of procedure. Each house may choose its officers and employees. Each is the judge of the election and qualifications of its members and may expel a member with the concurrence of two-thirds of its members. Each shall keep a journal of its proceedings. A majority of the membership of each house constitutes a quorum to do business, but a smaller number may adjourn from day to day and may compel attendance of absent members. The legislature shall regulate lobbying.

SECTION 13. FORM OF BILLS. Every bill shall be confined to one subject unless it is an appropriation bill or one codifying, revising, or rearranging existing laws. Bills for appropriations shall be confined to appropriations. The subject of each bill shall be expressed in the title. The enacting clause shall be: "Be it enacted by the Legislature of the State of Alaska."

SECTION 14. PASSAGE OF BILLS. The legislature shall establish the procedure for enactment of bills into law. No bill may become law unless it has passed three readings in each house on three separate days, except that any bill may be advanced from second to third reading on the same day by concurrence of three-fourths of the house considering it. No bill may become law without an affirmative vote of a majority of the membership of each house. The yeas and nays on final passage shall be entered in the journal.

SECTION 15. VETO. The governor may veto bills passed by the legislature. He may, by veto, strike or reduce items in appropriation bills. He shall return any vetoed bill, with a statement of his objections, to the house of origin.

SECTION 16. ACTION UPON VETO. Upon receipt of a veto message during a regular session of the legislature, the legislature shall meet immediately in joint session and reconsider passage of the vetoed bill or item. Bills to raise revenue and appropriation bills or items, although

vetoed, become law by affirmative vote of three-fourths of the membership of the legislature. Other vetoed bills become law by affirmative vote of two-thirds of the membership of the legislature. Bills vetoed after adjournment of the first regular session of the legislature shall be reconsidered by the legislature sitting as one body no later than the fifth day of the next regular or special session of that legislature. Bills vetoed after adjournment of the second regular session shall be reconsidered by the legislature sitting as one body no later than the fifth day of a special session of that legislature, if one is called. The vote on reconsideration of a vetoed bill shall be entered on the journals of both houses.

SECTION 17. BILLS NOT SIGNED. A bill becomes law if, while the legislature is in session, the governor neither signs nor vetoes it within fifteen days, Sundays excepted, after its delivery to him. If the legislature is not in session and the governor neither signs nor vetoes a bill within twenty days, Sundays excepted, after its delivery to him, the bill becomes law.

SECTION 18. EFFECTIVE DATE. Laws passed by the legislature become effective ninety days after enactment. The legislature may, by concurrence of two-thirds of the membership of each house, provide for another effective date.

SECTION 19. LOCAL OR SPECIAL ACTS. The legislature shall pass no local or special act if a general act can be made applicable. Whether a general act can be made applicable shall be subject to judicial determination. Local acts necessitating appropriations by a political subdivision may not become effective unless approved by a majority of the qualified voters voting thereon in the subdivision affected.

SECTION 20. IMPEACHMENT. All civil officers of the State are subject to impeachment by the legislature. Impeachment shall originate in the senate and must be approved by a two-thirds vote of its members. The motion for impeachment shall list fully the basis for the pro-

ceeding. Trial on impeachment shall be conducted by the house of representatives. A supreme court justice designated by the court shall preside at the trial. Concurrence of two-thirds of the members of the house is required for a judgment of impeachment. The judgment may not extend beyond removal from office, but shall not prevent proceedings in the courts on the same or related charges.

SECTION 21. SUITS AGAINST THE STATE. The legislature shall establish procedures for suits against the State.

ARTICLE III. THE EXECUTIVE.

SECTION 1. EXECUTIVE POWER. The executive power of the State is vested in the governor.

SECTION 2. GOVERNOR'S QUALIFICATIONS. The governor shall be at least thirty years of age and a qualified voter of the State. He shall have been a resident of Alaska at least seven years immediately preceding his filing for office, and he shall have been a citizen of the United States for at least seven years.

SECTION 3. ELECTION. The governor shall be chosen by the qualified voters of the State at a general election. The candidate receiving the greatest number of votes shall be governor.

SECTION 4. TERM OF OFFICE. The term of office of the governor is four years, beginning at noon on the first Monday in December following his election and ending at noon on the first Monday in December four years later.

SECTION 5. LIMIT ON TENURE. No person who has been elected governor for two full successive terms shall be again eligible to hold that office until one full term has intervened.

SECTION 6. DUAL OFFICE HOLDING.

The governor shall not hold any other office or position of profit under the United States, the State, or its political subdivisions.

SECTION 7. LIEUTENANT GOVERNOR

DUTIES. There shall be a lieutenant governor. He shall have the same qualifications as the governor and serve for the same term. He shall perform such duties as may be prescribed by law and as may be delegated to him by the governor.

SECTION 8. SAME - ELECTION.

The lieutenant governor shall be nominated in the manner provided by law for nominating candidates for other elective offices. In the general election the votes cast for a candidate for governor shall be considered as cast also for the candidate for lieutenant governor running jointly with him. The candidate whose name appears on the ballot jointly with that of the successful candidate for governor shall be elected lieutenant governor.

SECTION 9. ACTING GOVERNOR.

In case of the temporary absence of the governor from office, the lieutenant governor shall serve as acting governor.

SECTION 10. SUCCESSION; FAILURE TO

QUALIFY. If the governor-elect dies, resigns, or is disqualified, the lieutenant governor elected with him shall succeed to the office of governor for the full term. If the governor-elect fails to assume office for any other reason, the lieutenant governor elected with him shall serve as acting governor, and shall succeed to the office if the governor-elect does not assume his office within six months of the beginning of the term.

SECTION 11. VACANCY.

In case of a vacancy in the office of governor for any reason, the lieutenant governor shall succeed to the office for the remainder of the term.

SECTION 12. ABSENCE.

Whenever for a period of six months, a governor has been con-

tinuously absent from office or has been unable to discharge the duties of his office by reason of mental or physical disability, the office shall be deemed vacant. The procedure for determining absence and disability shall be prescribed by law.

SECTION 13. FURTHER SUCCESSION.

Provision shall be made by law for succession to the office of governor and for an acting governor in the event that the lieutenant governor is unable to succeed to the office or act as governor. No election of a lieutenant governor shall be held except at the time of electing a governor.

SECTION 14. TITLE AND AUTHORITY

OF SUCCESSOR. When the lieutenant governor succeeds to the office of governor, he shall have the title, powers, duties and emoluments of that office.

SECTION 15. COMPENSATION.

The compensation of the governor and the lieutenant governor shall be prescribed by law and shall not be diminished during their term of office, unless by general law applying to all salaried officers of the State.

SECTION 16. GOVERNOR'S AUTHORITY.

The governor shall be responsible for the faithful execution of the laws. He may, by appropriate court action or proceeding brought in the name of the State, enforce compliance with any constitutional or legislative mandate, or restrain violation of any constitutional or legislative power, duty, or right by any officer, department, or agency of the State or any of its political subdivisions. This authority shall not be construed to authorize any action or proceeding against the legislature.

SECTION 17. CONVENING LEGISLA-

TURE. Whenever the governor considers it in the public interest, he may convene the legislature, either house, or the two houses in joint session.

SECTION 18. MESSAGES TO LEGISLA-

TURE. The governor shall, at the beginning of each session, and may at other times, give the legislature information concerning the affairs of the State and recommend the measures he considers necessary.

SECTION 19. MILITARY AUTHORITY.

The governor is commander-in-chief of the armed forces of the State. He may call out these forces to execute the laws, suppress or prevent insurrection or lawless violence, or repel invasion. The governor, as provided by law, shall appoint all general and flag officers of the armed forces of the State, subject to confirmation by a majority of the members of the legislature in joint session. He shall appoint and commission all other officers.

SECTION 20. MARTIAL LAW.

The governor may proclaim martial law when the public safety requires it in case of rebellion or actual or imminent invasion. Martial law shall not continue for longer than twenty days without the approval of a majority of the members of the legislature in joint session.

SECTION 21. EXECUTIVE CLEMENCY.

Subject to procedure prescribed by law, the governor may grant pardons, commutations, and reprieves, and may suspend and remit fines and forfeitures. This power shall not extend to impeachment. A parole system shall be provided by law.

SECTION 22. EXECUTIVE BRANCH.

All executive and administrative offices, departments, and agencies of the state government and their respective functions, powers, and duties shall be allocated by law among and within not more than twenty principal departments, so as to group them as far as practicable according to major purposes. Regulatory, quasi-judicial, and temporary agencies may be established by law and need not be allocated within a principal department.

SECTION 23. REORGANIZATION.

The governor may make changes in the organization of the executive branch or in the assignment of functions among its units which he considers necessary for efficient administration. Where these changes require the force of law, they shall be set forth in executive orders. The legislature shall have sixty days of a regular session, or a full session if of shorter duration, to disapprove these executive orders. Unless disapproved by resolution concurred in by a majority of the members in joint session, these orders become effective at a date thereafter to be designated by the governor.

SECTION 24. SUPERVISION.

Each principal department shall be under the supervision of the governor.

SECTION 25. DEPARTMENT HEADS.

The head of each principal department shall be a single executive unless otherwise provided by law. He shall be appointed by the governor, subject to confirmation by a majority of the members of the legislature in joint session, and shall serve at the pleasure of the governor, except as otherwise provided in this article with respect to the secretary of state. The heads of all principal departments shall be citizens of the United States.

SECTION 26. BOARDS AND COMMISSIONS.

When a board or commission is at the head of a principal department or a regulatory or quasi-judicial agency, its members shall be appointed by the governor, subject to confirmation by a majority of the members of the legislature in joint session, and may be removed as provided by law. They shall be citizens of the United States. The board or commission may appoint a principal executive officer when authorized by law, but the appointment shall be subject to the approval of the governor.

SECTION 27. RECESS APPOINTMENTS.

The governor may make appointments to fill vacancies occurring during a recess of the legislature, in offices requiring confirmation by the

legislature. The duration of such appointments shall be prescribed by law.

ARTICLE IV. THE JUDICIARY.

SECTION 1. JUDICIAL POWER AND JURISDICTION. The judicial power of the State is vested in a supreme court, a superior court, and the courts established by the legislature. The jurisdiction of courts shall be prescribed by law. The courts shall constitute a unified judicial system for operation and administration. Judicial districts shall be established by law.

SECTION 2. SUPREME COURT.

(a) The supreme court shall be the highest court of the State, with final appellate jurisdiction. It shall consist of three justices, one of whom is chief justice. The number of justices may be increased by law upon the request of the supreme court.

(b) The chief justice shall be selected from among the justices of the supreme court by a majority vote of the justices. His term of office as chief justice is three years. A justice may serve more than one term as chief justice but he may not serve consecutive terms in that office.

SECTION 3. SUPERIOR COURT. The superior court shall be the trial court of general jurisdiction and shall consist of five judges. The number of judges may be changed by law.

SECTION 4. QUALIFICATIONS OF JUSTICES AND JUDGES. Supreme court justices and superior court judges shall be citizens of the United States and of the State, licensed to practice law in the State, and possessing any additional qualifications prescribed by law. Judges of other courts shall be selected in a manner, for terms, and with qualifications prescribed by law.

SECTION 5. NOMINATION AND APPOINTMENT. The governor shall fill any va-

cancy in an office of supreme court justice or superior court judge by appointing one of two or more persons nominated by the judicial council.

SECTION 6. APPROVAL OR REJECTION.

Each supreme court justice and superior court judge shall, in the manner provided by law, be subject to approval or rejection on a nonpartisan ballot at the first general election held more than three years after his appointment. Thereafter, each supreme court justice shall be subject to approval or rejection in a like manner every tenth year, and each superior court judge, every sixth year.

SECTION 7. VACANCY. The office of any supreme court justice or superior court judge becomes vacant ninety days after the election at which he is rejected by a majority of those voting on the question, or for which he fails to file his declaration of candidacy to succeed himself.

SECTION 8. JUDICIAL COUNCIL. The judicial council shall consist of seven members. Three attorney members shall be appointed for six-year terms by the governing body of the organized state bar. Three non-attorney members shall be appointed for six-year terms by the governor subject to confirmation by a majority of the members of the legislature in joint session. Vacancies shall be filled for the unexpired term in like manner. Appointments shall be made with due consideration to area representation and without regard to political affiliation. The chief justice of the supreme court shall be ex-officio the seventh member and chairman of the judicial council. No member of the judicial council, except the chief justice, may hold any other office or position of profit under the United States or the State. The judicial council shall act by concurrence of four or more members and according to rules which it adopts.

SECTION 9. ADDITIONAL DUTIES. The judicial council shall conduct studies for improvement of the administration of justice, and

make reports and recommendations to the supreme court and to the legislature at intervals of not more than two years. The judicial council shall perform other duties assigned by law.

SECTION 10. COMMISSION ON JUDICIAL CONDUCT.

The Commission on Judicial Conduct shall consist of nine members, as follows: three persons who are justices or judges of state courts, elected by the justices and judges of state courts; three members who have practiced law in this state for ten years, appointed by the governor from nominations made by the governing body of the organized bar and subject to confirmation by a majority of the members of the legislature in joint session; and three persons who are not judges, retired judges, or members of the state bar, appointed by the governor and subject to confirmation by a majority of the members of the legislature in joint session. In addition to being subject to impeachment under Section 12 of this article, a justice or judge may be disqualified from acting as such and may be suspended, removed from office, retired, or censured by the supreme court upon the recommendation of the commission. The powers and duties of the commission and the bases for judicial disqualification shall be established by law.

SECTION 11. RETIREMENT. Justices and judges shall be retired at the age of seventy except as provided in this article. The basis and amount of retirement pay shall be prescribed by law. Retired judges shall render no further service on the bench except for special assignments as provided by court rule.

SECTION 12. IMPEACHMENT. Impeachment of any justice or judge for malfeasance or misfeasance in the performance of his official duties shall be according to procedure prescribed for civil officers.

SECTION 13. COMPENSATION. Justices, judges, and members of the judicial council and the Commission on Judicial Qualifications shall receive compensation as prescribed by law. Com-

pensation of justices and judges shall not be diminished during their terms of office, unless by general law applying to all salaried officers of the State.

SECTION 14. RESTRICTIONS. Supreme court justices and superior court judges while holding office may not practice law, hold office in a political party, or hold any other office or position of profit under the United States, the State, or its political subdivisions. Any supreme court justice or superior court judge filing for another elective public office forfeits his judicial position.

SECTION 15. RULE-MAKING POWER.

The supreme court shall make and promulgate rules governing the administration of all courts. It shall make and promulgate rules governing practice and procedure in civil and criminal cases in all courts. These rules may be changed by the legislature by two-thirds vote of the members elected to each house.

SECTION 16. COURT ADMINISTRATION.

The chief justice of the supreme court shall be the administrative head of all courts. He may assign judges from one court or division thereof to another for temporary service. The chief justice shall, with the approval of the supreme court, appoint an administrative director to serve at the pleasure of the supreme court and to supervise the administrative operations of the judicial system.

ARTICLE V. SUFFRAGE AND ELECTIONS.

SECTION 1. QUALIFIED VOTERS. Every citizen of the United States who is at least eighteen years of age, who meets registration residency requirements which may be prescribed by law, and who is qualified to vote under this article, may vote in any state or local election. A voter shall have been, immediately preceding the election, a thirty day resident of the election district in which he seeks to vote, except that for

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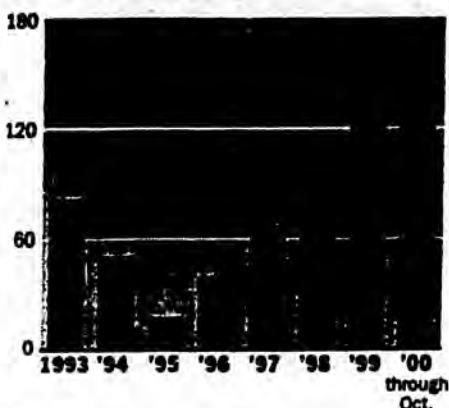
WALL STREET JOURNAL FEB 2, 2001

Increasing Demand for Liquefied Natural Gas

Liquefied natural gas (LNG) is frozen natural gas. It is denser than natural gas and can therefore store more energy in the same amount of space.

Total U.S. LNG Imports

In billions of cubic feet



Origin of U.S. LNG Imports

U.S. imports totaled 166.76 billion cubic feet in the first 10 months of 2000 from the following countries, in billions of cubic feet



Source: Energy Information Administration

El Paso Energy to Spend \$1.5 Billion For Terminals for Liquefied Natural Gas

By ALEXEI BARRIONUEVO

Staff Reporter of THE WALL STREET JOURNAL

In another sign that the U.S. market for liquefied natural gas is heating up, El Paso Energy Corp. said it plans to spend at least \$1.5 billion over five years to build a handful of terminals for handling LNG for the U.S. and Mexico markets.

El Paso, based in Houston, said it is considering six projects: three in the U.S., two in Mexico and another one in the Bahamas.

Five of those projects, which would cost between \$250 million to \$350 million apiece, would serve the U.S. market, where natural-gas prices are nearly three times higher than last year.

Last week, Enron Corp., another Houston energy concern, said it plans to spend as much as \$400 million to feed gas from

the Bahamas to the fast-growing Florida market. El Paso said it hopes to have its project up and running six months before Enron's.

The rival projects underscore surging U.S. demand for LNG, a process that allows natural gas to be shipped but that generally adds significantly to the cost. While LNG has been a vital part of gas supply in Asia, particularly in Japan, it has never enjoyed sustained success in the U.S., mostly because it has been too costly to compete with low U.S. gas prices.

But over the past two decades, the cost of the process, which cools natural gas into liquid form, has come down 30% and the price to construct LNG tankers has dropped by a third, said Kathleen Eisbrenner, El Paso's managing director

Please Turn to Page A10, Column 4

CORRECTIONS & AMPLIFICATIONS

GARY LAMOSHI is the nom de plume used by one of the "extreme telecommuters" living in Bali mentioned in a Marketplace article Wednesday. The name was given incorrectly as Greg LaMoshi.

* * *

CREDIT SUISSE First Boston cut its 2001 earnings estimates for Lear Corp. to \$3.22 a share from \$4.14 a share. But the securities firm's rating on Lear remains a "strong buy." The Abreast of the Market column on Friday incorrectly stated that Lear had been downgraded.

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THE WALL STREET JOURNAL (USPS 604-800)
(Western Edition ISSN 0193-2241)
Editorial and publication headquarters:
200 Liberty St., New York, N.Y. 10281.

Published daily except Saturdays, Sundays and general
legal holidays. Periodicals postage paid at New York, N.Y.,
and other mailing offices. Subscription rates (postage paid):
in the United States, territories and possessions, two years
\$299, one year \$175, 6 months \$89, 3 months \$49; for-
eign rates on request at the Chicago, MA address.

**FINELY
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El Paso Is Planning Outlays for Liquefied Natural Gas

Continued From Page A2

for global LNG. Still, high U.S. natural-gas prices are the key. Tight gas supplies in the U.S. drove average prices for natural gas to \$3.89 per thousand cubic feet last year, up 71% from \$2.27 a thousand cubic feet in 1999.

To make El Paso's LNG bet worth the effort, natural-gas prices have to stay above \$3 per thousand cubic feet over the next decade, said Ralph Eads, El Paso's president for merchant energy.

Assuming prices hold at that level, "we think the LNG business will grow at 10% to 15% a year for the next decade. There is no other energy business growing at that

pace," Mr. Eads said.

In response, both El Paso and Williams Cos., a Tulsa, Okla., natural-gas company, expect to bring back mothballed terminals in Georgia and Maryland in the next two years. El Paso's plans include a plant in a remote part of Baja California that would feed gas markets in San Diego and Mexico, where gas demand is also growing rapidly. The company owns a potential site in Florida, has options on land in the Bahamas, is finalizing options on a site in the Carolinas and evaluating sites in Baja, San Diego and San Francisco. In addition, El Paso said it is building a terminal in Altamira, Mexico, to feed the

Mexican market.

Mr. Eads said the energy crisis in California, where natural-gas prices have been about double the average U.S. prices, should soften environmental opposition to a plant, but he concedes, "California is not a slam-dunk." A terminal in Florida could also fall through if the company decides that a Bahamian terminal is enough to meet LNG demand in the region.

The company, which last week closed a \$17.4 billion acquisition of Coastal Corp., said it also is planning to build LNG terminals in South Korea and India and is considering facilities in Spain, France, Turkey and Greece.

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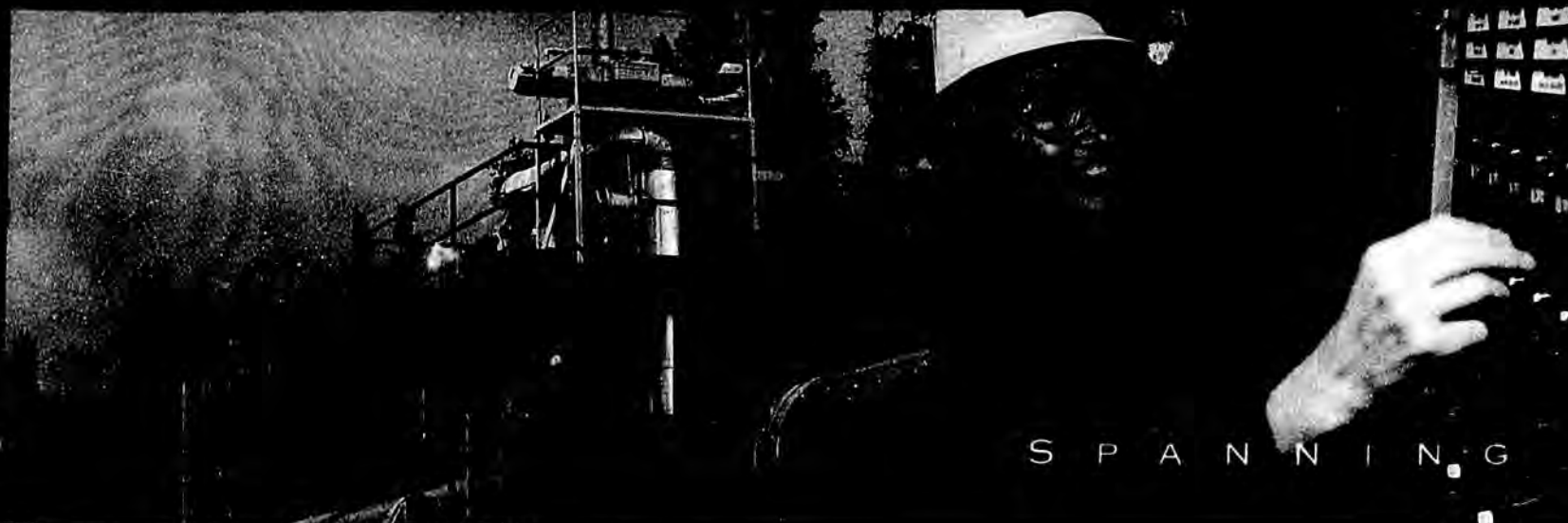
T H E T R A N S



A L A S K A P I P E L I N E

The Trans-Alaska Pipeline System transports crude oil from the oil fields on Alaska's North Slope across 800 miles of tundra, rugged mountains, and rivers to Valdez — the northernmost ice-free port in North America. Built from 1975 to 1977 for about \$8 billion, it is one of the longest pipelines in the world, and one of the greatest engineering feats of our time. Engineers designed the 48-inch diameter pipeline to endure and protect Alaska's unique but harsh environment. Three mountain ranges and more than 800 rivers and streams span the pipeline route. At more than 550 locations, the pipeline design allows caribou, moose, and other wildlife to easily cross the pipeline corridor.





S P A N N I N G

Approximately 380 miles of the pipeline are buried, while the rest of the line is above ground to avoid burying the pipe in permafrost — ground continuously frozen for two years or more. Because the crude oil is warm, heat from a buried pipe could warm the permafrost, making the soil in some areas unstable. In places, the pipeline is buried in permafrost, but is insulated, or even refrigerated in a few places, to keep the permafrost from thawing.

Above-ground portions of the pipeline sit on vertical support members (VSMs). The majority of the pipeline's 78,000 VSMs are equipped with heat transfer pipes and radiators that keep the permafrost beneath the supports frozen. In addition, the VSMs allow the pipeline to move a certain amount, both vertically and horizontally, in case of earthquakes and to compensate

for expansion and contraction. The zig-zag configuration of the pipeline also mitigates the effects of expansion and contraction.

Alyeska Pipeline Service Company was established to design, build, operate, and maintain the pipeline, pump stations, and Valdez Marine Terminal. Alyeska also helps assure safe tanker operations in Prince William Sound through our Ship Escort/Response Vessel System. Our personnel and contractors continually monitor and upgrade the system to ensure that oil flows safely, efficiently, and in an environmentally sound manner.

T H E S T A T E



