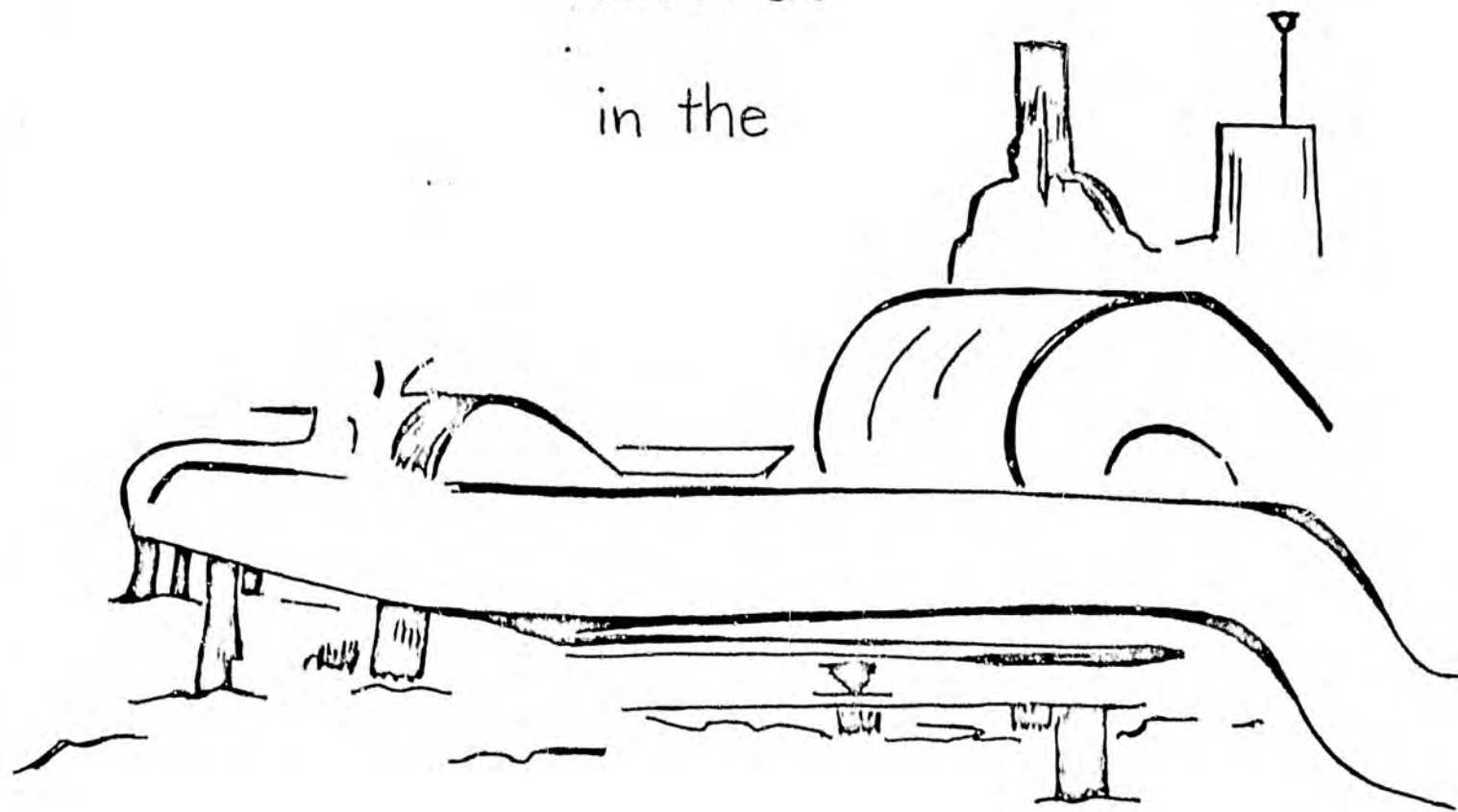


SCOMM

#13:1

1972 Legislature  
Energy Crafts Committee Files

An Inventory of the  
Joint Pipeline Impact Committee,  
Alaska State Legislature  
Records  
in the



Alaska Historical Library

Juneau, 1972

### Historical Scope Note

The Joint Pipeline Impact Committee was appointed March 3, 1971 following the request of Governor William A. Egan for a select legislative committee to study the pipeline in depth.

In the Senate Journal Supplement no. 6, March 3, 1971, the committee was appointed to work with existing state agencies and such other agencies the governor might request.

The committee reported to the Rules Committee chairman of both houses, and continued as an interim committee upon adjournment reporting to the Legislative Council.

Committee members are:

Senator Chancy Croft, Chairman  
Senator Clifford Groh  
Senator Willie Hensley  
Senator Lowell Thomas, Jr.  
Representative Mike Colletta  
Representative Marty Farrell  
Representative Andrew Warwick  
Representative Edward Naughton

Because of the impact of the pipeline, the scope of the committee was broadly defined and asked to explore and report on the following:

- 1) The economic impact of the pipeline, prior to, during, and after construction, with particular attention to the effect on Alaska business, labor, government and our transportation and communication systems.
- 2) The environmental impact including Alaska's policy towards environmental protection and coordination with federal and local agencies. Particular emphasis should be given to the governmental structure designed to handle this area and any needed additional legislation.
- 3) Accruing state development including roads and highways, harbors and airfields.
- 4) Necessary governmental expansion including public facilities and governmental services such as schools, water and sewer systems, police protection, fish and game law enforcement, to mention a few.
- 5) State economic regulation of the pipeline generally and as it affects our royalty and severance tax income specifically, and control of potential abuses such as anti-trust restraint of trade and the inflationary aspects of construction.
- 6) Choices of action related to means of transporting oil and gas, their advantages and disadvantages.
- 7) The legal aspects of the proposals and their relation to other state problems and activities.
- 8) Alaska's natural resource policy including description of existing and potential resources, possible future development and their relationship to the proposed pipeline.
- 9) Such other areas as designated by the presiding officers.

RECORDS OF THE JOINT PIPELINE IMPACT COMMITTEE

4 drawer legal size vertical file.

Finding Aids:

Records include a "Guide to Pipeline Impact Committee Files; a Subject Index to the Administrative Records and Library Collection." This guide was prepared by the committee secretary.

A loose-leaf card file for authors of reports, legislative testimony, etc. is on top of vertical file cabinet.

I. Administrative records.

Contains correspondence, legislation, newspaper clippings, hearings and other material concerned with Committee activities.

II. Library Collection.

213 subject indexed publications. Includes a list of "Books and Other Publications" obtained by the Committee. (These have been added to the stacks of the State Library.)

Guide to Pipeline Impact Committee Files

<u>Subject</u>	<u>Filed Under</u>
General Correspondence	Alphabetically
Information and Data on Alyeska and its Member Companies	Alphabetically, A and Library
Consultants to Pipeline Committee	A, W, R and Library
Data on Environmental Impact Statement	E
Data on Environmental Impact Statement Hearings	E
Gas Pipelines (Proposed) for N.S. Gas Department of Interior	G, M, N and Library I and Library
Legislation	L
Cents Per Barrel	L
Strict Liability	L
Right-Of-Way Leasing Act	L
Regulatory Act	L
20 Mill Tax on Oil & Gas Transportation Equipment	L L
Levy	L and Library
Department of Natural Resources	N and Library
Newspaper Clippings	N and L (Pipeline Regulations)
Pipeline Hearings on Pending Pipeline Legislation	P and Library
Pipeline Hearings/Meetings prior to Session	P and Library
Pipeline Ownership	P and Library
Pipeline Legislation	L and Library
Resident Hire Legislation	R and Library
Trans-Alaska Pipeline	A and Library
- Tapes of Pipeline Hearings & Meetings	Library

## LIBRARY INDEX

## \*Subject

ALASKA,	Tourism
Business	Trans-Alaska Pipeline, Impact on
Cost of Living, Urban	ALASKA--JAPAN TRADE
Economic Base Studies	ARCHEOLOGY,
Economic Development	Pipeline Sites
Education	BIBLIOGRAPHIES,
Employment (TAPS)	Legal, Oil Pollution
Facilities and Physical Features	Pipelines
Highway Construction	BUSINESS - Alaska
Housing	CANADA,
Insurance	Alberta
Land Claims	Northwest Territories
Leasing Policy	Oil and Gas Exploration
Local Hire (TAPS)	Oil and Gas Pipelines
Manpower Outlook, Methodology & Systems Document	CENSUS,
Mineral Policy	Business, Alaska
Oil and the Environment	Housing, Alaska
Population	Manufactures
Population and Workforce (Race)	Population, Alaska
Revenues	Population and Housing
Revenue Projections, Oil and Gas	Population & Workforce (Race)
Statistical Data	COAL
Taxes, Property	COAL GASIFICATION
Timber Resources	COASTAL ZONE MANAGEMENT

\*Also indexed by author

COST OF LIVING - Alaska

Urban

ECONOMIC DEVELOPMENT - Alaska

ECOSYSTEMS,

Alaska  
Arctic

EDUCATION - Alaska

EMPLOYMENT - Alaska (TAPS)

ENERGY POLICY,

Administration

FIRE SUPPRESSION

GEOLOGY,

North Slope

GULF OF ALASKA

HIGHWAY CONSTRUCTION - Alaska

HOUSING - Alaska

INSURANCE - Alaska

INUUVIK

JOB TRAINING

LABOR RELATIONS

LAND CLAIMS - Alaska

LAND USE PLANNING

LEASING POLICY

LEASING POLICY - Alaska

LNG

LOCAL HIRE,

TAPS

MACHIASPORT, Maine

MANPOWER OUTLOOK - Alaska

Methodology & Systems Document

MINERAL POLICY

MOOSE

NATURAL GAS,

Depreciation.

Liquefied

Pipelines

Pipeline Statistics,  
Financial and Operating

Prices

Regulations,  
State and Federal

Supply

Synthetic

OFFSHORE RESOURCES

OIL & GAS,

Pipelines

Revenue Projections

OIL,

Economic Studies

Import Quotas

Laws

Production,  
Taxation of

Reserves,  
North Alaska  
U.S. Potential

Statistics,  
Definition of

Technology

Valuation of Alaskan Crude

OLD AGE ASSISTANCE

PERMAFROST

PIPELINE CONSTRUCTION

PIPELINE IMPACT COMMITTEE,  
    Testimony

PIPELINES,  
    Alaska State Policy on  
    Alternate Routes for North Slope Oil  
    Bibliographies  
    Gas,  
        Financial and Operating Statistics  
    Gas (Proposed)  
    Joint Venture  
    Legislation  
    Mackenzie Valley Route  
    Operating Statistics  
    Oil,  
        Operating Statistics  
    Public Ownership of  
    Regulation of  
    Trans-Alaska Pipeline

POLLUTION,  
    Effluent Charges  
    Industrial  
    Laws  
    Laws and Regulations  
    Legal Liability for  
    Oil,  
        Bibliography, Legal  
        Biological Impact  
        Canada  
        Cleanup Technology  
        Cook Inlet  
        Kodiak  
        Oil Terminals and Refineries

Oil (cont'd)  
    Prince William Sound  
    Tankers

Seafood Waste

POPULATION - Alaska

PROFIT PARTICIPATION

PRUDHOE BAY OPERATIONS

PUBLIC WELFARE,  
    Old Age Assistance

PUBLIC UTILITIES,  
    Regulations,  
        State and Federal

REGIONAL PLANNING

REVENUES - Alaska

REVENUE PROJECTIONS - Alaska  
    Oil and Gas

SHIP BUILDING ASSISTANCE

SHIPPING

STANDARD INDUSTRIAL CLASSIFICATION STATISTICS

TAXES - Alaska  
    Property

TIMBER - Alaska

TOURISM - Alaska

TRADE - Alaska

TRANS-ALASKA PIPELINE,  
    Ecological Studies  
    Employment & Local Hire

TRANSPORTATION,  
    Oil  
    Tank Ships

TREATIES

TUNDRA

TUNDRA BIOME

WELDING

WOLF

WORKFORCE ~ Alaska

## BOOKS AND OTHER PUBLICATIONS

- Alaska Natives and the Land, Federal Field Committee for Development Planning in Alaska
- Alaskan Oil (Costs & Supply). M. A. Adelman, Editor
- Alaska Pipeline Report, Alaska's Economy, Oil and Gas Industry Development, and the Economic Impact of Building and Operating the Trans-Alaska Pipeline, Arlon Tussing, George W. Rogers & Victor Fischer
- Alaska's Manpower Outlook - 1970's, State of Alaska, Depts. of Education and Labor
- \*American Pipe Lines, Their Industrial Structure, Economic Status and Legal Implications, George S. Wolbert, Jr.
- (1970) Annual Report (Surveillance of the Proposed Trans-Alaska Pipeline System), U.S. Department of the Interior, B.L.M.
- Applicant Characteristics, 17 Villages, Alaska Department of Labor, Employment Security Division
- Change in Alaska, People, Petroleum, and Politics, Edited by George W. Rogers
- Compact to Conserve Oil and Gas, Hearing before the Subcommittee on Minerals, Materials, and Fuels of the Committee on Interior and Insular Affairs, U.S. Senate, 1971.
- (Report on) Crude Oil and Gasoline Price Increases of November 1970: A Background Study, Prepared for Joint Economic Committee, U.S. Congress, 1971.
- \*Crude Oil Pipe Lines and Competition in the Oil Industry, L. Cookenboo, Jr.
- (The President's) Energy Message, Hearing before the Committee on Interior and Insular Affairs, U.S. Senate, 1971.
- (Final) Environmental Impact Statement, Proposed Trans-Alaska Pipeline, Department of Interior (1972) - 9 Volumes
- (An Introduction to) Exploration Economics, R. E. Megill
- (The) Field Price Regulation of Natural Gas, Clark A. Hawkins
- Foreign Trade in Gas and Electricity in North America, A Legal and Historical Study, John T. Miller, Jr.
- (The) Gas Supplies of Interstate Natural Gas Pipeline Companies, Federal Power Comm.
- Governmental Intervention in the Market Mechanism: The Petroleum Industry, (Parts 1 through 4), Hearings before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U.S. Senate, 1969 and 1970.
- (The) Growth of Firms, Middle East Oil and Other Essays, Edith Penrose
- (A Study of the) Impact of the Proposed Trans-Alaska Pipeline on the Alaska Native Population, Education Systems Resources Corporation

(Proceedings) Joint Conference on Prevention and Control of Oil Spills, (1969)  
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Map Atlas (Pipeline and Roadway, Livengood to Prudhoe Bay), Alyeska Pipeline Service Company

Middle East Oil; A Study in Political and Economic Controversy, George W. Stocking

\*(A) National Policy for the Oil Industry, Eugene V. Rostow

Natural Gas Supply for Pacific Northwest, (Parts 1 and 2), Hearings before the Committee on Commerce, U.S. Senate, 1971.

(The) Oil Import Question (A Report on the Relationship of Oil Imports to the National Security) Cabinet Task Force on Oil Import Control

Our Industry - Petroleum, British Petroleum

Petroleum Accounting Practices, Stanley P. Porter

Petroleum Economics and Offshore Mining Legislation, A.P.H. Van Meurs

Petroleum Facts and Figures, 1971 Edition, American Petroleum Institute

Petroleum Pipelines and Public Policy, 1906 - 1959, Arthur M. Johnson

Pipeline, William Kilbourn

(The) Political Economy of International Oil and the Underdeveloped Countries, Michael Tanzer

(Proceedings of Joint Conference on) Prevention and Control of Oil Spills, (1971), American Petroleum Institute

(Hearings on) Proposed Pipeline Legislation, March 1972, State of Alaska

Publications

ISEGR Review

Oil and Gas Journals

Oil Week

Petroleum Press Service

\*Regulation of Pipe Lines as Common Carriers, W. Beard

SCOMM

#13:2

MEMORANDUM

December 10, 1973

TO: Senator Rettig  
Senator K. Miller  
Senator Groh  
Senator Meland  
Senator T. Miller  
Representative McVeigh  
Representative Warwick  
Representative Fink

FROM: George Sharrock *GS*

SUBJECT: Preliminary Pipeline Impact Report

Enclosed is part of the first draft of the preliminary report to the Committee on the pipeline impact. This portion includes only the report and analysis of impact problems and costs which have been presented by several of the largest communities and school districts. Reports on others will be presented at the Seattle meeting, December 17th, and the summary and recommendations will be presented.

Also included are part of the Appendices that will accompany the preliminary report.

It has been difficult to get documented information from some communities, and we are yet receiving late information. Therefore, some of the statistical and other data are subject to change in the final draft to be prepared after the Seattle meeting.

GS/ta

Encls.

P.S. Be sure you bring your copy of this report to Seattle.

cc: ✓ Russ Mulder, LAA

S. Com. 13:2

Legislative Reference Library  
Legislative Affairs Agency  
Pouch Y State Capital  
Juneau, Alaska 99811

Preliminary Report  
On  
ECONOMIC and SOCIOLOGICAL  
IMPACT  
of  
TRANS-ALASKA PIPELINE CONSTRUCTION

By  
Special Legislative  
Petroleum Impact Committee

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## SUMMARY

### Magnitude of Pipeline Construction Job.

It has been said that the construction of the Trans-Alaska Pipeline is the largest job undertaken by private investors up to this time. Alyeska Pipeline Service Company has made more than one projection of the numbers of men they expect will be working on the line.

The peak employment figure has run from about 7,500 to 13,000. The latest figure is 12,000 to 13,000. If Phase I and Phase II construction are merged, so that upon completion of these phases through-put can begin immediately at the rate of 1,200,000 barrels of oil per day instead of 600,000, conceivably the workforce could be larger.

The increase in the number of workers, and the increased scope of the work, could therefore produce larger waves on the economy and everyday activities in much of Southcentral, Central and Northern Alaska.

### Effects On Alaska.

Although much of the money spent for the pipeline construction will be spent for materials and supplies needed for construction, and its' transportation to Alaska, very large amounts will be spent in Alaska for labor and transportation in Alaska.

It is expected that a substantial portion of the manpower needed for construction will be imported from the other states; it can be expected that nearly all of the available local workers will be absorbed by the expanded economic activities, either directly on pipeline related jobs or others created indirectly.

Thousands of others will come to Alaska expecting to be hired for pipeline work. Most of those qualified will probably find work either on pipeline construction, or of another kind. However, many will not find

work and thereby create one of the undesirable effects of a large project such as this.

Although the announced Alyeska policy of prohibiting pipeline construction workers from bringing families to Alaska may discourage the majority from doing so, most people believe that strict enforcement of such a restriction will not be possible. Therefore, we should expect that some percentage of workers will bring families. These people, in addition to the families of thousands of other workers working in the service and trade industries, and new local and State government workers resulting from the increased economic activity, will place a large demand upon the housing market, schools, service and trade industry and the many government type services.

In general, the impact of the pipeline construction on the individual communities will vary in nature and extent, depending upon the proximity of the community to the actual construction work, and the relative importance of the community to the normal economic activities of the State.

Construction contractors policies regarding off-time of workers and where they will be transported for recreation will have a large bearing on the nature and degree of impact on certain communities. These off-time practices will determine the level of certain government services, including police manpower, in affected communities.

The Special Petroleum Impact Committee has expressed as its' concern the economic and social impact of pipeline construction, and its' after effects, on the communities of Alaska. The Committee wants to determine what the State Government can, or should, do to help meet the expected impact, and how aid could be administered.









IMPACT COSTS (\$000)

CATEGORY & CITY	OPERATIONS						CAPITAL IMPROVEMENTS					
	Requests			Recommendations			Requests			Recommendations		
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
SMALL BOAT HARBOR												
Valdez				79	93	79	500			500		
ELECTRICAL UTILITY												
City of Anchorage							300	4,200		300		
City of Fairbanks							6,500			2,000		
Golden Valley Cooperative							3,000			3,000		
Totals							9,800	4,200		5,300		

IMPACT COSTS (\$000)

CATEGORY CITY	OPERATIONS						CAPITAL IMPROVEMENTS					
	Requests			Recommendations			Requests			Recommendations		
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
PUBLIC BUILDINGS												
City of Anchorage							5,000	4,000		1,800		
Valdez							150			150		
Totals							5,150	4,000		1,950		
ADMINISTRATION												
City of Anchorage	121	129	109	121	129	109						
North Pole				30	32	34				4	2	3
Valdez				276	302	344						
Cordova	200	200	200	200	200	200						
Totals	321	329	309	627	663	687				4	2	3
PARKS AND RECREATION												
Anchorage Borough	179	300	329	179	300	329	3,720			1,200	1,200	1,200
City of Anchorage	217	280	286	217	286	286						
Totals	396	580	615	396	586	615	3,720			1,200	1,200	1,200

IMPACT COSTS (\$000)

CATEGORY & CITY	OPERATIONS						CAPITAL IMPROVEMENTS					
	Requests			Recommendations			Requests			Recommendations		
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
SCHOOLS												
Anchorage	1,745	3,473	4,128	1,514	2,684	3,144						
Fairbanks				197	647	832	6,100				6,100	
Valdez	546			546	546	546	570				600	
Delta Junction							1,500				1,500	
Totals	2,488	4,660	5,506	2,257	3,877	4,522	8,170				8,200	
LITERARY												
Anchorage Borough	56	34	10	56	34	10						
City of Anchorage	56	34	10	56	34	10						
Totals	112	68	20	112	68	20						
HEALTH SERVICES												
Anchorage Borough	950	1,555	1,864	950	1,555	1,864	75				75	

IMPACT COSTS (\$000)

CATEGORY & CITY	OPERATIONS						CAPITAL IMPROVEMENTS					
	Requests			Recommendations			Requests			Recommendations		
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
NORTH STAR BOROUGH												
Library	33	95	115	27	64	58	1,000	10	10	1,000	10	10
Parks and Recreation	20	73	89	21	50	45	160	150	150	160	150	150
Environmental Services	47	133	162	38	91	81	100			100		
Dog Coltron	13	38	46	11	26	23	25			25		
Administration	213	612	744	175	415	373	60			60		
Totals	332	951	1,156	272	640	580	1,345	160	160	1,345	160	160
Less: Impact Generated Revenues				356,400	522,200	319,130						
Net Recommended Impact				-0-	122,762	261,530						

## Community Totals

## IMPACT COSTS (\$000)

CATEGORY & CITY	OPERATIONS						CAPITAL IMPROVEMENTS					
	Requests			Recommendations			Requests			Recommendations		
	1974	1975	1976	1974	1975	1976	1974	1975	1976	1974	1975	1976
ANCHORAGE BOROUGH	1,432	2,306	2,564	1,432	2,306	2,564	3,959	1,192	1,587	1,439	2,392	2,401
CITY OF ANCHORAGE	1,806	2,066	2,286	1,563	1,936	2,157	13,051	8,451		5,550		
CITY OF FAIRBANKS	250	250	250	250	250	250	12,376			4,518		
FAIRBANKS SCHOOLS				197	647	832	6,100			6,100		
ANCHORAGE SCHOOLS	1,745	3,473	4,128	1,514	2,684	3,144						
VALDEZ SCHOOLS	546			546	546	546	570			600		
GLENNALLEN	69	69	69	15	15	15	12			12		
NORTH POLE	276	341	395	253	281	287	839	131	43	830	103	14
VALDEZ	880	1,063	1,118	880	1,063	1,118	3,645			2,145	600	
HAINES							13			13		
CORDOVA	200	200	200	200	200	200						
FAIRBANKS BOROUGH	332	951	1,157	-0-	123	262	1,345	160	160	1,345	160	160
TOTALS	7,536	11,719	12,167	6,850	10,015	11,375	41,910	9,934	1,790	22,552	3,255	2,575

NET IMPACT COSTS\* (\$000)

Anchorage Borough

<u>Year</u>	<u>O&amp;M** Impact</u>	<u>CIP*** Impact</u>	<u>Impact Taxes</u>	<u>Impact Sh. Rev.</u>	<u>Impact Other Rev.</u>	<u>O&amp;M Net Need</u>
1974	1,432	1,439	-	75	-	1,357
1975	2,306	2,392	524	323	-	1,459
1976	2,564	2,401	1,722	362	-	480

City of Anchorage

1974	1,563	5,550	-	74	55	1,434
1975	1,936	-	525	190	234	987
1976	2,157	-	978	206	320	653

City of Fairbanks

1974	250	4,518	-	60	255	-
1975	250	-	150	80	340	-
1976	250	-	350	80	340	-

City of Valdez

1974	880	2,145	43	9	95	733
1975	1,063	600	253	17	160	633
1976	1,118	-	964	24	209	-

North Pole

1974	253	830	-	14	8	231
1975	281	103	16	21	12	232
1976	287	14	24	21	12	230

Anchorage Schools

1974	1,514	-	-	-	-	1,514
1975	2,684	-	689	-	-	1,995
1976	3,144	-	2,275	-	-	869

\* Revenues for other entities were too nebulous to make projections.

\*\* Operations and maintenance.

\*\*\* Capital improvement program.

### Possible Approaches To Impact Legislation.

The impact of the oil pipeline construction will be felt in varying degree by everyone in Alaska. The variations will be substantial between the areas of the State far removed from the pipeline, the population centers within commuting distance, and the settlements along the pipeline itself.

\* The impact will fall on organized local governments; i.e. Anchorage, Fairbanks, Delta Junction, Valdez; on people in unincorporated settlements like Glennallen and Copper Center; on persons scattered along highways, and on Alaska natives organized as village corporations and regional corporations. In another sense the land itself will be subject to use pressure in the areas where it can be reached by people, primarily along the highways near the pipeline corridor.

The needs that will be generated in the affected cities and boroughs can be divided into capital needs and operational, or service needs.

Operational aid could be determined by estimating the additional services required for the added population less the added revenue generated by the new people. Such aid might be made available during the period of accelerated growth only, and not be necessary after normal growth resumed, the population stabilized, or actually decreased.

Aid for capital expenditures might be justified if, in order to meet the requirements of accelerated growth, expenditures were required over and beyond those required for normal growth, especially if such expenditures had the effect of significantly raising local per capita taxes. This might happen if revenues generated by the new population were either insufficient in amount or lagged the expenditures by several years. It could

happen if expenditures were required for only a temporary increase in population, and subsequently an excessive debt service remained for a reduced population.

A city being deluged with several thousand new residents will find it must not only expand water and power capacity, but also add new police officers, building inspectors, and other services.

The State could deliver money, service, and loan assistance by several methods:

1. Grants-in-aid.
2. Reinforcement of existing shared revenue allocations.
3. Shared revenue designated for impacted communities.
4. State loan fund for private utility expansion.
5. State loan fund for housing (and mobile homes).
6. Land leasing program.
7. Expanded State agency budgets for impacted areas.
8. State-sponsored training programs to assist Alaskan hire.

Pipeline impact legislation can be designed to deliver assistance to the affected groups by:

1. Grand-in-aid to boroughs for capital improvements.
2. Grants-in-aid to cities for capital improvements.
3. Shared revenue allocations to boroughs.
4. Shared revenue allocations to cities.
5. Shared revenue allocations to unincorporated communities.
6. Special impact appropriations to State agencies.
7. Special loan fund for utility expansion.
8. Special loan fund for housing mortgages (and mobile home loans).

9. Special fund to guarantee bond issues for cities and boroughs.

10. Legislative authorization to issue short-term leases for State selected and University owned land.

Because of the apparent difference in kinds and amounts of per capita needs in the impacted communities, a completely general formula may not be possible if the total outlay is to be kept within reason. It seems quite evident that some communities have greater needs than others. In some cases, perhaps through no fault of their own, they have not been able, on their own, to provide for the kind of growth anticipated. This may require some discrimination on the part of the Legislature if these cities are to meet the demands placed on them by the pipeline construction, and not make across-the-board per capita grants to all communities. If there are genuine limitations on the State's funds for the next four years, a general distribution might lead to the elimination of some aid needed in the more heavily impacted communities.

Assumptions.

The following assumptions are made in compiling this report, and in making the conclusions and recommendations which follow.

1. The Trans-Alaska Pipeline will be built, starting in early 1974 and be virtually completed late in 1976 or early 1977.

2. The numbers of workers on the pipeline and working on the North Slope will be approximately as projected by the principals involved.

3. Employment patterns and population/employment ratios will be substantially as they were in earlier boom periods.

4. Any Federal assistance programs to aid communities in public improvements will not be forthcoming in time to meet the immediate needs.

5. State government agencies will respond to service needs which

will be required in the communities and organized boroughs.

6. Pipeline workers within the boundaries of a local government are not considered as part of the local population, although the local government may include them as population for State revenue sharing purposes.

#### Conclusions.

The statements and testimony of the communities, and discussion with many individuals knowledgeable in their fields, have led to the following conclusions relative to the impact of pipeline construction.

They are drawn with the aim of placing in perspective the possible courses of action which may be open to the Committee and which are discussed later in this Summary.

1. The communities found it very difficult, in most cases, to determine what effects pipeline construction would have on their communities. Most did not have the staff to do research or make employment and population projections. They had very little information on the specific plans for the pipeline at a date early enough to be helpful.

2. The early impact will be that due to an influx of people, and the social and health problems created: law enforcement, recreation, unemployment, drugs, alcohol, and welfare problems. These matters will increase the operational costs of local governments with little potential revenues created. These problems will be associated with a transient population and with pipeline workers looking for recreation.

3. The more permanent kinds of population will place demands on schools, public facilities, housing, utilities and other government services which in some communities will be difficult to meet. Although revenues to the local government will rise, there will be a lag, especially

with property tax revenues. Some categories of State shared revenues will rise in proportion to population increases, and where sales taxes are in effect, the increase should be felt almost at once.

4. The effect of the increased population will have the effect of accelerating the need of many public improvements. This acceleration means the need of financing, in some cases quite substantial, at a date earlier than would normally have been necessary. In some cases this presents the community with a problem of meeting higher debt service payments, and a question in the minds of community leaders as to whether substantial tax increases will be required. Without some assistance, this may be the case in certain communities.

5. Population increases will occur in most cities in Alaska. The impact will be in proportion to the increase. However, the relative severity of the impact to any community will be more related to the percentage of population increase rather than numbers.

6. Some government leaders are concerned that public improvements made to meet demands during construction may lead to over-building and the debt be a burden on the community after the construction is finished. In nearly every case my conclusion is that the cities will not decrease substantially in population after construction is completed. Fairbanks, and especially Valdez will have a period of adjustment. Valdez should not build for the peak 1974-75 population.

7. Even with a lag in revenue receipts, indications are that by 1977 most community revenues will have reflected the population increase and further impact aid, per se, should not be required.

8. The agencies of the State Government will have an important

role in meeting many of the problems associated with the pipeline construction, both in the organized communities and in the unincorporated communities, and in the unorganized borough. The effectiveness of these agencies will depend upon the money available to them and the direction given by the Administration. We have been unable to determine the administrative plans to meet specific impact problems. The Committee or the Legislature will need to review these plans to determine their adequacy.

9. Some of the communities find themselves deficient in certain facilities or utilities and include funding of these deficiencies as a need to meet the impact. Even though there may be a deficiency, the community will find it necessary to arrange financing if it is to meet the demands of a large number of people. Therefore, the total demand for financing must be considered along with the amount needed only to meet the impact.

10. Some communities desire to provide at this time improvements which are in excess of the need for the impact alone. In these cases, the impact portion should be isolated, and the additional funds needed considered separately (see Appendices C & D).

11. There are capital improvement projects being accelerated because of pipeline construction, but which will be needed anyway within a reasonable period of time under normal growth conditions. Aid made available should be designed to help the community in short-range, interim period only, in meeting debt service, interest payments or other aid aimed to ease the burden of debt payments before compensating revenues are generated.

Communities which are required to make capital improvements many

years in advance of normal requirements may need a higher degree of immediate help, but not beyond the point when local revenues are created which will support debt service.

12. Inflationary pressures will be a factor in operational costs of local government. It is believed that this factor need not be considered except for the first year of the impact. (See Appendices C & D.)

13. State income taxes will increase substantially during the pipeline construction years (See Appendix F).

## RECOMMENDATIONS

It has been suggested by several city officials that increases in State Revenue Sharing would provide aid needed by the local governments. This would be a simple solution, from the standpoint of ease of administration, assuming that a general increase in the various categorical formulae used in revenue sharing would provide the amounts of aid deemed necessary in the individual cases.

This method has been tested against the net needs of the five communities requesting the largest amounts of aid. Such an approach does not appear to be the answer if a general formula is to apply. The per capita needs for operational aid range from about \$15 per capita in the larger communities to almost \$250 per capita in the smaller ones.

Categorical grants could be made to the communities in response to formal applications. This could lead to many problems and would not provide a general solution covering all communities.

The first recommendation will be a tentative attempt to formalize grants for operational impact aid.

### ✓ Recommendation No. 1

As stated in Conclusions, it is believed the percentage increase in population is more significant to the community than the actual numbers. Therefore, a formula can be devised which would provide revenue sharing grant increases that will generally meet community needs and apply to all communities affected by population increases.

Assume that a 12% increase in population would warrant a \$20/capita grant, then<sup>a</sup> 150% population increase would require a \$250 per capita grant. In order to fit the situation of the boroughs with service districts, the

grant should be broken down to percentage about as follows: 50% for general government, 17% police, 17% fire, and 16% roads.

✓ Recommendation No. 2

The revenue sharing grants for impact operational costs should be requested by the cities by formal application, with supporting evidence of need. } (c)

? Recommendation No. 3

The evidence is that generally the per capita impact costs drop in 1975 and again in 1976. The program should be reviewed for 1975 applications to determine the need, and if it exists, to establish a new per capita grant formula. } review (d)?

? Recommendation No. 4

Caution should be used in making substantial allowance for inflation because adjustments for inflation have been made in the past by passing on the costs to the beneficiaries. } ?

✓ Recommendation No. 5

Aid for capital improvement programs undertaken on an accelerated basis by the community, and which under normal growth conditions would be needed by 1976, should be in the form of a State loan or bond guarantee program. This program would be available to all cities, and would enable the smaller communities to obtain debt financing, which now may not be able to sell bonds, or if they can, a guarantee program should provide lower interest rates.

✓ Recommendation No. 6

*Van Dalg* In cases where capital improvements will be needed now to meet the pipeline impact, but under normal conditions wouldn't be needed for over

five years, the State should set up a program to pay a portion of the debt service, or interest, for a period of time, not over three years.

✓ Recommendation No. 7

In those cases where debt limitation on G.O. bonds makes it impossible to sell bonds for a capital improvement necessary to meet the impact needs, the State should consider a grant program, if the need is very urgent. }

✓ Recommendation No. 8

In those cases where funds are urgently needed by a municipal utility and the earnings potential is such that the required debt coverage cannot be maintained, the State should set up a loan program, at reasonable interest rate, to cover the period until bonds can either be sold or utility rates increased to improve the earnings. If the State already has a grant program for facilities or utilities (water), grants under this program should be considered for impact aid.

? Recommendation No. 9 ? 10/73

Legislation similar to SB 235 should make available a loan program for municipal and cooperative electric and utility systems to use when other financial sources are unavailable.

✓ Recommendation No. 10

The State needs a stronger program to make loans, or purchase mortgages for housing, to be used if normal financing sources are not available.

1970  
Legislation

? Recommendation No. 11

Much of the impact aid must be administered through the services of the State departments. They will need funds to provide the health services and health nurses; state-operated schools; police protection; highway

maintenance in the impacted areas; airports and airstrip construction and maintenance; training programs; environmental health law enforcement; protection of fish and game along pipeline route; expansion of motor vehicle division; review of voter registration capability; review adequacy of court system in impacted communities, and the prosecution of crimes.

Without the advise of the various departments it was not believed a valid assessment could be obtained of the needs in the State administrative departments, except to note the beliefs of many of the communities that many services needed to be expanded.

? Recommendation No. 12

Aid amounts to district and borough schools varies to a great extent. The per student amounts range from over \$450 to over \$900. Since the Foundation Program and the other State contribution programs are quite intricate, I would recommend each of the communities needing school operational needs be met again by a formula based upon percentage increase of the student body and a per student formula.

? Recommendation No. 13

Some school districts request funds for either new construction or for temporary classrooms. Encouragement should be given to resort to double-shifting until the population trend is fully established. Where there is a clear need for more classrooms, temporary quarters should be provided until, again, the growth pattern is clear.

Recommendation No. 14

Action be taken, either legislatively or administratively to protect fish and game along the pipeline route, with one aim being to preserve the resource as a means of subsistence living for those who need it.

? Recommendation No. 15

The road north of the Yukon River not be taken over by the State until completion of the pipeline, or if it is, it be closed to traffic.

✓ Recommendation No. 16

Encourage the postponement of non-essential construction projects until after the peak of construction of the pipeline.

✓ Recommendation No. 17

Make State royalty oil and gas available to communities along the pipeline, if such will lower fuel costs for power or other uses.

Recommendation No. 18

? Legislature give consideration to training and employing native people as auxiliary police in the villages.

Recommendation No. 19

? Consideration be given to extending Egan Avenue in Valdez and relocating the Ferry Terminal.

Recommendation No. 20

? That State pilots be required on tankers before entering the entrance waters of Valdez Arm.

? Recommendation No. 21

The Legislature authorize, if appropriate and necessary, the University of Alaska to lease U of A land for temporary housing at places where private land is not available.

COMMUNITY IMPACT ANALYSES

### COMMUNITIES SURVEYED

Most of the communities contacted have indicated some form of impact caused by the pipeline construction. The form and extent of the impact is not always the same, however, it has been most often in the form of added operational costs and/or the need for accelerated capital expenditures. It has also been stated that part of the impact will be from inflated costs, shortage of competent labor, inadequate transportation, the social consequences of crime, and the feared degradation of a family-type community.

Despite problems, the majority favored the pipeline and the consequent development and benefits for Alaska. Most think the problems can be overcome with the State aid they hope to receive.

There is not complete agreement on the extent of the economic impact involved, nor how long the effects could be considered as an added burden to the local community. Some believe the accelerated growth will last during the pipeline construction years, and thereafter; if the increased population becomes permanent, increased local revenues will normalize the situation. Others believe the burden on the local government will continue for several years, and aid will be needed for longer periods.

Aid for operational costs can be justified by assuming that the needs for some public services will be greater than the revenues generated by the added population.

It is generally believed that the per capita revenue figure, as far as local government is concerned, will fall, at least in the period of pipeline construction.

It should be borne in mind that most of the agencies asked to submit statements did not have an abundant amount of time to prepare them. For these reasons, it has been found that some important factors may have been overlooked and others more heavily weighted than warranted, because of the lack of time needed to do the necessary study and preparation.

In Appendix A is a list of communities contacted and asked to submit a statement. Not all responded, so it is assumed, for the purposes of this report, that the local officials did not expect any significant impact, or did not have sufficient information to determine what it would be.

Many individuals were interviewed whose job or position was such that he could be expected to give valuable information on certain social or economic aspects of accelerated growth. Separate reports have been made on most of these interviews; and information gained has been incorporated in the following sections as contributing to information about community problems or in recommendations for their solution.

The following analyses made of the individual communities were based upon the best information available, and that could be obtained in the time permitted. The information was inadequate in many respects to make an intelligent review or analysis. However, attempts were made, where possible, to document or verify information given.

The statements submitted by the local governments have been analyzed with respect to relevance to pipeline construction, costs, validity of projections, comparison to normal growth needs, and other factors believed to be important in supporting the requested aid.

SECTION I

GREATER ANCHORAGE AREA BOROUGH

Description of Area.

The Greater Anchorage Area Borough is composed of the so-called Anchorage Bowl Area, between the Knik River, Knik Arm, Turnagain Arm and the Chugach Mountains, from the Knik River Bridge to and including Girdwood.

Population.

The Borough Area is roughly 160 square miles, exclusive of the State parks. The 1970 population, exclusive of those on the military bases, was roughly 104,000, and is estimated to be 124,200 in 1973.

There are several projections of the population growth with considerable variation.

TABLE I-1 (Less Military Bases)

<u>Year</u>	<u>MSNW*</u>	<u>Anchorage Borough</u>	<u>Impact Committee</u>
1973	118,314	-	124,200
1974	128,500	135,900	134,200
1975	141,416	150,800	150,040
1976	145,266	158,500	158,400

\*Mathematical Sciences Northwest Study for Alyeska.

It will be noted that my projections are quite close to those made by the Borough. (For calculation of my methods, see Appendix B.)

Services.

Government services within the Borough are provided through several channels:

1. Special services by service areas and the City of Anchorage.

2. Borough-wide services such as schools and sewers, etc.
3. Contract services with the City for specific services in a specific area or Borough-wide outside the City.

Taxing.

This complicated system of delivering services makes a complicated taxing system and one difficult to estimate both impact costs and additional revenues created by the pipeline impact.

Three of the service areas outside of the City of Anchorage are being taxed at mill rates almost as high as the City's, and are receiving urban-type services. However, two of them are not providing their own police protection and rely on State Trooper service.

Debt.

The total debt of the Borough is as follows:

G.O. Bonds - Sewer Utility	\$ 30,395,000
G.O. Bonds - General	11,385,000
G.O. Bonds - Schools	95,931,000
Total Bonds	<u>137,711,000</u>
Long Term Contracts	6,255,278
Grand Total-----	<u>\$143,966,278</u>

\*\*

This bonded debt is 7.17% of the total assessed valuation of the Borough (\$1,919,614,490).

Impact - General.

Although not many pipeline workers themselves will live in the Anchorage Area, a large percentage of the other jobs created by the economic boom will probably be located in Anchorage, if the past experience is repeated (see Appendix B on employment projections). Anchorage will continue to be a transportation hub, the financial center, and the

\*\* This percentage applies only on property outside the City of Anchorage. (For debt picture of Anchorage, see Anchorage Section.)

administrative center for much of the oil and pipeline related activities. This means more people and all the facilities and services they will need.

Employment is expected to increase by a great amount, particularly during the three years of construction. Following past boom periods the population of the Anchorage Area did not drop drastically. The number of jobs here has continued to climb and no significant reduction is anticipated after the pipeline is completed, even if no other large project is started immediately.

Therefore, the impact, though significant, will be an acceleration of normal growth, and necessary expenditures for capital improvements will not likely create any over-building which might result in a burden following the construction period.

There will be additional local government operating costs over and above normal which will be a direct result of the influx of people. Not a little of these costs will be because there will be many unemployed and their families looking for work. There probably will be more temporary, seasonal workers (See Peak Populations in Appendix B).

Specific Impact.

Employment projections for the Anchorage Borough Area Are:

TABLE I-2 (Civilian Employment Only)  
Annual Averages

<u>Year</u>	<u>MSNW</u>	<u>Impact Committee</u>
1973	50,636	55,700
1974	54,485	61,000
1975	59,946	68,200
1976	61,844	72,000

Note: See Employment Projections, Appendix B.

## Housing.

Housing needs during the pipeline construction years are as follows, based upon Anchorage Borough housing estimates:

TABLE I-3

<u>Year</u>	<u>Borough Area</u>	<u>City</u>	<u>Total</u>
1974	2,000	2,000	4,000
1975	2,600	2,600	5,200
1976	1,352	1,248	<u>2,600</u>
			<u>11,800</u>

It would be expected that some of the needed units will consist of mobile homes and trailers.

Presently there are an estimated 6,000 (Anchorage Borough estimate) mobile homes in the Borough. This represents about 13% of the 46,000 housing units estimated to be in the Borough. If the new housing was to be similarly proportioned, we would need 1,534 mobile homes. A survey of mobile home park owners indicated a maximum potential capacity during the next two years for mobile home spaces would be about 1,850. If the plans go through for the additional spaces, they should be adequate, unless there is a greater demand than in the past.

The mobile home park owners do express concern for a number of problems associated with mobile home parks and with getting mobile homes for the spaces.

1. Land is difficult to get.
2. Borough approval is difficult to obtain and can be approved only by exception. Time for approval is almost one year.
3. Zoning laws require a density lower than R-2, and close to R-1.
4. Alaska has the toughest construction code regulations in the Nation and it amounts to a performance code.

5. Most manufacturers are not anxious to comply with the Alaska code because of the small market and the special requirements. Only 17 manufacturers out of some 3,400 have seen fit to comply, or whose product has been approved by the State. A big problem of construction code approval has to do with the requirement that State inspections must be made during construction. Whereas most mobile homes are made in the other States, this has not been practical.

6. Because of a feared transportation shortage, mobile home dealers are concerned with getting new mobile homes to Alaska.

7. Financing of mobile homes is difficult to get through most present means, even harder than that for conventional homes.

The Anchorage Homebuilders Association is more optimistic about the ability of homebuilders to meet the conventional housing need. There are about 250 homebuilding contractors in the area, of which 50 are capable of building 100 homes each season. They do not expect a labor shortage, but are concerned with the transportation of materials to Alaska. They are also worried about land with satisfactory soil conditions for home building and sewer and water connections, as the subdivisions are farther away from the present urban areas. Eagle River and Palmer will become more attractive for subdividers.

One big problem homebuilders face is that of obtaining interim financing, especially at feasible rates.

Other facilities needed for new housing will now be considered.

#### Sewers.

Sewer services are a Borough-wide function and the tax is Borough wide. The Borough estimates additional sewer-line costs due to the pipeline impact as follows. The capital improvements are required because of trunkline construction one year ahead of normal need. The Borough Impact Statement says operational costs will be balanced out by the additional revenues created. Therefore, these costs are not shown here.

TABLE I-4

<u>Fiscal Year</u>	<u>Increased O &amp; M Costs</u>	<u>Capital Improvements</u>
1974-75	\$7,035	-
1975-76	15,925	\$400,500
1976-77	7,035	400,500

Water.

The City of Anchorage provides some water service to areas outside the City. The impact on this system will be discussed under the City impact section. Central Alaska Utilities offers services in other Borough areas.

Central Alaska Utilities is financially capable, they say, to provide water service to new areas and subdivisions. Their plan of operation calls for new wells to be drilled where water is needed. Good water must be available at a nearby site in the necessary quantities.

A joint investigation between the City and Central Alaska Utilities as to future source of raw water is now under way. They are again looking at damming the headwaters of Ship Creek and if this proves unfeasible to determine if wells in the Eagle River Valley may be a source.

All the answers are not yet available, but more information should be available before the Legislature convenes.

The Borough does not yet have water powers, but it may be necessary to consider such a move if adequate water supply is to be assured the expanding urban areas.

Building Safety.

An increasing pace of building construction in the Borough will mean more building inspectors. This is a function of the Borough and the costs

are included in the Borough General Fund appropriations. The function will be important to insure compliance with building codes and zoning laws. Following is the Borough estimate of operational needs caused by the accelerated building, mostly personnel costs. The additional costs will be largely borne by an increase in license and permit fees, so only the excess is shown here.

TABLE I-5

Building Inspection Impact Cost

<u>Year</u>	<u>Excess Cost</u>
1974	22,630
1975	4,070

Roads and Drainage.

Only those road and drainage projects outside the City will be considered here. The expenditures will be for operation and maintenance and for capital improvements. An additional Civil Engineer to handle subdivision review and street design is included in their impact operational costs. The Borough cost figures are based on a 12% increase in roads above the normal need, and increased maintenance because of increased use. Although the Borough shows increased costs extending into 1979, for the purposes of this report those shown for the rapid population build-up are shown here. (See Appendix B for rationale.)

TABLE I-6

Roads and Drainage Pipeline Impact Costs

<u>Year</u>	<u>Capital Improvements***</u>	<u>Operations &amp; Maintenance</u>
1974	150,000	-0-
1975	755,000	22,500
1976	1,137,500	67,000

\*\*\* Borough Public Works could not identify specific areas, but said the pattern of housing development would determine.

The roads and drainage function is performed only in those service areas taxing themselves for this purpose. Increased revenues would accrue to these areas because of increased property assessments (providing mileage rates remained the same).

#### Special Services.

The special services category, as defined by the Borough Impact Statement, includes such things as placement and repair of signs, park maintenance, maintenance of buildings and grounds, and the administration of the public works program. Only those costs outside the City of Anchorage are included in this report section and only those through the construction years.

TABLE I-7

#### Special Services Impact Costs

<u>Year</u>	<u>Operational Costs</u>
1974	13,625
1975	35,530
1976	47,660

#### Fire Protection.

Fire protection is not a Borough/<sup>wide</sup>function, however, service areas tax themselves for this purpose. According to the Borough financial report for 1973, six service areas do have fire protection services. Three are a volunteer type department, whereas the larger areas, Spenard, Muldoon, and Sand Lake, have a paid fire department, merged and it operates under one Chief. Stations are located so that coverage of the three contiguous areas is possible.

Costs are covered by local, service area taxes and State shared revenues. The Borough, in its' Impact Statement, treats fire protection in one category only, and not as six departments. Limited protection is provided to non tax-supported areas on a fee basis. The projection of fire-fighting needs is based on the assumption that operational costs for fire protection are increasing at the rate of 19% per year, based upon experience of the past five years. It seems reasonable to assume that part of the increased costs of the past are probably due to population increases.

Following is an analysis of the Borough fire protection impact costs:

TABLE J-8

Anchorage Borough Fire Protection Impact  
Operational Costs (\$000)

<u>Year</u>	<u>Outside City Population****</u>	<u>Projected Total Costs</u>	<u>Increase From Previous Year</u>	<u>Impact Costs</u>
1973	63,800	1,456	234	-0-
1974	70,500	1,735	279	134
1975	78,000	2,060	325	228
1976	82,000	2,460	400	240

\*\*\*\* Population projections based upon split between City and outside City population as predicted in Borough Impact Statement.

Police.

Police protection is not a function of the Anchorage Borough, however, the government is concerned with the adequacy of protection. Within the Borough the City provides police within the City limits, and on a contract basis with the Spenard Service District through the Borough administration. Other areas in the Borough are under the jurisdiction of the State Troopers.

The Borough government believes the Troopers are not manned to handle present problems and will be extremely understaffed to meet the problems of pipeline impact. They present three alternatives to meet the situation:

1. State Trooper strength be expanded to provide adequate protection.
2. State Troopers increase their strength to meet the impact the first year. In the interim, the Borough would attempt to obtain area wide police powers through a vote of the people.
3. The Borough assume area-wide police powers by State legislative action during the next session.

With the large influx of new workers and residents, many temporary workers, and hundreds looking for work, there is bound to be many law enforcement problems. In addition, this kind of a boom attracts those engaged in illegal activities which itself requires a higher level of enforcement. Therefore, the contention that more police officers are needed directly because of the pipeline construction can be supported.

The U.S. Chamber of Commerce recommends about 2.5 police officers per 1,000 people in a metropolitan area. The City of Anchorage (including Spenard) had until recently about 1.8 officers per 1,000 population. New officers are being added which will increase this ratio.

The Borough Impact Statement based their police requirements on 1.25 officers per 1,000. They have since increased the ratio to 1.5/1,000.

The recommendation of the Borough government for impact aid is shown in the table below. I include only those for Spenard and the Borough Area outside the City. The Borough computations, they say, are based on police costs of \$60. per capita. This comes close to the City's costs, which were over \$61<sup>per</sup>/capita in both 1971 and 1972.

TABLE I-9Police Costs Induced By Pipeline Construction  
And Personnel Needs

Year	Personnel*		Costs (\$000)	
	<u>Spenard</u>	<u>Balance of Borough</u>	<u>Spenard</u>	<u>Balance of Borough</u>
1974	2+1	9+3	60	342
1975	3+1	14+5	102	579
1976	3+1	16+5	103.8	645

\* Personnel are broken down as to officers and support personnel. They are not cumulative, but represent needs above normal for the year shown.

The analysis would indicate that the increase of officers indicated for the Spenard service area is about correct, based upon our estimate of the population increase in Spenard (see Appendix B).

There are presently 25 sworn officers for protection in the areas outside the City and Spenard. For the estimated 40,600 population in the area they cover, this would be 0.6 officers per 1,000 people. (This ratio is probably a little low because only officers assigned to field duty are included.) This coverage is no doubt low, especially in the Muldoon, Lake Otis and Sand Lake areas. With the additional officers recommended by the Borough, and the increased population expected, the ratio rises to 0.73 officers per 1,000 population.

Since it is estimated roughly 70% of the population outside the City and Spenard lies in the Sand Lake, Muldoon and the so-called South Lake Otis Area, a higher level of police protection is probably warranted in these areas. It would appear that in these more densely populated areas a ratio of at least 1 to 1.25 officers per thousand might be required during the impact period. At a ratio of 1.0 per 1,000 in the more dense

urban areas, the figure would be about 10 more officers than the Borough recommends.

Health Services.

The Anchorage Borough believes that health problems will create the greatest impact resulting from pipeline construction. They attribute this to the type of people who are expected to come to work and who will be attracted for other reasons.

The Borough breaks down the types of services for which aid will be required, including both those in the public health field and the environmental health area.

TABLE I-10

Health Services - Pipeline Induced Costs (\$000)

<u>Category</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Administration	68	70	70
Home & Health Specialties	120	140	150
Family Services	66	132	197
Family Planning	25	76	70
Addictions	125	454	454
Early Intervention	130	140	145
Mental Health	200	300	500
Forced Expansion of Facilities	30	50	60
Other Health-Related Activities	136	147	157
TOTALS	900	1,503	1,803

The record shows that the costs of all the health services administered by the Anchorage Borough have risen at the rate of 49.7% a year, average, since 1970. I understand part of these increases are the result of taking

over other health functions from the State, and that there are yet others which may be turned over to the Borough. It may be expected that in the next few years that the increase may be almost as high.

Another factor that must be considered is that the costs of health services will be in proportion to the maximum population and not the annual average that we use for most of the economic calculations. Maximum population in the Anchorage Area could run as high as 164,000 in 1974, 184,000 in 1975, and 194,000 in 1976. These additional people will consist of those looking for work, seasonal workers, their families, and other visitors. (See Appendix B, Population Peaks.)

This, coupled with the fact that the type of people the Borough expects will create per-capita costs higher than normal.

The health service costs have been about 75% funded by State funds, and the last two years even more than that.

Emergency Medical Services.

The Borough provides emergency medical services on a borough-wide basis, and therefore, it is funded from the Borough General Fund. The Borough projects the impact costs to be as follows:

TABLE I-11

Expenditures For Emergency Medical Services (\$000)

<u>Year</u>	<u>Impact</u>	<u>Capital Expenditures</u>
1974	50	75
1975	52	-0-
1976	61	-0-

Only \$75,000 can be identified as a capital expenditure-construction. The other costs are in line with present per capita expenditures for this service.

Library.

The library function is not an Anchorage Borough function and the Borough contracts with the City of Anchorage. It is funded by a special levy in Service Area 30, which is outside the City. The City government also made projections for the impact cost on the Borough library and arrived at slightly higher figures.

TABLE I-12

Borough Library Impact Costs (\$000)

<u>Year</u>	<u>Impact</u>
1974	56
1975	34
1976	10

The total costs will average out to about the same per capita costs as library costs are now outside the City.

Parks and Recreation.

With the additional population that will be living in the Anchorage Area in 1974, 1975 and 1976, present parks and organized recreational activities will be inadequate according to the Borough. They say that there should be 2-1/2 acres each for neighborhood and community parks, and an additional 5 acres of large urban parks for each 1,000 population. This amounts to a total of 10 acres/1,000 people.

The following Table shows the requested impact aid for park land acquisition and development:

TABLE I-13

Park Acquisition & Development (\$000)

	<u>Acreeage</u>	<u>Acquisition</u>	<u>Development</u>	<u>Maintenance</u>
Outside City	124	2,480	1,240	114

Based upon the desired acreage per 1,000 people, the peak impact population of 12,480 in the Borough outside the City would indicate the additional acreage to be in line. The costs of land is estimated to be \$20,000 per acre in the urbanized areas. A real estate man's opinion confirms this possibility.

The maintenance cost is an annual cost based upon \$7,000 per year per neighborhood park, for 12 parks (\$84,000) and \$10,000 per year per community park, for 3 parks (\$30,000). This appears to be the total cost of maintaining the 15 parks per year, for total population use. Following is a Table allocating the appropriate portion to the so-called impact population.

TABLE I-14

Park Maintenance Cost Allocation (\$000)					
<u>Year</u>	<u>Requested</u>	<u>Total Population</u>	<u>Impact Population</u>	<u>%</u>	<u>Impact Maintenance</u>
1974	114	72,900	6,700	9.19	10.5
1975	114	79,250	11,350	14.32	16.3
1976	114	83,000	12,480	15.03	17.1

Recreational program costs per year requested are shown in the following Table.

TABLE I-15

Recreation Program Costs Due to Pipeline Impact (\$000)				
<u>Year</u>	<u>Requested</u>	<u>Impacted Population</u>	<u>P/Capita</u>	<u>Cost @ 25.00 P/Capita</u>
1974	217	6,700	32.38	168
1975	368	11,350	32.42	284
1976	373	12,480	29.88	312

The amount requested appears to be somewhat high since per capita costs are higher than City of Anchorage program costs. Using the City per capita cost, the total needs are as shown. The Borough per capita cost was only \$4.50 in 1973 and the 73-74 budget shows approved amounts amounting to a per capita cost of about \$17.00. It is recognized that Borough recreational programs till now have probably not been adequate. However, it was presumed that the Borough budgets for the next three years would not rise significantly above the \$25.00 per capita amount.

Borough Revenue Projections.

An attempt is made to project revenues that are created by the impact population which would help meet the impacted costs as presented by the community involved (in this case the Anchorage Borough). This is done by projecting the assessed valuation of the jurisdiction which contributes to the costs.

The additional homes needed to house the impact population are allocated to the different areas in the amounts which appear to be reasonable. Housing units are assumed to cost \$30,000<sup>\*</sup> per unit. Only half of the new homes constructed in a given year are assumed to be on the tax rolls for the next taxing year. This amounts to an 18 month lag between construction and tax revenues on the property accruing to the taxing jurisdiction.

Only residence property is projected, since business property projections were not attempted. Therefore, assuming the housing develops that is expected, any business property additions would improve the revenue figures.

Projections of State shared revenues, and other State aid, are calculated using the projected impact population figures and the present formulae.

\* Based on estimated 20% units being mobile homes.

New housing property tax revenues are estimated in the Table below. The 1973 millage rates are used. Personal property tax is estimated to be 25% of the real property tax.

TABLE I-16

Borough New Property Tax Projections & Allocations (\$000)

Year	Assessed Value	9.19* Schools	1.66 Svc. Area 30	0.60 Svc. Area 40	0.33 Library	2.67 Gen. Fund
1974	120,000	Real P/P**	Real P/P	Real P/P	Real P/P	Real P/P
1975	156,000	551+138	100+25	36+9	20+5	160+40
1976	78,000	1,820+455	329+82	119+30	65+16	529+132
1977		2,895+724	523+131	189+47	104+26	841+210
1978		3,253+813	588+147	212+53	117+29	945+236

\* 1973 Mill rates.

\*\* Personal Property.

Taxes shown in the above Table for 1977 and 1978 are for perspective only, and are not used as a deduction against impact costs.

Tax revenue projections for the service areas are projected on the same basis as the Borough as a whole -- estimated assessed valuation in the service area, at the 1973 mill rate for the service area, and allocated in the same proportions as the average for 1972 and 1973 to police, fire, and roads.

The following Table gives the estimates:

TABLE I-17

Service Area New Property Tax Projections & Allocations (\$000)

Spenard	1973 Mill Rate	1974	1975	1976	1977	1978
Assessed Val.	5.23	9,000	11,700	6,090	-0-	-0-
Total Tax		-0-	24+6*	78+20*	124+31*	140+35*
Police		-0-	11.1	36.3	-0-	-0-
Fire		-0-	8.7	28.5	-0-	-0-
Roads		-0-	10.2	33.2	-0-	-0-

<u>Sand Lake</u>	<u>1973 Mill Rate</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Assessed Val.	5.30	18,000	23,400	12,180	-0-	-0-
Total Tax		-0-	48+12*	157+39*	252+102*	284+71*
Fire		-0-	21.9	71.5	-0-	-0-
Roads		-0-	38.1	124.5	-0-	-0-

Muldoon

Assessed Val.	5.10	12,000	15,600	8,100	-0-	-0-
Total Tax		-0-	31+8*	101+25*	161+40*	182+46*
Fire		-0-	14.9	48.3	-0-	-0-
Roads		-0-	24.1	77.7	-0-	-0-

\* Personal property tax, estimated as 25% of real property taxes. Tax estimates for 1977 and 1978 are given only for perspective.

Revenue Sharing.

Revenue sharing increases are computed using the existing grant formulae, at 78% of eligibility, and applying them to those items that will most clearly be affected by the population increase. The items are further narrowed by limiting the increases only to those functions for which the Borough is requesting aid, namely, Health Services and Parks and Recreation for Borough-wide functions, and Police, Fire and Roads & Drainage for the service areas. It is recognized that other funds received from the State will increase in proportion to population, however, no attempt was made to factor in these items since they were not part of the so-called Revenue Sharing and usually smaller in magnitude.

TABLE I-18

Borough Revenue Sharing Projections for Impact Population (\$000)

<u>Year</u>	<u>Impact Population</u>	<u>Air/Water Pollution</u>	<u>78%</u>	<u>Parks - Recreation</u>	<u>78%</u>	<u>Hospital Beds</u>	<u>78% Health</u>	<u>Increase</u>
1974	6,900	13.4	10.4	33.5	26.1	422	329	-0-
1975	11,350	22.7	17.7	56.7	44.2	636	496	167
1976	12,480	25.0	19.5	62.4	48.6	636	496	167

Although there will be two new hospital facilities in 1975, the additional grant revenue is not shown.

TABLE I-19

Service Area Revenue Sharing Projections for Impact Population.

Spenard

<u>Year</u>	<u>Impact Population</u>	<u>Police</u>	<u>78%</u>	<u>Fire</u>	<u>78%</u>	<u>Miles Roads</u>	<u>Road Grant</u>	<u>78%</u>
1974	900	9.0	7.0	4.5	3.5	75.47		
1975	2,070	20.7	16.1	10.3	8.0	75.47	(no additions)	
1976	2,679	26.8	20.9	13.3	10.3	75.47		

Sand Lake

1974	1,800	-	-	9.0	7.0	40.31	60.4	47.1
1975	4,140	-	-	20.7	16.1	46.01	69.0	53.8
1976	5,358	-	-	26.8	20.9	57.47	86.1	67.1

Muldoon

1974	1,200	-	-	6.0	4.7	44.87	67.3	52.4
1975	2,760	-	-	13.8	10.7	48.67	73.0	56.7
1976	3,570	-	-	17.8	13.9	56.27	84.4	65.8

It will be noted that no attempt has been made to determine what increases might be expected for Federal grants.

SECTION II

CITY OF ANCHORAGE

Description of Area.

The City of Anchorage presently covers an area of about 51.1 square miles, according to the City Engineering Department, and now includes the military bases.

Population.

There have not been as many population projections of the City itself as there have of the Borough. The following Table shows those of the Impact Committee.

TABLE 2-1

Population Projections for Anchorage  
(Exclusive of Military Bases)

<u>Year</u>	<u>Impact Committee</u>	<u>City Government</u>
1970 U.S. Census	48,081	48,081
1973 "	57,000	58,718
1974 "	65,600	-
1975 "	72,750	-
1976 "	74,520	-

\* Based on a normal growth of 3.4% + impact population breakdown presented by the Borough.

Services.

The City provides all the normal urban-type services, except those that have been assumed by the Borough, namely, sanitary sewers, planning and zoning, tax assessment and collection, and dog control.

Taxing.

The City residents are subject to taxes for some Borough-wide functions, namely, schools, sanitary sewers, and the general operating costs

of the Borough government. In addition, the City residents pay taxes for the City services.

Debt.

The General Debt for the City of Anchorage is as follows:

G. O. Bonds	\$25,796,606
Special Assessment Bonds	31,242,547
Total General Debt	<u>57,039,153</u>
Utility Revenue Bonds	96,199,828
Total Bonded Debt	<u>\$153,238,981</u>

The general bonded debt is 6.77% of the total assessed valuation of \$841,736,695 in 1973.

Impact General,

Anchorage will not only house and service large numbers of new workers whose jobs will be created directly or indirectly by pipeline construction, but will be the administrative center of much of the oil related and construction activities. It will be one of the few transportation hubs serving the north and central areas of oil related activities.

Many of the pipeline workers, and those seeking work of any kind, will come to Anchorage for recreation or for short periods. Most of the impact will be on services such as police protection, housing, schools, public facilities and recreation.

Since the City provides services such as water supply to much of the area, a seaport, telephones, and electrical power, an influx of large numbers of new residents will require expansion of most of the services.

To meet demands placed on the services, operational costs will increase and some capital improvements will be required earlier than normal.

For employment projections in the Anchorage Area, see Section I on the Anchorage Borough, Page \_\_\_\_.

Housing.

For housing projections for the City, see Section I, Anchorage Borough, Page \_\_\_\_\_. The Borough figures for housing are used rather than those of the City, because the Borough used an average of three persons per housing unit while the City used four. It is believed that three may be more accurate for the added population.

Police.

The City expects a large increase in the incidence of crime and other illegal activities to accompany the increase in population, particularly in the central city area. The City claims this impact has already hit the area.

The additional costs of law enforcement will be in the operational budget and can be attributed mostly to additional manpower.

As of November 1, 1973, the City had 139 sworn officers for Anchorage and Spenard, making about 1.8 officers per 1,000 population. Since then more officers have been authorized, bringing the total to 160.

The manpower estimates of the City are shown in the following Table.

TABLE 2-2

Estimated Impact Police Manpower Needs

<u>Year</u>	<u>Sworn Officers</u>	<u>Support</u>	<u>Total</u>	<u>Total Cost (\$000)</u>
1974	31	10	41	793
1975	31	10	41	872*
1976	39	10	49	1,066*

\* Amounts added by Impact Committee Staff based upon 10% annual increase in costs.

The City Impact Statement includes their estimates on manpower needs for the Service District of Spenard. The Service District contracts, through the Borough government, with the City for police protection. The level of protection and the amount of the contract must be acted upon by the Borough Assembly. It is assumed that the Borough government is knowledgeable as to the level of service needed and desired by the Spenard people, and therefore, the Borough figures were used instead of those of the City in determining the impact on Spenard police, even though there was a large discrepancy. This discrepancy was called to the attention of the Borough, and they revised their figures upward. Both the City and the Borough's revised police manpower impact requirements are shown in the next Table, for your information.

TABLE 2-3

Estimated Impact Police Manpower Needs - Spenard

<u>Year</u>	<u>City Estimate</u>	<u>Borough Estimate</u>
1974	16	3
1975	19	4
1976	16	4

The City estimates would make 7.2 officers per 1,000 population, at the peak, using our estimates of the impact population for Spenard. The Borough estimate would make 1.4 officers per 1,000 for the added population, a more reasonable estimate, it seems.

Fire Protection.

The City Impact Statements do not document too well the fire protection needs. They say that a new nine-man engine company will be needed in the eastern section of the City, and a new twelve-man company in the downtown

area because of increased activity at the Port and industrial areas and an increase in high-rise structures.

The following Table has been constructed using information supplied by the City for the year 1974 only.

TABLE 2-4

Estimate of Impact Costs of Fire Protection (\$000)

<u>Year</u>	<u>Estimated Manpower</u>	<u>Impact Population</u>	<u>Costs</u>	<u>Cost Per Capita (present 36.96)</u>	<u>Cost @ 40.00 Per Capita</u>
1974	25	6,700	511	76.26	268
1975	28*	11,350	629*	55.41	499*
1976	28*	11,520	692*	60.06	557*

\* Impact Committee Staff figures, based upon 10% increase of manpower the peak years, and 10% annual increase in costs.

It will be noted that in the above Table that the projections of additional fire costs attributed to the impact are considerably higher per capita than the per capita costs of the revised 1973 budget. The last column reflects a lower per capita cost, since the cost appeared to<sup>be</sup> entirely operational. If the City projections were intended to cover the cost of two new fire engines, it is understood that a pumper and a ladder truck can be obtained for about \$100,000 for the two. Because of the long life of such equipment, for the purposes of this report, they should be treated as a capital investment, the same as other public improvements.

Water Utility.

The impact of the pipeline will require the City to accelerate the addition of new sources of supply by two to three years. The peak demand during 1973 was 22 million gallons per day. The maximum capacity, they say, is 10.5 million gpd from the treatment plant and 14.5 million gpd from wells.

Another well will be on the line in 1975 and add two million gpd. An additional well or two may be added to meet the demand, however, if the construction of a dam on Ship Creek proves engineeringly feasible, this will be the course taken by the City, and will provide a source of supply that could provide up to 50 million gpd. This would meet the need for a population three times the present one.

The average use at present is 16 million gpd. The City now has total water storage capacity of 5,500,000 gallons. The plan is to increase storage capacity so the peak demands can be better met.

The City presently supplies about 65% of the customers within the City and 35% of those outside the City, with room for expansion of the system both inside and outside the City.

To meet the impact need the main problem with the City is in financing. The accelerated program will require substantial funds, about \$16,000,000, almost immediately, the City says.

It had planned for 50% from the Federal Government and 25% from the State. By the time the improvements would normally be needed, two or three years from now, the City expected earnings to be such that they would support the sale of bonds for the other 25%.

The following Table will give a picture of the net income for 1973.

TABLE 2-5

Total operating revenues	\$3,029,500
Total operating expenses	<u>1,246,880</u>
Net operating income	1,782,620
Total non-operating revenue	<u>120,000</u>
Net income	1,902,620
Assessment collections	<u>600,000</u>
Net available for debt service	\$2,502,620
1973 debt service	\$1,961,032
Bond coverage	1.28

Revenue bond buyers require a coverage of at least 1.4 to 1, and usually want it higher. City projections see the debt coverage declining for the next five years. Under these conditions, it is not expected that bonds could be sold at this time, and the impact with new customers doesn't appear to improve the earnings situation, unless a substantial rate increase should be made. To realize the minimum of a 1.4 to 1 bond coverage, it would require a rate increase of about 5.4% in 1974 and an additional increase of 15.6% in 1975. This assumes that bonds will be sold to meet the needs as they arise. These percentage increases are my own and do not reflect the policy or intent of the City of Anchorage in connection with rate increases.

It should be noted that the City does not anticipate revenue increases in 1976, 1977, and 1978. This may or may not be realistic, however, it does not appear that the City has taken into account probable inflation of costs in their projections of operating expenses. (See Appendix C, Inflation.) If costs are increased substantially because of inflation, the debt coverage would be lowered and the rate increases higher, or customer revenues must increase much more than projected by the City.

The capital improvement aid as submitted by the City in the Preliminary Impact Statement of August 17, 1973, and the revised statement of October 19th are shown in the following Table.

TABLE 2-6

	Water System Capital Improvements Impact Need (\$000)					
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>
Costs	17,075	(12,245)	(55,000)	(1,250)	(1,375)	2,150
Revised	17,075	(12,245)	-	-	-	4,830

Credits for normal construction needs are not projected beyond 1975 in the second statement. Because the proposed Ship Creek dam will provide water supply capacity for long into the future, and because of pipeline construction it may be required earlier than normal, aid could be either in the form of loans, or payment of early debt service. Because of the low earnings capability at present water rates, the Legislature should explore the possibility of loan guarantees, or set up a loan program to be effective until the system earnings could be increased. It is apparent that the City must provide for long-range needs in conjunction with the pipeline impact and may now be in the position of being unable to do so immediately.

The general question of aid for accelerated capital improvements will be covered in the Summary Section. The Legislature has some program already available for aid on water projects and <sup>it</sup> should be used in this case, if applicable.

Because of the difficulty of tapping a large source of water supply near Anchorage, and because of the increasing costs of water system supply investments, the City may have to face the metering of water to reduce consumption. Fairbanks has metering and has a per-capita daily consumption of 81 gallons. We understand that part of the difference is accounted for by higher industrial use, however, it seems evident that metering would reduce consumption.

#### Electrical.

Electrical energy in the Anchorage Area is provided by the City of Anchorage, Chugach Electric Association (REA) and the Alaska Power Administration (Eklutna Hydroelectric Plant). The two military bases supply their own generation. There is a tie-in capability for all entities, although

there is no working pool arrangement.

The City and CEA both use gas fuel for the majority of energy generation. CEA has a total of 224 megawatts capacity with a load of about 175 megawatts. This leaves them with a minimum reserve capacity. CEA plan to add another 70 MW unit at Beluga which will be on early 1975, or possibly late in 1974. The City has presently a total of 106 MW capacity with a load of 80 MW. The reserve capacity is also minimal.

Below is a Table showing the expansion plan of the City, however, because of the pipeline construction impact, this schedule is apparently being set ahead.

TABLE 2-7

Generation Expansion Schedule

<u>Year</u>	<u>Capacity</u>	<u>Load</u>	<u>% Increase</u>
1973	106 MW	80 MW	12%
1974	148 MW (add 40 MW)	92 MW	15%
1975	167 MW (add 19 MW)	106 MW	15%
1976	167 MW	122 MW	15%
1977	226 MW (add 59 MW)	142 MW	15%
1978	226 MW	163 MW	15%
1979	264 MW (add 38 MW)	187 MW	15%
1980	264 MW	215 MW	15%

Generation must be added in increments that will provide economical power. A reserve capacity at least as large as the largest unit is considered to be essential in the industry. The units shown as added in 1974 and 1975 just provide the required reserve in 1976.

The City plans funding for the expansion through 1975 as follows:

TABLE 2-8

Debt Funding For Electrical Generation (\$000)  
Effects On Debt Service

<u>Bond Issues</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
2/1/73 6,500	358	544	544	544
12/1/73 3,100	180	266	266	266
4/1/74 2,300	104	200	200	200
3/1/75 4,200	-	210	392	392
Totals*	642	1,220	1,402	1,402

\* The totals are additions to debt service in respective years.

The following is derived from the City's projection of earnings and expenses through 1978 to show the probable bond coverage induced by the above bond issues. It does not consider the effects after 1977 of additions planned in 1977 and later because investment amounts are not known.

TABLE 2-9

Electrical Earnings and Debt Coverage (\$000)

<u>Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Available For Debt</u>	<u>Debt Service Projections</u>	<u>Debt Coverage</u>
1973	7,131	4,479	3,034	1,767	1.72
1974	8,900	5,600	3,640	2,000	1.82
1975	9,800	6,300	3,840	2,587	1.48
1976	10,800	7,100	4,040	2,769	1.45
1977	11,600	7,800	4,140	2,769	1.49
1978	11,600	8,000	3,940		

It would appear that investments made in 1977 would create debt service that would not give the 1.4 to 1.0 debt coverage required, unless

revenues will be higher than projected, or electrical rates are increased.

It is evident from Table 2-9 that the earnings projections indicate a declining debt coverage.

The City's earnings projections are based upon a 10% annual increase in revenues and a 12% annual increase in expenses.

The City shows the following to be assistance needed in funding the expansion program, accelerated because of pipeline construction.

TABLE 2-10

Impact of Pipeline On Electrical Generation Program (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>
Capital Improvements	300	4,200	(4,500)	-	-	-0-

This has since been revised to delete the credit in 1976 and the City indicates the full \$4.5 million to be an amount needed at an earlier date than would be the case under normal growth. Based on the expansion schedule, it would appear that no great amount of acceleration is being made, perhaps no more than one year.

Streets and Storm Sewers.

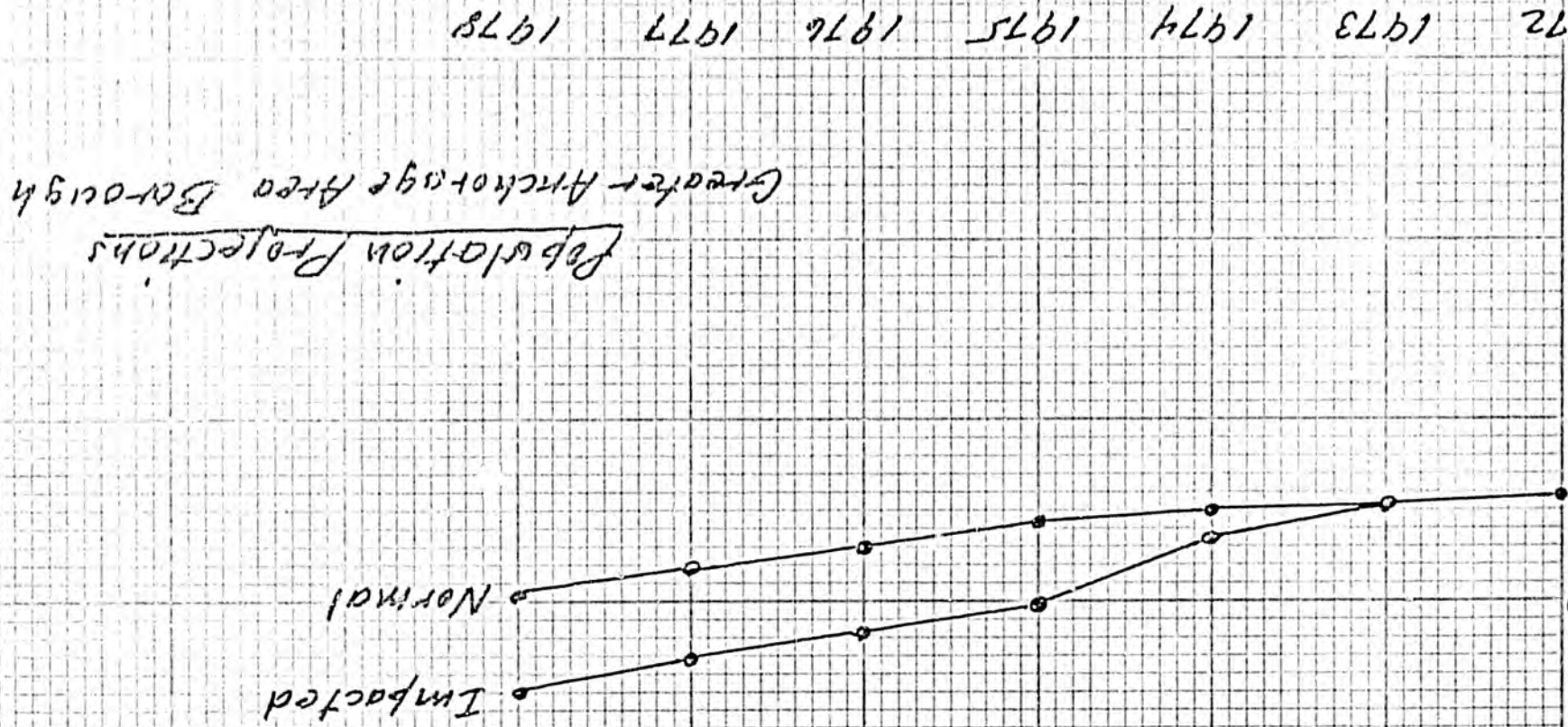
The City will need to accelerate construction of storm drains and street paving in new subdivisions. Below is a Table showing the City estimates of capital improvements attributable to the impact of pipeline construction.

TABLE 2-11

Pipeline Impact On Subdivision Development (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>Total</u>
Storm Sewers	2,093	188	(225)	(175)	(985)	895
Paving	728	63	(75)	(65)	(345)	305

Population - Excluding Military Base (000)



The revised statement made for the Special Session of the Legislature did not show credits made to the projects in the years 1976, 1977, and 1978. It should be noted that these improvements are being required at an earlier date than would normally be required and that the impact is the requirement of capital funds at an earlier date than would be necessary under normal growth conditions. Please refer to the attached graph of population projections of the Anchorage Area. It will be noted that the population projected for 1974 would, under normal growth, be reached in 1976. The population projected for 1975 would have been reached in 1978. The graph depicts two things: First, that the impact occurs in the first two years, and that thereafter, a normal, parallel growth curve resumes. Secondly, the acceleration of the need of services and facilities to meet the jump in population is about three years, or three and one-half years at the most. This suggests that assistance in meeting the costs of accelerated capital improvements projects may be related more to the method of local funding, the ability to meet debt service payments, and when, and if the project is needed for normal growth. (See Appendix D, Capital Improvements, Financing and Inflationary Factors.)

Building Safety.

Permits and fees do not fully cover the costs of building inspection. Past records show from 65% estimated for 1974 up to over 80% for 1972. Using the \$3.20 per capita to cover the deficiency, the calculations are shown in the following Table of the City's request.

TABLE 2-12

Impact Building Safety Costs (\$000)

	<u>1974</u>	<u>1974*</u>	<u>1975*</u>	<u>1976*</u>
Costs	39	21	36	37

\* Impact Committee Staff projections based upon the projected population increase in the City and the City's per capita subsidized cost of the 1974 budget estimate of building inspection costs and revenues.

Library.

The estimates of the additional library costs shown below are those related only to the libraries within the City. The Borough libraries, although under contract with the City, are covered in the Anchorage Borough Section.

TABLE 2-13

City Library Impact Costs (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Costs	56	34	10

The City estimates that Public Works street maintenance costs will rise during the impact period. These costs are projected in the following Table.

TABLE 2-14

Street Maintenance Due To Impact (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Maintenance Costs	45	54	46

Parks and Recreation.

The Preliminary Impact Statement submitted by the City indicated only an insignificant impact cost for the parks and recreational programs. The revised statement indicated the following as the impacted costs.

TABLE 2-15

Parks and Recreational Impacted Program Costs (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Costs	217	286*	286*

\* The City did not make projections beyond 1974. These estimates have been added by the Impact Committee Staff, based upon the impact population and the present per capita costs of the City's parks and recreation programs (\$25.23).

Traffic Engineering.

The City's estimate of additional costs created by pipeline construction in the traffic safety division is as follows:

TABLE 2-16

Impact On Traffic Safety & Engineering (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Costs	24	41	41

Although the City did not project a need in 1975 and 1976, the Staff has projected figures based upon the same per capita cost as the City projects in 1974.

Other Operational Costs.

The City includes in their impact costs an administrative charge for personnel and time chargeable to the several services affected by the pipeline construction. This request is shown in the following Table.

TABLE 2-17

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Administrative Costs	121	129*	109*

\* These figures were supplied by the Impact Committee Staff in the same proportion as those shown for 1975 and 1976 in the original City Impact Statement.

Public Buildings And Other Facilities.

In the revised Statement of the City there is included an additional impact factor which covers public buildings and facilities. I am told this item is mainly to cover the second phase cost of the Port of Anchorage Terminal 3. Other costs are for library construction and office space.

These capital items will be needed about three years ahead of normal schedule and, therefore, come under accelerated funding program.

Revenue Projections.

The following Table shows the City's projections of revenue attributable to pipeline construction. Checks have been made on the principal items and they indicate that the projections are reasonable and probably will be realized. The property taxes are a little higher than my projections indicated, particularly in the first year, however, I made no provision for increased taxes on new commercial or industrial property.

TABLE 2-18

New Revenues Generated By Pipeline (\$000)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Property Taxes (7.9 mills)</u>				
Real		408,825	762,350	1,093,360
Personal (25%)		102,206	190,588	273,340
<u>Taxes - Other</u>				
Gas & Elec.		13,500	25,000	36,500
(% incr. Prop. Tax)				
<u>Licenses &amp; Permits</u>	13,500	45,500	40,000	15,000
(% incr. Population)				
<u>Fines &amp; Forfeitures</u>	33,000	111,500	98,000	36,500
(% Population)				
<u>Business Licenses</u>		46,000	154,500	136,000
(% Population)				
<u>Aviation Fuel Tax</u>		2,000	2,500	2,500
<u>State Shared Revenue</u>	73,500	189,750	206,000	188,500
<u>Federal Shared Revenue</u>				
<u>Recreational</u>	8,500	29,000	25,000	9,500
Totals	128,500	948,281	1,503,938	1,791,200
Population	2,940	7,590	8,240	7,540
Per Capita	44	125	182	238

## Inflation.

The City has included a statement of added costs of capital improvements and operations due to inflation for the years 1974, 1975, 1976, and 1977, as shown in the next Table.

TABLE 2-19

General Government Capital and Operating Budgets  
Inflation Increase 10% Per Year

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>Total</u>
Population*	61,650	68,150	70,570	72,110	272,480
CIP	21,529,600	19,470,400	8,519,780	5,192,560	54,712,340
Inflation	2,152,960	4,088,784	2,820,046	2,409,367	11,471,657
Per Capita Increase	35	60	40	33	42
Operations	20,779,323	21,558,495	22,420,834	23,317,667	88,076,319
Inflation	2,077,932	4,527,283	7,421,294	10,821,727	24,848,236
Per Capita Increase	34	66	105	150	91
Total Inflation	4,230,892	8,616,067	10,241,340	13,231,594	36,319,893
Per Capita Increase	69	126	145	183	133

\* Population excludes 17,892 military annexed in 1973.

It probably is a valid assumption that continuing inflation will increase all costs, including those of government. However, the costs of inflation are normally adjusted for by passing along the additional costs to the consumer, or in the case of governments, to the taxpayers or users of services (see Appendix C, Increased Costs Due To Inflation).

For the purposes of this report, it is presumed that normal methods will need to be used by local governments to meet inflationary costs, and that if any aid is undertaken by the State it would be only for a year to allow the local government to adjust income to the higher costs.

SECTION III  
ANCHORAGE BOROUGH SCHOOL DISTRICT

The construction of the pipeline will induce population in Anchorage Borough, which will of course load the School District with additional students. Added student load produces increases both in operational expenses and in capital improvement programs. However, in ABSD, impact enrollment projections are not triggering a school plant expansion program.

During the last five years, ABSD has been expanding its school plant, and now has sufficient classrooms to house the present enrollment comfortably, and even to accommodate 4000 more students within the theoretical capacity. Still more could be handled through slightly increasing class size, double-shifting, or going to a year-around school program. Therefore, we do not consider capital costs or debt service as an impact item.

School operational costs will be directly affected by increased enrollment, however. The budget impact for each year can be calculated by multiplying the per pupil cost by the student enrollment generated by the impact population. From this amount should be subtracted the fresh tax revenue that will be generated by the impact population, to arrive at a net impact cost.

While the method of arriving at net impact cost is fairly simple, the process itself is not. The percent of population enrolled in school, the real cost per pupil for operations (which changes each year), and the assessed valuation that will be added by the new population.

According to the impact projection of Mathematical Sciences Northwest, Anchorage Borough will receive 13,400 persons in 1974; 22,700 in 1975; 24,000 in 1976 (figures not cumulative). The Borough, City and School District are all using this projection.

At the present time, 34,519 students are enrolled in Anchorage schools, or 25.4% of the total population of 135,900. Historically, the ratio of students to population in Anchorage has been:

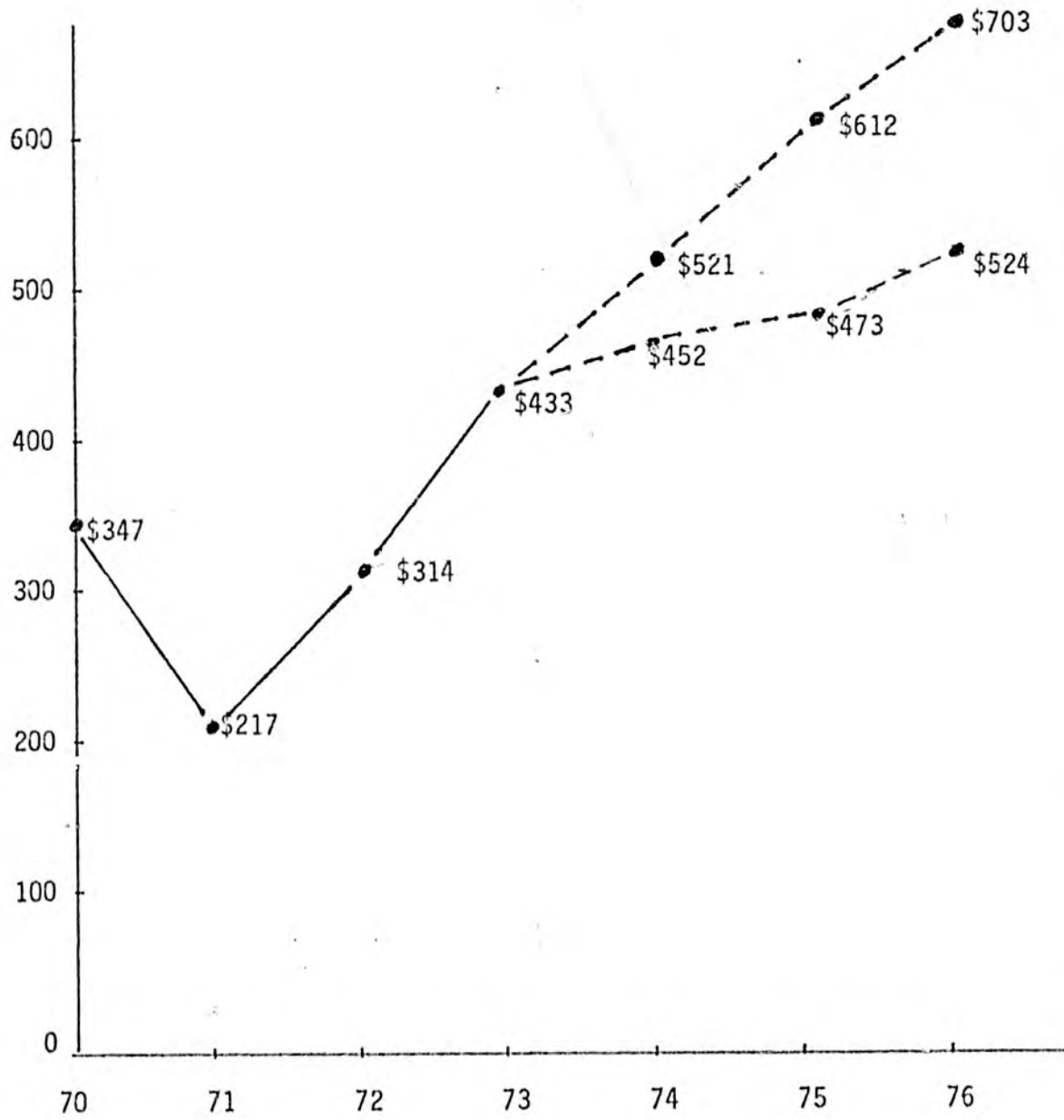
1950	-----	9 %
1960	-----	19 %
1968	-----	28.5%
1970	-----	28.0%
1972	-----	26.0%
1973	-----	25.4%

The ratio reached a peak in 1968, and forced a building expansion program. Since that time, it has been slowly dropping, and ABSD now uses 25.0% for future projections.

For comparison, Fairbanks North Star School District has a current student-population ratio of 27.3%. For projecting student enrollment and operational impact costs over the next three years, we will also use 25.0% for each year.

The cost per pupil for operations to be met from local taxes is a figure obtained by dividing the total enrollment into the local tax contribution needed for that year from the operations budget. Since the operation budget is funded some 75% through the state foundation grant, a short-fall in the state contribution causes radical variations in the local contributions from year to year. The graph below shows local per pupil costs for operations since 1970, and projected by extrapolation to 1976. The estimates of \$512 in 1974; \$612 in 1975; and \$703 in 1976 were supplied by ABSD, and were obtained by extending the trend since 1971.

COST PER PUPIL FOR OPERATIONS



In the foregoing graph, the Impact Committee staff has calculated an alternate per pupil cost estimate for 1974 (1974-75 school year). The method used here was to take the estimated cost of a "maintenance-level" budget for next year, assume no change in the foundation grant, and divide by the forecasted total assessed valuation of \$2,264,813,000. This produces a projected mill rate of 10.30, compared to a 1973 rate of 9.19 for operation and debt service. The dollar amount for this rate for operations would be \$16,623,700. Fifty percent of this amount, plus fifty percent of \$15,068,000 (the current year levy) produces the amount of \$15,846,000 to be raised from local taxes. This figure divided by the projected 1974-75 enrollment of 35,126 produces a per pupil cost figure of \$452.

The above described process would become too tenuous for a second-year projection, because of the large number of variables involved. For 1975, we assumed a \$2.5 million increase in local tax contribution to operations, and for 1976, another \$3.0 million. Using the same method of dividing by the projected student enrollment, we arrived at per pupil costs of \$473 and \$524 respectively.

TABLE I shows projections for the years 1974, 1975, and 1976, using ABSD estimates. Item (7) shows the calculated amounts of impact cost due to pipeline induced population.

T A B L E I  
SCHOOL DISTRICT PROJECTIONS

<u>ITEM</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
1. Civilian Population Normal	122,500	128,100	134,500
2. Impact Addition	13,400	22,700	24,000
3. Total Population	135,900	150,800	156,500
4. School Enrollment @ 25%	35,126	37,700	39,125
5. Impact Enrollment	3,350	5,675	6,000
6. Local Per Pupil Cost, Operations only	\$ 521	\$ 612	\$ 703
7. Impact Cost, Operations only (5x6)	\$1,745,300	\$3,473,100	\$4,218,000

If we project a per pupil cost for local contributions to operations based on Impact Committee staff calculations, the results will be as shown in TABLE II.

T A B L E   I I

SPECIAL PETROLEUM IMPACT COMMITTEE PROJECTIONS

<u>ITEM</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
1. Impact Enrollment	3,350	5,675	6,000
2. Local Per Pupil Cost, Operations only.	\$ 452	\$ 473	\$ 524
3. Impact Cost, Operations only.	\$1,514,200	\$2,684,275	\$3,144,000

REVENUES

The new population will produce offsetting revenues. We have estimated that each 3.0 persons will need a home, but that the new housing built to accommodate them will not reach the tax rolls for eighteen months after arrival of the people. We have further estimated that the housing units will have an average value of \$30,000 each, and will comprise a mixture of single family homes, multiple units, and mobile homes. There will undoubtedly be additional assessed valuation from business property built to serve the impact population, but this would be difficult to estimate. We did include a personal property increment at the same ratio as in the general valuation.

In estimating offset revenue, we have used the current mill rate of 9.19 mills, though there are strong indications that thill will increase during the next three years.

T A B L E   I I I  
OFFSET TAX REVENUES

<u>ITEM</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
1. Real Property Taxes	-0-	\$ 551,000	\$1,820,000
2. Personal Property Taxes	-0-	138,000	455,000
3. Total Offset Revenue	-0-	689,000	2,275,000
4. ABSD Impact Cost	\$1,745,300	\$3,473,100	\$4,218,000
5. SPIC Impact Cost	1,514,200	2,684,215	3,144,000
6. Net Impact (ABSD)	1,745,300	2,784,100	1,943,000
7. Net Impact (SPIC)	1,514,200	1,995,215	869,000

Using the ABSD impact figures and dividing by the expected impact population, we arrive at the following per capita impact on the School District:

PER CAPITA IMPACT COST (ABSD)

<u>1974</u>	<u>1975</u>	<u>1976</u>
\$130	\$123	\$ 81

PER CAPITA IMPACT COST (SPIC)

<u>1974</u>	<u>1975</u>	<u>1976</u>
\$113	\$ 81	\$ 36

The state could compensate the school district either by a per capita

grant, or by a per pupil grant. As the impact develops, the operational costs will be determined more exactly, and of course the additional enrollment will be known.

SECTION V

CITY OF CORDOVA

Description of Area.

Cordova is situated on Prince William Sound roughly 50 air miles from Valdez. The City has an ice-free seaport with modern facilities. It has an all-weather airport with a 7,500 foot runway with daily scheduled jet-airliner service.

Cordova will be the terminus of the Copper River Highway being constructed to Chitina. This will connect Cordova to the State and highway system for the first time. This road construction is being delayed because of injunctions obtained by environmental groups.

Population.

The U.S. Census for 1970 shows the population of Cordova as 1,164. The population did not increase significantly from 1960 to 1970, however, Meakerville, a small community near the airport increased from 48 to 349 in the ten-year period.

The City of Cordova reports a large population increase in the last three years. They say a consultant's census taken in October, 1973 shows a population of 2,114 permanent residents within the City limits, 200 outside, and 360 part-time transient workers.

Economic Outlook.

The completion of the Copper River Highway, pipeline construction, Gulf of Alaska oil exploration, which is expected, and the recreational potential of the area, all seem to point to an expanding economy and population increase for Cordova.

### Impact - General.

The expected economic growth of Cordova will probably take place over a period somewhat longer than the pipeline construction period. However, the pipeline construction will no doubt have an effect upon Cordova.

The City has the nearest scheduled jet airline service and will no doubt serve as the transfer point of both urgent cargo and passengers headed for Valdez. If significant outer continental shelf oil exploration is conducted in the Gulf in the next few years, Cordova would probably be the area most affected.

The Coast Guard has already announced the installation of a station at Cordova, which alone will contribute significantly to the local economy.

The Cordova Area has a good potential for recreation, however, it might be expected that this potential would be more fully utilized after the completion of the Copper River Highway. This road could, of course, be completed during the pipeline construction period making Cordova accessible from the Richardson Highway. If this happened, conceivably the Cordova port could be utilized especially if other ports became overloaded. Cordova predicts that their population may increase as much as 900 people during the pipeline construction period.

### Impact - Specific.

The City has not attempted to estimate the costs of meeting the population expansion in the specific ways they expect to be affected. However, they believe that it will conservatively require in excess of \$200,000 per year for the next five years to cover the costs. Following is a brief outline of the ways they believe they will be affected.

### Public Safety.

#### Police.

The Cordova police serve not only the City, but go outside of town on occasion. The officers also serve in a multi-function capacity when necessary -- ambulance driver, fireman, search and rescue, social worker, and animal control officer.

Cordova believes that with an expanded population, the police will need to confine their activities to law enforcement and other personnel take over the irregular activities. As in the other cities, it is believed that illegal and criminal activities will increase and thereby increase the cost of police protection.

#### Fire Protection.

The Cordova fire department is now a volunteer organization. With growth, they will need to have at least some full-time firemen plus additional equipment. They will need to construct larger quarters for fire fighting equipment, they say.

The City presently uses an old police truck for an ambulance. It needs replacing and equipping with emergency equipment, which now it doesn't have.

There is also a need for training an emergency medical crew, which could be used anywhere in Prince William Sound, if needed.

#### Building Inspection.

A full-time building inspector is needed to ensure that housing and commercial structures are built to codes, so they can meet the wind and snow loads encountered in Cordova.

#### Housing.

The City of Cordova says there are no housing vacancies. Despite new construction, all housing units are immediately taken. Several structures built for other purposes have been converted to apartments or

other housing units.

There is a lack of suitable land and the high cost of construction and high interest rates have deterred new construction. Cordova will evidently need high-rise structures or/build out closer to the airport. <sup>will need to</sup>

Sewers and Utilities.

As housing units are built, sewers and water facilities will need expanding, and utilities provided. Cordova says presently it is using all services, facilities and utilities to capacity. However, in early December bids were to be opened for a secondary sewage treatment plant that would provide a treatment capacity of 700,000 gpd. This should prove adequate for many years, but sewer extension will be required for new housing.

Water is now being used to capacity. It is considered that Eyak Lake will be a new source of supply, but a treatment and filtration plant will have to be built.

Electric generation is being used to capacity also. The City does not say if this utility is owned and operated by the municipality or is privately operated. Neither is local telephone service mentioned.

Solid Waste.

Solid waste is now dumped into a slough, but the City has applied for a permit to create a sanitary landfill at Mile 17 on the Copper River Highway. This will require additional transportation equipment, a new compaction center in town and an additional sanitation department worker.

Health and Medical.

The City owns and operates a 22-bed hospital, which is professionally staffed. It serves a much larger area than just the City. It is expected that with the population increase expected in the Prince William Sound Area

this facility will need to be expanded. The hospital is subsidized by the City, four mills of the tax base being provided.

The deficiencies believed to require upgrading during the pipeline construction period are: Emergency care facilities; transportation, and other support facilities.

The City has no facilities or programs for treating or controlling alcoholism or drug abuse. They believe such facilities and programs will be required.

There is a State Public Health nurse stationed in Cordova. The facility used by the nurse is furnished by the City and it is considered to be inadequate.

There is presently no program available to handle the expected mental health problems.

#### Schools.

The schools, too, are operating close to 100% capacity. The facilities are in use seven days a week for many community activities, including vocational training for students and adults.

It is said the high school does not have a full curriculum, there being a number of subjects that should be offered which are not now available, and other facilities are lacking.

There would be opposition to year-round school in Cordova, since fishing is one of the important economic activities, and the young people do contribute much to family income by working during the fishing season.

It is assumed that double-shifting could be used if the school population increased, with the consequent higher operational costs.

Attached is the Summary section of the statement submitted by Cordova.

## SUMMARY

Despite three major economic setbacks, a catastrophic earthquake, and three conflagration fires which all but leveled the town, the City of Cordova is finally beginning to enjoy those commodities of life commonly referred to as necessities in both Europe and the "south 48". However, the City's grasp on these commodities is extremely marginal. The community can presently produce just enough income and "wherewithall" to support the limited number of people living within its' boundaries here and now.

In almost any area of government service, the facilities available are supporting their maximum population design; and, conditions as they should be, are optimal. However, because of Cordova's close proximity to the pipeline terminus, in conjunction with its' harbor, air support facilities, and recreational potential, that condition is expected to change very rapidly.

As per example, electrical generation is at a maximum optimal level. Any expansion would result in expensive improvements which could not be economically offset for many years. The city water supply which just underwent expansion last year is also operating at a dangerously high level versus its' total maximum capability. Further expansion would necessitate construction of a sophisticated filter plant on Eyak Lake. The schools, hospital, recreational facilities, and snow removal problems also fall into the same category.

As it is now, the City is not complaining. Cordova has achieved the ultimate goal of most cities. There is virtually no unemployment, ( 7 persons on welfare-5 of which are children), there is no major housing surplus. In fact, we are experiencing 100% occupancy, and most significantly, the City's facilities are operating at optimal efficiency. Furthermore, with the advent of limited entry fishing, there was no reason to believe the situation would radically change.

However, construction of the oil pipeline has fast dispelled any illusion the City of Cordova may have had along those lines. For Cordova, the impact has already begun, and to ignore the problems of the impact in face of a major oil line and terminal construction just a few miles away would be sheer fantasy.

With an already limited staff there is no accurate method of quantitatively predicting the exact dollars and cents impact which will be suffered by Cordova. As such, this report has avoided long tables and exact quantitative predictions; however, based on present expenditures, the City knows that it will conservatively require in excess of \$200,000.00 per year over and above what it is now spending for the next five years. This amount of money represents only a portion of its' existing school, public safety, hospital, recreation, harbor, and administrative expenses and does not even begin to assume the bond payments necessary for expansion of its' sewer, water, electrical and telephone utilities.

The City of Cordova well realizes the economic importance of oil to the State of Alaska. But, we also ask you to understand that Cordova is a fishing community which did not ask for more oil money to support its' standard of living. The situation which we as Cordova residents are now facing has been thrust upon us. Cordova did not ask for, or encourage it. We only ask that Cordova be considered for a fair and equitable dispersement of available impact funds.

Thank you in advance for considering our request.

SECTION VI

CITY OF DELTA JUNCTION

Description of Area.

Delta Junction is located at the junction of the Richardson Highway and the Alaska Highway, near the Delta River. The economy is largely trade and services, and some employment is provided by nearby Ft. Greeley. Local government is by an elected council and mayor.

The climate is sub-arctic, similar to Fairbanks.

Population.

The City of Delta Junction has 701 people, with 547 nearby. They estimate about 2,000 in a radius of 10 miles. I presume this does not include Ft. Greeley, which according to the 1970 U.S. Census, alone, had a population of 1,820.

No attempt has been made to project population because any increase would be directly associated with pipeline workers and their families, those looking for work, and increased trade and services in Delta Junction itself. However, the people of Delta Junction are expecting new residents, both permanent and temporary.

Services.

The City has only two services which are provided to residents, fire protection and street maintenance, both receiving State revenue sharing funds. The total budget for these services is \$20,000, including the State shared money. The fire department is manned by volunteers. They have three pieces of equipment, two pumpers (one in poor condition), and a tanker. The City believes that a full-time chief may be necessary during the pipeline construction.

There are no sewers and no water system. The people depend upon wells and septic tanks. With a large influx of new residents there could be a health problem from water pollution.

#### Taxing.

Although the City of Delta Junction is a Second Class City, it as yet has no local taxes. There will be a referendum in May, 1974 to determine if there will be local taxes. I have no information on the assessed valuation of the City.

#### Impact.

Delta Junction is located about 9 miles south of the Delta pipeline construction camp, which will have 600 men in 1974, and 1,050 in 1975. Another camp for pump station workers will be located about 9 miles south of Delta Junction in Phase II of the pipeline construction. The numbers of men to be used on this job and the date on which it will be activated has not been announced, however, Alyeska is giving consideration to combining Phases I and II. If they do this the pumping station camp could be activated at some point in the 1974 - 76 period. Other pump station construction crews seem to be from 100 to 400 men.

#### Housing.

Delta Junction apparently has some land available for housing and in addition, there is University of Alaska land that possibly could be leased for temporary housing. There were 14 homes being built this past summer. There are three trailer-mobile home courts. One has 14 vacant spaces and 50 more spaces could be added.

It might be expected that most of the increased housing that will be needed in this area will be temporary, such as trailers or mobile homes.

It is assumed that private enterprise will meet the need, and that some loan program may be necessary to help with financing. The State should have an expanded inspection and enforcement capability to ensure that health and building safety codes are being abided by.

#### Police.

Law enforcement is provided by State Troopers. There is one trooper and one fish and game officer stationed at Delta Junction. The Delta Junction people believe this manpower coverage will not be adequate.

#### Health.

The only medical facility is a clinic operated by the Fairbanks Medical and Dental Association. It is believed that the professional people are those from Fairbanks who commute to the Delta Junction facility. No Public Health nurse is located in Delta Junction. Delta Junction expects to activate an ambulance service on January 1, 1974. The State may need to review the expected needs in this area of sizeable population with respect to providing more services in both health services and environmental health enforcement.

Solid waste disposal is by individual disposal at a garbage dump. The dump is said to be adequate under present useage for about two years. The City must give consideration to a new site or other methods of disposal.

#### Schools.

The Present City school population is 472 pupils, with an additional 338 at Ft. Greeley schools, both State operated. Junior and senior high students from the Fort attend the Delta Junction school. It is said the City school is occupied to about 75% capacity. This would allow about 157 more pupils. This could be projected to an increase in population of 625

people. This could be adequate for the pipeline construction period. Furthermore, the City believes that there will be around \$1,500,000 spent on the schools there in the near future. In any event, double shifting could be resorted to, if necessary, at a higher operational cost.

#### Electrical Power.

Electric power to the City and environs is supplied by the Golden Valley Cooperative. The people in Delta Junction believe there is no problem. According to the statement made before the Committee by Mr. Robert Huffman of Golden Valley Cooperative, the following points are made regarding the whole system:

1. Energy requirements for the construction period are estimated to be up 30% for Golden Valley.
2. Golden Valley will be short about \$2,000,000 to meet capital expansion needs.
3. Operational costs will be expected to rise about \$300,000 annually because of using higher priced fuels in the generating units that can be obtained.
4. Labor costs could increase by 40% for labor needed for utility expansion.
5. The State could render tremendous assistance by making unsecured short-term loans available at a fixed rate of interest, not to exceed 7%.
6. The State should dedicate a portion of its' royalty oil to Alaskan public utility use, if needed, rather than a total export of fuels that must then be transported back to Alaska. Such a commitment could help off-set extra operational and other costs incurred by the utilities during the pipeline construction phase.
7. Prevail upon the various labor trade unions to expand apprentice training programs so that skilled labor may be supplied locally to ease the shortage.
8. Efforts be made to make possible a Central Alaska power grid system. Such could be made feasible 15 to 20 years earlier than normal by Alyeska agreeing to power their Phase II and III pumping stations

south of the Yukon by electric energy.

These observations made by Golden Valley apply to Fairbanks and other areas served by the Cooperative.

Transportation.

Most transportation in the area is by road, however, the City has a small airstrip which can be used for small planes. Ft. Greeley has a paved runway that is used also by general aviation, although there is no fuel available.

The City says that there has been much helicopter traffic connected with the planning of the pipeline, and such craft landed in the City. They say regulations now prohibit such landings, and that a helicopter pad should be constructed outside the City by the State Division of Aviation.

No estimate has been submitted by the City of Delta Junction for impact costs, mainly, I presume, because most of the functions requiring expansion or improvements are now funded 100% by the State.

SECTION VII

FAIRBANKS NORTH STAR BOROUGH

The impact of pipeline construction on Fairbanks North Star Borough will result from the estimated 10,460 people who will settle in the Borough during the next three years.

The Borough Government the State Government, and the private sector will all feel the weight of the impact population. The services and facilities that must be provided by each include the following:

<u>Borough</u>	<u>State of Alaska</u>	<u>Private Sector</u>
Schools (covered elsewhere)	Health	Housing
Library	- Social Services	Sewage
Solid Waste Disposal	Law Enforcement	Water Supply
Parks & Recreation	Courts	Commercial Services
Air Quality Control	Environmental Protection	
General Administration	Public Works (airport)	

The military posts and the university are presently providing some fire protection voluntarily, though they have no legal responsibility to do so. In fact, no agency has the responsibility to provide fire protection outside of the cities of Fairbanks and North Pole.

The Fairbanks North Star Borough will have both operational and capital costs in the delivery of government services. In turn, the impact population will generate certain offsetting revenues. The Borough has projected its' general fund impact costs as follows:

OPERATIONAL COSTS

TABLE 7-1

Operational Impact Costs

<u>Category</u>	<u>1973 - 1974</u>	<u>1974 - 1975</u>	<u>1975 - 1976</u>
Library	27,085	64,258	57,852
Parks & Recreation	20,999	49,819	44,852
Environmental Services	38,155	90,523	81,498
Dog Control	10,660	25,778	23,208
General Government	174,749	414,584	373,250
Totals	271,854	644,962	580,660

The per capita budget impact for 1974, when 4,400 persons are expected, will be \$61.35. In 1975, with 5,000 individuals, it will be \$68.58. In 1976, with 1,060 more, the impact per capita will be \$55.54. In 1977 and 1978, the population is expected to reduce slightly, so budget impact will not be considered after 1976.

BOROUGH VS. COMMITTEE CALCULATIONS

There are two principal differences in the calculations of the Fairbanks North Star Borough staff and the Special Petroleum Committee staff. These are the population projections due to pipeline construction, and the use of an inflation factor by the Borough staff. For reasons detailed elsewhere in this report, the Committee staff has not built inflation percentage increases into projected budget figures.

The variance between Borough and Committee staff estimates for pipeline induced population increases are shown below:

TABLE 7-2

Fairbanks North Star Borough  
Pipeline-Induced Population Increase

	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>
Borough Estimates	5,607	13,201	11,973
Committee Estimates	4,400	9,400	10,400

Both sets of estimates are derived from the Mathematical Sciences Northwest Report, but the Borough staff has made a more liberal estimate of the influence of Fairbanks on the line construction camps between Prudhoe Bay and Paxson.

The Special Petroleum Impact Committee's recommended budget increases are arrived at by first deleting the inflation factor from the Borough's projections.

We have used the Special Petroleum Impact Committee's estimates for population in computing per capita revenues. This gives a more liberal final answer for net impact operational costs.

#### CAPITAL COSTS

The Borough's anticipated capital improvement impact from the pipeline construction will occur mainly in the library service, and in parks and recreation. It will be necessary to build a new library to replace the overcrowded and inadequate building downtown. This would have occurred three years later, if there were no pipeline impact. For parks and recreation, the long range plans for expansion and completion of the "Big Dipper" facility for winter recreation will have to be accelerated, although the Borough still expects to use the "pay-as-you-go" method.

TABLE 7-3

## Capital Costs

<u>CATEGORY</u>	<u>ITEM</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>TOTAL</u>
Library	New 15,000 sq. ft. Building	1,000,000	-0-	-0-	1,000,000
	Books	-0-	10,000	10,000	20,000
Parks & Recreation	Skating facility	60,000	-0-	-0-	60,000
	Completion	100,000	150,000	150,000	400,000
Waste Disposal	Opr. & Sec. Bldg	70,000	-0-	-0-	70,000
	Acreage Development	30,000	-0-	-0-	30,000
Air Quality Control	Lab & Equipment	25,000	-0-	-0-	25,000
General Government	IBM Systems, Equipment, etc.	60,000	-0-	-0-	60,000
TOTAL					1,665,000

## REVENUES

The major source of revenue generated by new population is the sales tax, which is 2% for the Borough. Using sales tax collections for past years, and projecting comparable rates, revenue estimates are as follows:

TABLE 7-4

Sales Tax Revenues

<u>YEAR ENDING 6/30</u>	<u>AMOUNT</u>	<u>POPULATION</u>	<u>PER CAPITA</u>
1970	2,087,509 (actual)	30,618	68.18
1971	2,187,937 (actual)	31,220	70.08
1972	2,360,101 (actual)	32,714	72.11
1973	2,497,721 (actual)	34,124	73.19
1974	2,850,776 (estimate)	38,524	74.00 estimate
1975	3,256,800 (estimate)	43,424	75.00 estimate
1976	3,388,304 (estimate)	44,584	76.00 estimate

In similar manners, the revenues generated from property tax and state shared revenue have been calculated for the coming three years. It is assumed that property tax revenues will not be generated by pipeline impact population for eighteen months after arrival. For purposes of estimating property tax revenues, we have assumed that such revenue will come mainly from new housing built for that population; that one housing unit will be needed for every 3.0 persons, and that housing units will be valued at \$22,500 each (this is assuming that 50% of the new units will be mobile homes). The eighteen month lag is composed of the time elapsing before a house is built, the time

TABLE 7-7

## Impact-Generated Revenues

<u>YEAR</u>	<u>NEW POPULATION</u>	<u>SALES TAX</u>	<u>PROPERTY TAX</u>	<u>SHARED REVENUE</u>	<u>TOTAL</u>
1974	4,400	\$325,600	\$ -0-	\$26,400	\$ 356,400
1975	5,000	375,000	107,200	35,000	522,200
1976	1,060	80,560	229,030	8,480	319,130
TOTALS	10,460	\$781,160	\$336,230	\$69,880	\$1,197,730

NET PER CAPITA IMPACT

Summarizing the estimates of impact population, operational cost, and impact generated revenues for the five areas of responsibility of Fairbanks North Star Borough (exclusive of schools), the net per capita impact will be as follows:

TABLE 7-8

## Impact Per Capita, Less Generated Revenue

<u>ITEM</u>	<u>SOURCE</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>TOTAL</u>
Impact Cost	TABLE 7-1	\$271,854	\$644,962	\$580,660	\$1,497,476
Generated Revenue	TABLE 7-7	\$356,400	\$522,200	\$319,130	\$1,197,730
Net Impact	(1) - (2)	-0-	\$122,762	\$261,530	384,292
Impact Population		4,400	5,000	1,060	10,460
Net Per Capita	(3) ÷ (4)	-0-	\$13.56	\$25.30	

taken to build the unit, and the time required for it to get on the tax rolls. For mobile homes, the lag will be less.

TABLE 7-5

Property Tax Revenues				
<u>YEAR ENDING 6/30</u>	<u>AMOUNT</u>	<u>MILL RATE</u>	<u>POPULATION</u>	<u>PER CAPITA</u>
1970	3,325,920	10.0	30,618	\$107
1971	2,444,300	5.0	31,220	78
1972	1,499,060	5.8	32,714	46
1973	1,780,930	6.5	34,124	52
1974	1,926,200 (estimate)	--	38,524	50 estimate
1975	2,176,200 (estimate)	--	43,524	50 estimate
1976	2,229,200 (estimate)	--	44,584	50 estimate

TABLE 7-6

State Shared Revenues			
<u>YEAR ENDING 6/30</u>	<u>AMOUNT</u>	<u>POPULATION</u>	<u>PER CAPITA</u>
1970	45,067	30,618	\$1
1971	131,037	31,220	4
1972	146,396	32,714	5
1973	156,606	34,124	6
1974	231,144 (estimate)	38,524	6 estimate
1975	304,668 (estimate)	43,524	7 estimate
1976	356,672 (estimate)	44,584	8 estimate

## IMPACT ON STATE SERVICES

The services delivered through state agencies in Fairbanks North Star Borough are vital to the existing and expected growth population. Unlike Anchorage Borough, Fairbanks has no responsibility for public health. It has no fire service, no police protection, water or sewers. Responsibility for public safety, health, welfare and environmental protection will be a matter for the state. The state departments affected will be Public Safety (Alaska State Troopers and Division of Correction), Department of Health and Social Services, and Department of Environmental Conservation.

Police protection is provided by Alaska State Troopers for all of Fairbanks North Star Borough outside the city of Fairbanks. They have 18 sworn officers stationed in the area, or 0.85 officers per 1000 population. This falls far short of the protection level needed for urban police protection. Fairbanks has 2.+ officers per 1000. Anchorage Borough (Spennard) has 1.5 per 1000. The city of Anchorage has 1.8 officers per 1000. For the pipeline-induced population increase in Anchorage, which will be 12,000 within the city and 24,000 total for the Borough, the city intends to add 40 more officers. This will be 3.3 officers per 1000 for the new city population, or 1.6 per 1000 if calculated on the whole 24,000.

Calculating on the basis of 1.6 officers per 1000 to police the impact population of 10,460, 17 new officers will be needed. There will be corresponding increases in the Court system, and in Correction. However, these needs must be spelled out in departmental budget requests to the legislature.

The Department of Health and Social Services delivers some services directly, and others through contracts to private organizations. These

services will be directly and massively affected. Anchorage Borough believes that it will be necessary to provide services to the pipeline-induced population at 2½ times the per capita rate at which present services are provided. In addition, if there are new arrivals not associated with the pipeline jobs, (i.e., people arriving from outside looking for work) this group will be a still heavier user of health and social services. Again, the need for impact funds will have to be determined by the State Department of Health and Social Services, and budget requests made directly to the legislature.

The Department of Environmental Conservation will find its burdens increased in the regulation of housing construction on unsewered lots, and in general monitoring of water, air, and environmental pollution. The increased workload will presumably generate budget requests.

The State Department of Public Works will feel impact in the Fairbanks area, especially at the Fairbanks International Airport. This Department has advised us that they are requesting 33 new positions at \$492,569, and additional equipment at \$333,000 for the airport.

#### PRIVATE SECTOR

Using a projected ratio of one housing unit for every 3.0 persons, there will be a need for 1,466 new housing units in 1974, 1,666 in 1975, and 353 in 1976. Fairbanks Borough reports a good supply of subdivided lots for building, and good opportunity for trailer courts. However, little or none of the available land is sewered with sewer or water. This will make FHA financing difficult or impossible to obtain, and present problems of environmental quality control.

On-site waste disposal and water supply will have to be provided by developers. In many cases, there will be package treatment plants and central water supply wells. Loans can be obtained in some cases from Farmer's Home Administration of the U.S. Department of Agriculture, but most financing of developers will be through conventional bank loans.

Subdivision development loans are not considered prime risks by most banks. Therefore, it may be advisable for the State to consider creating a fund to make loans to subdividers for community facilities, or to guarantee bank loans for this purpose.

There is likely to be a severe housing pinch in Fairbanks, perhaps leading to increases in rental rates, and to increased use of mobile homes.

SECTION VIII

CITY OF FAIRBANKS

General Description.

The City of Fairbanks is located on the Chena River in the central area of the State. It is subject to extremes in temperature -- from 60 degrees below zero to 100 degree above. The low temperatures for five or six months create permafrost in much of the area. These climatic conditions cause construction costs to be high and labor efficiency (outdoors) to be low. Therefore, living costs are higher than in the other, larger cities of Alaska.

Population.

The population of Fairbanks and environs did not increase substantially in the 1960 - 1970 period. The 1970 U.S. Census shows the City of Fairbanks (less military bases) increasing from 13,300 in 1960 to 14,800 in 1970, amounting to just over 1% annually. The North Slope activity had the effect of increasing the civilian population of the City to its' presently estimated 18,685 (City estimate).

A number of projections have been made for the Fairbanks North Star Borough, but very few for the City itself. The City has been using figures of possible growth in the 3,100 to 4,000 range, and we will use these figures in this report.

Economy.

The normal economy is highly dependent upon the military bases and other Federal offices located in Fairbanks. The City served as an important transportation and staging area for the activity on the North Slope in 1968, 1969, and 1970, and it will no doubt play a similar role in 1974, 1975, and 1976.

There will be construction camps not far from Fairbanks, oil company and pipeline company personnel will be based in Fairbanks, and many workers on temporary leave, and others looking for work, will congregate in Fairbanks. Service related jobs will increase and contribute to the population increase. The following Table shows projections of employment in the Fairbanks metropolitan area, for persons other than camp workers.

TABLE 8-1

Employment and Population Projections For  
Fairbanks North Star Borough

<u>Year</u>	<u>Employment</u>		<u>Population</u>	
	<u>MSNW*</u>	<u>Staff</u>	<u>MSNW*</u>	<u>Staff</u>
1973	14,578	17,325	34,220	32,900
1974	16,275	19,400	39,125	36,800
1975	17,748	22,300	42,306	42,370
1976	17,907	23,850	42,172	45,300

\* Mathematical Sciences Northwest.

The Impact Committee Staff was a little more optimistic than MSNW in regard to a drop in population after the pipeline is completed due to other local area projects, and not quite so optimistic on the first year increase.

Services.

The City of Fairbanks provides most normal urban-type services to its residents. The Borough has taken over few of these services. The City police and fire services are confined to the City.

The City has its own water and sewer system, which is extended only to City dwellers. The City has a Municipal Utility System which provides water, electrical power, steam, and telephone services. The City has

garbage pick-up service, but disposal is under the jurisdiction of the Borough, although the land-fill operation is run by the City under contract to the Borough.

The City also has a modest expenditure for health and social services.

Taxing.

The City of Fairbanks levies taxes on real property, but not on personal property. The total assessed valuation for 1973 was \$197,922,075. At the current 12 mill rate, the property tax revenues this year were \$2,375,064.

A 5% sales tax is in effect within the City. Two per cent goes to the Borough, 2% to a Capital Improvements Fund and 1% to the City General Fund.

Debt.

The current debt of the City is shown in the next Table.

TABLE 8-2

Debt of City of Fairbanks (\$000)

<u>Year</u>	<u>G.O. Debt</u>	<u>G.O. Debt Service</u>	<u>% of Assessed Val.</u>	<u>Revenue Bonds</u>	<u>Debt Service</u>
1972	7,038	771*	3.92%*	-	-
1973	(Not Projected By City)			20,685	1,722
1974	"	"	"	"	1,687
1975	"	"	"	"	1,686
1976	"	"	"	"	1,689

\* Includes G.O. bonds of utilities.

Fairbanks has an additional outstanding short-term debt of \$1.675 million which they expect will be converted to revenue bonds in 1974. This would make a revenue debt to assessed valuation percentage of 11.43%.

Debt limitation seems no problem for general obligation debt. We did not get from Fairbanks a breakdown of revenue bond debt for the individual utilities, and so cannot show individual debts for these utilities.

An analysis of the earnings of the separate utilities and the amounts available for debt service are shown in the next Table. The Fairbanks financial statements furnished show the total debt service of all four utilities (electrical, telephone, water and steam). The Table compares the sum of amounts available for debt from the individual utilities to total revenue bond debt in order to compute debt coverage.

TABLE 8-3

Composite Earnings And Debt Coverage - Utilities (\$000)

<u>Year</u>	<u>Available For Debt</u>	<u>Debt Service</u>	<u>Debt Coverage</u>
1971	3,158	1,546	2.04
1972	3,427	1,733	1.97

Tables 8-2 and 8-3 above do not take into consideration any bond sales that may have been made in 1973. If any were made, material furnished did not show it.

Neither the debt limitation on G.O. bonds nor the debt coverage would indicate a problem in selling G.O. or revenue-type bonds. However, there exists another restriction on selling revenue bonds.

The bond ordinance required when selling revenue bonds, and which is part of the covenant, requires that certain accounts be set up, namely, a Bond Redemption Account, Operation and Maintenance Reserve, Contingency Account, and an account for improvements in the next year. On December 31, 1972 these accounts had a deficiency of about \$2,000,000 out of the approximately \$4,400,000 required. It is presumed that, until the accounts are

brought up to the bond ordinance requirement levels, the utilities might have trouble selling bonds. It is assumed that the City government has plans to correct the deficiency.

The water rates were increased only recently and it has been proposed that the other utilities' rates also be increased. Although Fairbanks already has very high utility rates, the proposed further increase would seem to be the solution to the above problem.

It should be further noted that the MUS utilities have not made contributions to the Fairbanks General Fund for the past two years.

Impact - General.

In addition to the basing of some of the administrative people associated with oil and pipeline activities, there will be four camps within driving distance of Fairbanks, however, one will not be activated until Phase III of the construction period, perhaps in 1978. One of the other three will be located very near Fairbanks with a maximum of 1,000 men, a second about 40 miles southeast with a maximum of 400 men, and the third about 80 miles southeast, near Delta Junction, with a maximum of 1,050 men. These maximum camp population figures are for 1975. In 1974 the total of the three camps is expected to be 1,250.

These camps are almost certain to have an effect on Fairbanks. Despite the intentions and efforts of Alyeska and the contractors to keep the men at camps, some will go to town. Some may decide to bring their families.

Fairbanks will have an increase in government services, housing and commercial and trade activities. Transportation services will be expanded to meet the demand.

Fairbanks has done a great amount of work already aimed at meeting the demand. They have expended or encumbered over \$27 million to improve facilities, street, and utilities since 1969. However, in addition to facing a rapid increase in certain services, there still remain capital improvement projects that will be necessary.

Impact - Specific.

Housing.

Population estimates made by the City are 3,100 to 4,000. Estimates of the population increase in the Borough run from 8,000 to 9,000. It would be expected that the majority of the permanent population would live in the City because of the facilities. It has been estimated that 600 will live in North Pole. It might, therefore, appear that the increase in Fairbanks could be up to 4,500 or 5,000.

Based upon a 4,000 increase within the City, and assuming three persons per housing unit, 1,333 housing units would be needed for the added population. Those with whom we discussed the question of present vacancy rate were unable to give any information as to what it is. However, it is presumed that there are enough vacancies to absorb the initial shock in 1974, and that temporary housing will be able to meet the need until more housing can be provided.

Police.

Fairbanks is said to have a high crime rate now and with the numbers of persons, the kinds of workers, and the influx of those looking for work, the problem is expected to be much worse.

The City has about 2.6 sworn police officers per 1,000 population. Anchorage has about 1.8 per 1,000 and is increasing this ratio.

Fairbanks estimates additional manpower and costs in the Table below.

TABLE 8-4

Pipeline Construction Impact On Police Manpower & Costs (\$000)

<u>Year</u>	<u>Sworn Officers</u>	<u>Support Personnel</u>	<u>Increases Officers</u>	<u>Increases Support</u>	<u>Personnel Costs</u>	<u>Equipment Costs</u>	<u>Total</u>
1973	50	21	-	-	-	-	-
1974	56	23	6	2	113	22	135
1975	56	23	6	2	113	22	135
1976	56	23	6	2	113	22	135

Fire Protection.

The following Table shows the expected needs for the fire protection service.

The additional costs are to cover a new substation in the northeast section of the City where the new housing is expected.

TABLE 8-5

Fire Protection Costs Due To Pipeline (\$000)

<u>Year</u>	<u>Additional Personnel</u>	<u>Personnel Costs</u>	<u>Cost of Substation</u>	<u>Cost of Equipment</u>
1974	6	115	400	220
1975	6	115	-	-
1976	6	115	-	-

Electrical Utility.

Electrical peak demands of the Electrical Utility increased at an annual rate of slightly over 5% from 1956 to 1968. In 1969 it jumped to a 10% increase and in 1970 a 20% increase, indicating the effects of the North Slope activity. The Fairbanks Utility projects peak demand increases of about 10% annually during the pipeline construction. These demands will

be beyond the capability of the present generating system and allow the required reserve capacity.

The following Table shows peak load projections during the construction years and existing, and projected generating capacities.

TABLE 8-6

Peak Loads and Capacity of Generating System

<u>Year</u>	<u>Peak Load Projections KW</u>	<u>Installed Capacity</u>	<u>Firm* Capacity</u>	<u>Projected Normal Growth 5%</u>	<u>Impact Capacity</u>
1972	19,995	42,000	22,000	20,000	-
1973	23,836	42,000	22,000	21,000	2,836
1974	26,254	42,000	22,000	22,200	4,054
1975	28,672	63,750**	33,750	23,200	5,472
1976	31,092	63,750	33,750	24,300	6,792
1977	34,325	63,750	33,750	25,500	8,825

\* Installed capacity less the largest generating unit.

\*\* The installation of a 30,000 unit and dropping the old diesel-powered units totaling 8,250 KW.

It is evident, based upon these projections, that the reserve capacity is inadequate to cover peak loads in 1973 and 1974, and they will be again facing a shortage in 1977. My projections of peak loads were slightly lower and would anticipate a deficiency in reserve capacity only in 1974, but just borderline in 1973 and 1977.

Based upon the projected normal growth needs, the total impact would not be over 10,000 KW capacity.

R. W. Beck estimates that a new 30,000 KW gas/oil turbine will cost \$4,300,000 plus \$1,450,000 for the balance of the plant for a total of \$5,750,000, however, the \$1,450,000 may include costs associated with the waste heat steam generator. This amounts to \$191 per kilowatt, installed.

Anchorage just recently bought a 40,000 KW generator and it will cost \$4,300,000, turn-key. This is less than \$108 per KW. Costs are higher in Fairbanks and will be higher in 1975, and there would be the additional freight from Anchorage to Fairbanks, but the differential should not be so great. A 40% differential would make the cost only \$151 per KW. If the complete generator installation is only \$4,300,000, the per KW cost would be \$143.

In the total impact figure of \$6,500,000 for the Electrical Utility, Fairbanks includes \$750,000 for a waste heat generator. This unit would take advantage of the heat output from the turbine to generate steam. This steam would be used to help run the existing steam turbine generators and save on the use of coal. For this reason it is not directly associated with the pipeline impact, but is an expenditure to improve the efficiency of the present plant. However, because of the potential difficulty of Fairbanks selling revenue bonds, the funding problem must be considered.

An attempt could be made to isolate the expenditure for the electric utility expansion attributable to pipeline construction, however, since the main problem is the method of funding and whether the proposed expansion will be needed over the medium range years, no allocation will be shown, although one was made by the Impact Staff.

The following Table attempts to show the increase in earnings of the electrical utility due to the pipeline and the portions of the net revenues that might be available for debt service.

TABLE 8-7

Projected Earnings Attributable To Pipeline Impact  
And Estimates Available For Debt (\$000)

<u>Year</u>	<u>Impact Earnings</u>	<u>% Increase</u>	<u>No Impact</u>	<u>Difference*</u>	<u>Available For Debt @ 33.3%</u>
1972	4,128	-	4,128	-	-
1973	4,440	7.5	4,420**	20	7
1974	5,150	16.0	4,730	420	140
1975	5,850	13.5	5,070	780	260
1976	6,350	8.4	5,520	830	276

\* Estimated additional operating revenues due to impact.

\*\* A temporary 15% surcharge effective for 6 months apparently was not extended. Projections are based upon no surcharges.

The amounts indicated available for debt are those amounts of earnings which could be used for debt service. In the computations to arrive at the 33.3% of operating revenues for debt service use, the franchise tax was made a charge to earnings as a legitimate charge, and the portion of total utility non-operating income that might apply to the electrical utility was not included in revenue. Therefore, the amounts shown as available for debt which is credited to the pipeline impact may be somewhat low.

Telephone Utility.

Although the MUS has attempted to maintain the telephone system efficiency at an acceptable level, the standards of service are not considered adequate. They have not been able to add inside and outside plant as fast as necessary.

The following Table presents my projections of the number of stations needed through 1976, based upon past experience in the relationship of the

Borough population to the number of stations in use.

TABLE 8-8

<u>Year</u>	<u>Area Population*</u>	<u>Stations - Population Basis</u>	<u>% Increase</u>	<u>Stations By Capability</u>
1972	-	-	-	-
1973	32,900	10,960	4.7	10,398 (11,273 in Dec. 73)
1974	36,860	12,300	12.4	12,300 (1,200 lines added)
1975	42,370	14,100	14.5	14,100
1976	45,300	15,100	7.0	14,900**

\* Less military bases.

\*\* Based on these projections more lines would be needed in 1976.

The City Impact Statement indicates immediate needs for expansion of the inside and outside plant to meet the 1974 requirements in the following Table.

TABLE 8-9

Telephone Utility Plant Expansion (\$000)

<u>Year</u>	<u>Inside Plant</u>	<u>Outside Plant</u>	<u>Total</u>
1974	707	449	1,156

It is assumed that this would fund the 1,200 line addition they have already committed for 1974.

Fairbanks estimates that in 1974, even with the 1,200 line addition, they will have a deficiency of 3,375 lines, based on normal growth, plus impact studies from RCA, Alyeska and local business expansion programs. If the demand expands in this magnitude, it would not be along the lines of the experience in 1969 and 1970, however, perhaps the utility could not meet the demand at that time and, therefore, the record would not reflect

a true picture. Under any circumstances, the utility will need to provide additional lines by, or before 1976 and the 1974 experience should enable the utility to make a better decision than they can now.

Since the second addition will need to be made in 1975, the City could arrange to double their investment in 1974, if financing can be arranged, and save on construction costs.

The following projections of revenues are aimed at showing what portion of the additional impact revenues are available for debt service.

TABLE 8-10

Impact Revenues and Amount Available For Debt (\$000)

Year	Stations Normal Growth*	Stations Impact	Normal Revenue	Impact Revenue	Difference	Available For Debt
1973	11,273	10,398	2,900	2,900	-	-
1974	11,800	12,300	3,068	3,198	130	46
1975	12,400	14,100	3,224	3,666	442	155
1976	13,000	14,900	3,380	3,874	494	173

\* Normal growth taken as 5% per year.

Water Utility.

The Fairbanks Water System provides service to an area of about 2,600 acres with a population of about 17,000. Because of the low surface and sub-surface temperatures during most of the year, a recirculating type water distribution system is necessary to prevent freezing.

The present consumption of water averages 81 gallons per day per capita -- average consumption 1.48 mgd and peak of 2.825 mgd in 1973.

Consumption is metered and rates are quite high. The residential minimum billing is \$10.35. A monthly bill for a family of four would run almost \$20.00 (based on the average per capita use).

The system includes a treatment plant with a capacity of 3.0 million gallons per day. Water is supplied by wells at a present capacity of about 8.0 mgd.

The City consultant recommends that the treatment plant be expanded from 3.0 mgd to 7.5 mgd, which would be satisfactory until 1978. With added storage capacity of 7.0 mg, the plant capacity would be adequate until 1990.

The consultant recommends an immediate construction of another 3.0 mg storage capacity in addition to the treatment plant. Their estimate for the expansion of the treatment plant and the storage capacity is \$3,750,000 (1973 figure). They indicate it could be \$4,100,000 in 1974.

The proposed expansion may be the proper course for the City to follow, and would probably give them adequate capacity well into the 1980's. The immediate problem of peak demands might also be solved by increasing the storage capacity by 3.0 mg. Although the consultant has not shown the costs of this alternate, it would be less than half the total cost proposed, and<sup>would</sup> likely provide adequate peak flows for the pipeline construction years. However, if there continues to be an inflation of costs, and Fairbanks can arrange funding, the over all costs to the community would be lower if they undertook the larger project now. (See Appendix D, Capital Improvements, Financing and Inflationary Factors.)

Based upon the \$4,100,000 consultant's estimate the following is our breakdown of the portion that could be attributed to pipeline impact.

Assume Additional Population	5,000
Times Per Capita Use	x 81
Daily Average Use of New Population	405,000 gal.
Double For Peak Demands	x 2
Additional Capacity Needed For Impact	810,000 gpd

Proposed Addition Capacity	7,500,000 gpd
Present Capacity	3,000,000 gpd
Added Capacity	4,500,000 gpd

Impact Portion  $\frac{810,000}{4,500,000} = 18.1\%$

18.1% of \$4,100,000 = \$742,100 attributable to impact.

Water Revenue Projections.

The following Table projects revenues and amounts available for debt service attributable to the impact population.

TABLE 8-11

Revenues and Amounts Available For Debt (\$000)

Year	Impact Revenue	Normal Revenue*	Impact Expenses	Normal Expenses	Available For Impacted	Normal	Debt Difference
1972	1,138	-	685	-	453	-	-
1973	1,090	1,090	655	655	435	435	-
1974	1,253	1,146	815	745	438	401	37
1975	1,352	1,203	880	783	472	420	52
1976	1,420	1,263	923	822	497	441	56

\* Projected at 5% per year.

The amounts in the last column indicated projections of the amounts available for debt service created by the additional population.

Other Revenue Projections.

Property Taxes.

Only the revenues generated by new housing are considered, since the new commercial and industrial potential was not studied. Housing units are assumed to average \$25,000 in value since mobile homes will probably be utilized to a considerable extent, especially in the period under consideration, and assuming they will be taxed at the real property rate.

TABLE 8-12

## Impact Property Tax Projections (\$000)

<u>Year</u>	<u>Impact Population</u>	<u>New Housing Units</u>	<u>Value @ \$25,000</u>	<u>Property Tax * @ 12 mills (1973)</u>
1974	3,000	1,000	25,000	-
1975	4,000	333	8,250	150
1976	4,000	-	-	350
1977	-	-	-	399

\* Based on 50% of new homes built in a given year being on the tax roll the next year, which amounts to an 18 month lag in tax revenues.

Sales Tax.

TABLE 8-13

## Projections of Sales Tax Increase Due to Pipeline (\$000)

<u>Year</u>	<u>Population Increase</u>	<u>Tax Per Capita</u>	<u>Projected Sales Tax Increases</u>		
			<u>Total</u>	<u>Gen'l Fund</u>	<u>C.I.P.</u>
1973	-	89.30	-	-	-
1974	3,000	85.00	255	85	170
1975	4,000	85.00	340	113	226
1976	4,000	85.00	340	113	226

Revenue Sharing.

TABLE 8-14

## Projections of State Revenue Sharing Due to Impact Population (\$000)

<u>Year</u>	<u>Population Increases</u>	<u>Police \$10/capita</u>	<u>Fire \$5/capita</u>	<u>Parks &amp; Recreation</u>	<u>Total</u>
1974	3,000	30	15	15	60
1975	4,000	40	20	20	80
1976	4,000	40	20	20	80

Only revenue sharing categories are shown in the above Table which are related to population.

Fairbanks will ask the State to make available royalty oil (and gas, if any) at a point on the pipeline nearest Fairbanks. It is their belief that oil, or gas, obtained in this way will be their cheapest fuel for use in the proposed gas/oil turbine. They think the State should have the opportunity of using Alaskan resources if they can be obtained at lower prices and if the methods of making them available are consistent with good business principles.

SECTION IX

FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT

Fairbanks North Star Borough School District will experience an impact from the school enrollment produced by incoming population. Impact costs will be of two types; operational expense and capital cost for new classroom space. Currently the local contribution to the cost per pupil for operation is \$330, and we have used this figure in calculating operational impact.

The capital cost impact is more difficult to compute because of the alternative available, i.e.:

1. Construct new permanent classroom space.
2. Utilize relocatable classrooms at \$50,000 each.
3. Double-shift.
4. Adopt a twelve-month school year.

The increase in school enrollment can be estimated in different ways. The School District uses 3.7 as a standard family unit, and projects 1.4 school-age children per family. The Petroleum Impact Committee uses the same method as that used by the Anchorage Borough School District, which is to divide the general population of the District by the number of students currently enrolled, and project the same ratio of students to people for anticipated population increases.

A further complication arises because we have two population projections for pipeline impact; that projected by Northwest Mathematical Sciences, and figures derived from employment statistics by the Petroleum Impact Committee Staff. The Impact Committee Staff projections prove accurate for the year 1973. The Staff estimate for 1973 is 32,900 population, and applying the ratio produces an expected school enrollment of 8,408. The

actual enrollment as of November 15, 1973 is 8,396.

The population estimates of the Mathematical Sciences Northwest Study seem high; at least the 1973 estimate is about 3,000 higher than actual population. Table 9-1 shows population, school enrollment and operational impact projections for several alternatives.

Since the entire impact picture for all Alaska is based on MSNW population estimates, we cannot ignore them for Fairbanks, but it is reasonable to adjust this estimate by correcting the base years of 1972 and 1973 to actual population figures, then adjust the 1974 population estimate to the same percentage increase. Doing this will produce a 1974 population estimate of 36,860 instead of 39,125, and 42,370 for 1975 instead of 42,306. Then, the school enrollment and dollar impact would be as follows:

Table 9-1

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Population	36,860	42,730	45,300
School Enrollment (@ 25.5%)	9,399	10,840	11,552
Impact Enrollment	596	1,960	2,520
Impact Cost, @ \$330/student	196,680	646,800	831,600

The Fairbanks Area impact will be more sudden than it will be in Anchorage because Fairbanks will get more worker dependents. The only way for school district revenues to be realized which might affect part of the impact cost is through the property tax; and this income will not be realized until two years after the arrival of the people. Therefore, we make no allowance for revenue offset for the years 1974 and 1975.

The Fairbanks North Star School District maintains a teacher-student

ratio of 1:23 for grades one to eight, and 1:18 for high school. Assuming an equal distribution of school-age children among the grades, the generated demand for new classrooms caused by pipeline impact only, would be:

Table 9-2

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Classrooms Needed For Impact	29	95	122	113
Classrooms Needed For Normal Growth (12-month school year)	313	316	322	326
Total Needed	342	411	444	439
Total Needed, Fairbanks North Star Borough School District Impact Statement	380	414	428	454
Total existing elementary classrooms-----			189	
Total existing secondary classrooms-----			160	
			<u>349</u>	
Total existing classrooms to be retired-----			46	
Net existing classrooms-----			<u>303</u>	

In October 1973 the taxpayers of the Fairbanks North Star Borough authorized bond issues of \$12 million dollars for construction of new schools. This will leave some \$8 million dollars unfunded of the School District Task Force recommendations for expansion to meet normal growth through 1977. Associated with the construction program is a plan for implementing a 12-month school year.

Ninety new classrooms will be constructed in two schools; a junior high school of 35 rooms and a senior high school with 55 rooms.

Also recommended is the elimination of Main Junior High School and North Pole Junior High, which are both obsolete and inadequate. These would lose 46 classrooms from the present total, thus making a net gain of 44 rooms from the construction of the two new buildings.

To summarize, if the year-round system is adopted, Fairbanks will need 125 new classrooms (if the Fairbanks North Star Borough School District estimate is accepted) or 141, if the Impact Committee calculations are used. Of these, 122 are needed to meet the pipeline impact. Present capital improvement plans will provide 90 of the units needed. However, if impact assistance is provided by the State, 122 would be the proper number attributable to impact growth.

The method suggested by the Fairbanks School Board is for the State to provide relocatable classrooms at \$50,000 each. This method would be the simplest, but relocatable classrooms have serious disadvantages, and should be used only if the need for them is temporary, or if they are filling a gap until permanent facilities are finished. Current projections of population and students over the next five years show some reduction after pipeline construction is completed, but it is minor. It is likely that the impact-caused need for new school plants will be permanent, and therefore, new school construction should be considered. Relocatable classrooms will probably be necessary to bridge the time gap before new schools can be put on line, in any case.

Currently the cost of constructing new school plants in the Anchorage Area is \$168,566 per senior high school station, in 60-station structures, and including all costs except land acquisition. For elementary schools in 20-station configuration, it is \$121,700 per unit. In Fairbanks these costs will be somewhat higher, and the costs are increasing each year by 22%, they estimate.

If we use capital cost estimates of \$175,000 per unit for high school classrooms and \$130,000 per unit for elementary classrooms, Fairbanks will need about \$17 million dollars to build 122 classrooms. Under the present

\* Information on current costs and annual increases obtained from Bert Klingler, Assistant Superintendent for Facilities, Anchorage Borough School District.

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support formula, the State would contribute 50% of the cost of debt service, but with a two-year lag after the first debt service payment is made. This program helps ease the shock of extraordinary capital construction, but does little to help if the local district's bonding capacity is exceeded, or if taxpayers will not approve bond issues.

Recommendations on prospective legislation will be presented in a separate section of this report.

SECTION X

GLENNALLEN

General Description.

Glennallen is an unincorporated community on the Glenn Highway near its' intersection with the Richardson Highway. It is in the unorganized borough. The town has grocery stores, hardware stores, a bank, fuel distributors, a District Unit of the State Highway Department, a State Trooper's District Headquarters, a small 5-bed hospital, laundry facilities, a Public Health nurse and a District Magistrate. There is a motel and restaurant and other motels within 12 to 14 miles.

The economy is mainly service type, depending upon highway traffic and the government employment. There have been 68 business licenses issued in the area.

Population.

The latest population figure is 363. The area, bounded by Paxon to Copper Center, and Eureka Lodge to Tok, is said to have a population of 4,500, and is called the service area of Glennallen, being the largest service community in this area.

Services.

The community has no governmental-type services except fire-fighting, and it is an all-volunteer operation. Because of the lack of fire protection in the area, the volunteer group goes far beyond their service area, up to 25 miles or more, depending upon the ability to arrive in time to be effective.

Taxing.

Not being incorporated, Glennallen has no taxing powers. There is

opposition to incorporation because many do not want taxes, apparently. Money for community needs is raised by drives of various kinds, and people contribute their time and services when needed.

Impact - General.

There will be a tremendous increase in highway traffic during the construction period, creating service demands and potential traffic and law enforcement problems. A construction camp will be located at, or very near Glennallen. It will not be, manpower-wise, as large as some, but Alyeska says there will be about 200 men in 1974 and 800 in 1975. A Phase II pumping station camp will be located about four miles north of Glennallen. Based upon the numbers of men at other station camps, there would be from 100 - 400 in this one.

Two other camps will be located about 41 and 43 miles, respectively, south of Glennallen, and within easy driving range of Glennallen. The first of these camps will have 250 men in 1974 and 800 in 1975. The second camp is also a Phase II pumping station, and would be expected to have from 100 to 400 men.

If Phase II is completed concurrently with Phase I, the two pumping stations near Glennallen might be expected to be activated in 1975. Therefore, the numbers of men stationed near Glennallen could be as follows:

1974 - 450  
1975 - 1,800 to 2,400  
1976 - 1,000 to 1,600

If large numbers of people were to make the Glennallen Area their temporary home, housing and health problems would arise.

Housing.

There is not much private land in Glennallen which is not already

developed. There are presently 109 housing units, of which about 60% are considered modern. This includes 26 mobile homes. If additional housing is needed, it might be necessary to make State or University of Alaska land available. At this time there doesn't appear to be any private plans for providing housing or mobile home spaces in Glennallen.

Fire Protection.

The volunteer fire department has two trucks at this time, a third will soon be given to the department, but will need repairs.

Because of the expected rise in vehicular traffic, the accident rate will increase with the increase in highway traffic, especially accidents involving trucks. The Fire Chief believes the fire department will be called upon to fight fires as the result of accidents. Many trucks will be carrying fuels and explosives, so the department needs equipment and clothing suitable for such work. This equipment is listed below.

In addition, some radio communications will be required to increase the effectiveness. He also believes they will need a paid dispatcher, and three paid firemen if the department is to meet the demands they will have during the construction period.

The present budget of the department is \$3,500 per year. The following Table shows the Chief's estimate of costs to strengthen the department.

TABLE 10-1

Impact Costs To Glennallen Fire Department

1. Two (2) Asbestos suits @ \$900-----	\$ 1,800
2. Two (2) Self-contained breathing units @ \$450-----	900
3. One (1) Used pick-up truck-----	2,000
4. Extraction gear*-----	2,000
5. Twenty (20) buckets of AAF lightwater** @ \$115.-----	2,300
6. Radio communications page alarm system----	3,000

TABLE 10-1 Cont'd.

7.	One (1) paid dispatcher's salary,	\$13,000 to 15,000
8.	Three (3) paid firemen's salaries @ \$18,000-----	54,000
9.	Land for substations-----	Unknown
10.	Buildings for substations-----	Unknown
	TOTALS (less substations)	<u>\$78,000 to 81,000</u>

\* Extraction gear is used for opening up wrecked vehicles so trapped persons can be removed.

\*\* Lightwater is a compound that, when mixed in small quantities with water, is used for fighting oil fires.

Police Protection.

The District Headquarters of the State Troopers is located at Glennallen. Their territory runs from Paxson to Valdez and Sheep Mountain to Tok. In addition to manpower at Paxson, Tok and Valdez, the District Headquarters plans on having six officers at Glennallen. Some believe this would be insufficient for good coverage. It would take five men just to have one man at a time for 24-hour coverage. Under the present schedule, I believe that from 12 midnight to 8 A.M. an officer would have to be contacted at his home to respond to any call. There are auxiliary police trained, but they can be used for only limited services.

It appears that communications between the base stations and vehicles in the District should be improved. Present communications are by HF radio through the Highway Department network, which is not always manned. Furthermore, HF radio is not reliable in the mountainous terrain. VHF, with properly located repeaters, should be installed.

The troopers should also be equipped with better extraction gear to improve their effectiveness in accident situations.

The troopers expect most of their problems will be caused by job

seekers and not the workers. They expect a large number of opportunists to settle along the pipeline and probably some organized crime. If it is rooted out early and not permitted to get started, the problem will be minimal. This will take investigation and enforcement.

#### Health.

One of the early problems, as seen by Glennallen, is that of campers and trailers picking vacant sites along the highway for living, thereby creating potential sanitary and health problems. They believe this will be the first effect of the pipeline impact.

It is believed that environmental health conditions will need close monitoring and that the State must have agents constantly in the area. They think that one Public Health nurse in the area will not be sufficient.

The Glennallen Hospital is a private endeavour, and, with the exception of two people, is staffed with volunteers. The hospital has only five beds and sometimes is filled with obstretic cases. It is believed it will not be adequate during the construction period for handling emergency cases prior to transport to Anchorage or Fairbanks.

The water supply in Glennallen is provided by wells and sewage disposal is by septic tank or seepage pits. If new people increase the population density of the area, it may create health hazards.

#### Schools.

The Glennallen schools have a present population of 530 - 540 students. These are composed of the local elementary pupils and junior high and high school students from the surrounding area. They pick up students between Nabesna Road, on the Tok cut-off, to Eureka, and from Sourdough to Copper Center, and Kenny Lake on the Chitina Road. The District goes as far North as Paxson, but there are not enough students beyond Sourdough.

The school system is said to be up to capacity at present. Because of the great distances students are bused, and the long time involved, parents are not in favor of double-shifting. They would rather have a lower quality classroom and maintain regular school hours, if the student population increases. The superintendent of schools would prefer a Butler type building for temporary classes, which could be used for other purposes after the construction period. As an alternative, he is seeking temporary rental quarters for classrooms.

The school facilities are used for many community activities, including service and other club meetings.

The community has a program for consolidating library books and enlarging facilities. They believe such educational and recreational pursuits are used more and are more important to a community of that kind. Eventually, they want a bookmobile service that can take books to the villages and other communities in the area.

#### Magistrate.

The Magistrate's quarters are considered to be inadequate for the construction period. The small building is now shared with the Public Health nurse. The retention cell is not adequate for present conditions, and another is needed. The building is designed so that a second floor could be added.

#### Electric Power.

Copper Valley Cooperative provides power and local telephone service to Glennallen. Their generation is entirely fueled by oil. They are advised that they cannot get more fuel than was supplied last winter. This applies to their generating facility at Valdez. If, because of an

influx of people at each city, more energy is necessary, these communities must find larger supplies of oil.

The utility in Glennallen is presently running at full capacity. Although they have not, as yet, received requests for new power connections, they expect there will be some. Should the demand increase to any great extent, additional generating capacity would need to be constructed. The Cooperative's borrowing capacity is said to be low. The utility may need help in obtaining loans.

The short and long range picture is quite hazy, and the directors of the Cooperative are reluctant to move until it becomes more clear. (See Appendix G, Valdez Power.)

#### Transportation.

Although Glennallen is the service center for a large area in that part of Alaska, they have very poor transportation.

There is no airport or airstrip at Glennallen. Air service must be by Gulkana, several miles away. Gulkana field is quite accessible, but scheduled air service is not reliable. It is said that Polar Airways plans daily service, and Alaska Airlines has the authority to provide service there, but they have not announced firm plans to do so.

Even though Glennallen has been on the Fairbanks - Anchorage route for many year, commercial truck service into Glennallen is sporadic and not too reliable. There is concern now, since the more direct Fairbanks - Anchorage route is along the route of the Alaska Railroad, that truck service to Glennallen will be even worse. Presently, demands are apparently not sufficient for a scheduled service alone to Glennallen, and other communities in the area. The problem is aggravated by lack of warehousing or storage space.

It might be expected, however, that with the increased traffic during pipeline construction that truck services would improve.

SECTION XI

HAINES

General Description.

Haines is located on the Lynn Canal and is the terminus of the Haines Cut-off Highway that connects, through Canadian Yukon Territory, to the Alaska Highway. The Alaska Ferry provides both passenger and vehicular service to Haines from other Southeastern Alaska points, Price Rupert in British Columbia, Vancouver, and Seattle.

Haines, therefore, is the highway gate for Southeastern Alaska to Western Alaska. It is 785 miles from Haines to Anchorage and 662 miles to Fairbanks. Haines is a First Class City, and the borough is Third Class, having only educational powers.

Population.

The population of the Haines borough in 1970 was 1,351, with 683 in the Haines - Chilkoot City Area. Klukwan had 103. Haines says that a State survey indicates an 18.5% increase in the Haines Area in the past three years. If this is correct, and if the inference can be made that the "Haines Area" is the Borough, it would mean a present Borough population of 1,600. The City projects a 20% increase due to the pipeline impact. If this estimate is correct, the population of the area would rise to 1,920, for a 42% increase over the 1970 population.

Services.

The City of Haines provides the following services. Water and sewers, police, and fire protection, street maintenance, parks and recreation, small boat harbor, community youth center, and library. Private enterprise provides for electrical power, local telephone service, and garbage pickup and disposal.

### Taxes.

The City has a 1% sales tax and a property tax. The Statement doesn't say whether it covers personal property, nor is the assessed valuation given. Property taxes yielded \$45,219 in fiscal year 1972-73. Sales taxes, \$47,273. State Revenue Sharing, \$17,462, and Federal Revenue Sharing, \$18,208. Additional revenues from the State amounted to \$37,682. These revenue categories accounted for \$165,800 of the \$201,000 1972-73 budget.

Haines believes that much of the population increase will not contribute substantially to the City property tax, however, they should contribute through the sales tax and through water use revenues.

### Debt.

Although the Haines Statement alludes to the fact that schools and water and sewer projects have pushed the bond ceiling to the limit, the kinds of bonds, the outstanding debt, the debt service, and the percentage of debt to assessed valuation, are not given. If some of the bond debt is in the form of revenue bonds, this is not stated. It can be noted that the water/sewer revenues could have provided almost \$9,000 toward debt retirement in 1972-73.

The Statement does show contractual debt amounting to \$44,183 for a fire truck, and a caterpillar 950 wheel loader. Debt service on these contracts was \$36,113 in 1972-73.

### Impact - General.

Haines believes the general impact due to the pipeline will be caused by the movement of people through Haines. They think that many may arrive by ferry looking for pipeline jobs, and be refused entry through Canada

and be turned back to Haines because of lack of money or because of the condition of a vehicle. They believe some may travel on the ferry without a vehicle, expecting to "hitch" a ride from Haines to the pipeline construction areas, and be stranded in Haines.

These people will settle in abandoned shacks, under any shelter, creating safety and health hazards. If there is not sufficient employment in the area, Haines doesn't have the facilities nor means to feed or house them.

In addition to the above problems, the Haines employment and population will increase as there is more traffic through Haines, thereby creating the need for more housing and city services, utilities and school facilities.

Other economic activities, not related to the pipeline construction, will, or could, increase employment and population to a greater degree than the pipeline construction would.

#### Impact - Specific.

Information given was not sufficient to isolate the pipeline impact from other unrelated economic expansion. No price tags were given on the costs of impact, however, I shall briefly give the areas of concern and fill in as much information as possible.

#### Housing.

Within Haines there are 205 housing units, almost all modern. On the outskirts there are 124, with 118 modern. In the 1970 Census there were only 15 year-round housing units vacant. It would appear that, with the stated growth, there would be none at this time. The Statement implies that a turn-key housing project is planned for 1974. The number

of units is not given. This may be low-rent housing.

The City says that high rentals make it difficult for low income families to find housing. They believe under the pipeline impact conditions, temporary housing such as trailers or mobile home courts will be necessary.

#### Police and Fire Protection.

The City has a police chief, and a part-time officer who also works the rest of the time as harbormaster and dog-catcher. The City believes it will need four full-time officers in addition to the Chief.

The State has one trooper and a fish and game enforcement officer in Haines. The City thinks it needs another trooper.

The fire department has one paid fireman and 24 volunteers. The equipment consists of a pumper, three make-shift tankers, and an ambulance.

There is a station in downtown Haines and one in Chilkoot. Both stations are considered inadequate and need replacing. The police quarters in Haines are also inadequate, and a replacement structure could house both fire and police.

#### Water and Sewers.

Recent water and sewer contracts will provide facilities that will be adequate for a 25% population increase. This work is funded by Haines G.O. bonds, EPA funds, and Department of Agriculture - Farmers' Home funds. The total cost will be \$1,598,000. The City bond share will be \$900,000. The City will need to provide \$13,000 for water extension to an area that presently doesn't have water.

#### Small Boat Harbor.

The City plans improvement to the small boat harbor because of harbor

conditions and a lack of adequate facilities. No estimate is given, nor the relationship to the pipeline impact.

#### Health and Medical.

The most serious problem seen in the field of health is that caused by the lack of proper hook-ups for campers and trailers. There is concern for the problem of garbage disposal at these and other camping sites. They believe more enforcement of the environmental health laws will be required. If the population increases as they predict, they think that the Department of Health and Social Services will need a District Office at Haines.

Medical facilities are fairly adequate, but there is no hospital or morgue. A private medical clinic is located in Haines, with a dentist, and Public Health nurse. Specialists visit on a scheduled basis.

#### Transportation.

Transportation services are generally adequate. However, mention is made of a chronic shortage of fresh food items, such as milk, and other fresh items. There are often delays in mail service, and a lack of transportation from the ferry dock to downtown, which is five miles.

#### Schools.

There were 319 elementary students and 130 secondary in the 72-73 year. Fire destroyed facilities for the "middle" elementary students, and they have not been replaced, thus, leaving a lack of facilities for them. Because of lack of space, the schools now have physical education classes outdoors. The plan is to reconstruct the lost facilities as soon as possible. To give an example of the growth in school population, they had 543 students this Fall during the first 9-week period as compared to 454 in the same session last year.

They say that if the student population increases that double shifting can be resorted to, but additional operational costs will be incurred.

If any significant increase in school population occurs, the Borough will need additional help in funding.

The foregoing doesn't specify the extent or cost of impact.

SECTION XII

MILITARY - ALASKAN COMMAND

The study submitted by the Alaskan Command, at my request, has been forwarded to all Committee members. There are several areas of mutual interest to the State and the military establishment in Alaska that appear to be important.

1. The study points out that the military will be here after the pipeline is completed, and that the Alaska Department of Labor should include the military employment needs in its' survey of manpower requirements and utilization.

2. The State and local merchants should attempt to maintain supplies and goods obtained by the military through local procurement.

3. Assistance should be provided to military personnel in obtaining housing in the local communities, especially Fairbanks and Anchorage.

SECTION XIII

CITY OF KENAI

Kenai submitted the attached letter as their statement. Although, obviously, additional information could, and should, be obtained, time would not permit.



November 14, 1973

Mr. George Sharrock  
Committee Director and Coordinator  
Special Petroleum Impact Committee  
326 H Street, Room 8  
Anchorage, Alaska 99501

Dear Mr. Sharrock:

In reply to your inquiry of October 29, 1973 regarding special pipeline impact on the City of Kenai, we do anticipate a population increase somewhere between 1,000 and 2,000 people. This will come about mainly because of three reasons:

1. Moderate climate
2. Excellent transportation to Anchorage and the North Slope
3. Availability of some housing, primarily apartments and 4-plexes that can be had on a rental basis.

With this type of growth, there will be an increased demand on police, fire, sewage and waste disposal. The greatest demand here will be on the police protection and probably secondly, the water and sewer use demand. There definitely will be an additional revenue; however, revenues derived from residential generally will not offset additional cost for community services. The current revenue is about 1.6 million. Current expenditures is the same, 1.6 million.

The City of Kenai currently has expended itself to the limits as far as bonding, which will create additional problems when water and sewer expansion is required. Probably our one greatest need at this time is a community center, which will provide recreational and meeting facilities for the present population as well as any increased population.

The City of Kenai is a growth center and must fill some of the needs of the surrounding area for recreation, police and fire protection, as well as community facilities. It is felt that in addition to the growth in the City of Kenai, that the North Kenai area will enjoy a similar growth, at least for the period of construction and drilling on the north slope. There are currently many service companies located in the Kenai/North Kenai area which do service the oil industry. It is expected that these companies will increase the number of personnel and use this area as a base of operations.

BOX 580  
KENAI, ALASKA 99611  
telephone 786-7535

City of Kenai

Mr. George Sharrock  
November 14, 1973  
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The one major problem that faces this community, as well as many other communities, is the competition for qualified personnel. It is felt that in order to compete with the pipeline construction, additional salary and benefits will have to be offered City employees in order to keep them on the job. This will be particularly true in our Police Department, Roads and Maintenance Department, and our Airport Facilities Operation.

The City has not done an official impact study; however, the experience acquired in a period of development of the Swanson Oil Field and the Inlet wells has been beneficial in preparing this report.

If we, in the City of Kenai, can be of further assistance to you, please do not hesitate to call on us.

Sincerely,

John F. Steinbeck, Mayor  
City of Kenai

By: *George A. Navarre*  
George A. Navarre  
City Manager

GAN/db

## SECTION XIV

### MATANUSKA-SUSITNA BOROUGH

#### General Description.

The Matanuska-Susitna Borough lies generally between the Knik Arm and River, the Susitna River, and the Talkeetna Mountains, and to the north of Talkeetna. There are several cities and unincorporated communities included within the Borough. They include: the City of Palmer, the City of Houston, Butte, Montana, Sutton, Wasilla, and Willow. The area is 23,000 square miles.

The new Anchorage-Fairbanks Highway goes north through the heart of the Borough and the Glenn Highway goes to Palmer and turns east toward the Richardson Highway. The Alaska Railroad also goes north through the Borough.

The Borough is served by airports at Palmer and Talkeetna, and numerous other, smaller airstrips.

#### Population and Employment.

The 1970 U.S. Census gave the Borough a population of 6,500, with Palmer, the largest city, 1,140. The population of the area did not increase significantly from 1960 to 1970. Apparently, much expansion has taken place since 1970 because the State Department of Labor estimated 1972 population as 8,366. The Borough was having a census made in October, 1973, but we have not received the results.

The 1970 work force is given as 2,130 with 20% unemployment. This would make about 1,700 employed. The ratio of population to employment was 3.8. This is considerably higher than the State average, reflecting either larger families or a smaller number of working spouses, or perhaps both.

The Borough indicates a high rate of unemployment, running about 20%.

Since the State Department of Labor estimated the in-migration to the Borough at almost 26% in the two years from 1970 to 1972, the increase will no doubt continue through the pipeline construction period. The Borough expects the population to be 8,700 in 1975.

#### Services.

The Borough does not offer many services other than the schools. They have no police powers, no road construction or maintenance, no sewer or water services. They do have five fire protection districts.

The Borough also has subdivision control, but no building inspection or safety program.

#### Taxing and Debt.

The Borough does have a property tax, however, information given did not indicate the assessed valuation, nor any revenue or budget information.

The Borough did not state the amount of indebtedness. However, it is known that G.O. bonds are outstanding for school debt, and an additional \$12,600,000 was authorized this past October, which, they say, would double their debt service. Assuming 6%, 25 year bonds for the \$12,600,000, the annual debt service (level payments) would be \$986,000. If this amount were to double the payments, it can be inferred that their debt service could be close to \$1,900,000 to \$2,000,000 a year.

#### Impact.

The Borough believes the greatest impact will be people moving to the area to live. This may be expected if housing space becomes harder to

get in Anchorage and becomes more costly, which was predicted by some of the homebuilders. If this happens, the numbers of new housing units in Anchorage could be reduced.

The extent of subdivision in the Borough is indicated by the fact that they have over 24,000 more parcels of property than they had five years ago. This kind of growth will increase the responsibilities of the Borough, and cities, if the growth takes place in them.

The City of Palmer is the only entity that has water and sewer services at this time. Unless other areas provide these services, large development will probably take place in Palmer, or developers will provide these improvements themselves. The pattern of actual development must be observed or extensive research done to make any predictions as to what the pattern might be.

The deficiencies point the way as to what the Borough, or cities, will need to do if large numbers of people move in.

The Borough believes the Department of Environmental Conservation will need inspectors and enforcement agents stationed in the area to be alert to potential problems.

The Borough points out that rapid growth may create government costs that will not be balanced by revenues, at least for a year or two. The residential-type revenues may not be supplemented by corresponding increases in industrial-type revenues.

Palmer hopes that the Industrial Park that is being developed, with the help of Farmers' Home money, will attract new industry to the area, and at the same time bolster the local government revenues.

Because of the expected increase in family-type residential population, much of the impact pressures will be on the schools, and the Borough may

face both operational and capital improvement problems.

If the unemployment rate continues, the Borough will need increased State aid in meeting the problems created.

SECTION XV  
CITY OF NORTH POLE

The City of North Pole is located in the Fairbanks North Star Borough on the highway east of Fairbanks some 7 or 8 miles. It has a population of 267 persons, an area of 360 acres, and 4 miles of streets. It is a First Class city with one representative on the North Star Borough Assembly.

North Pole has 68 housing units, with 5 houses now under construction. Some 30 to 40 multiple units are planned in or near the City for early construction, and there are 22 mobile home spaces now unoccupied.

North Pole expects an impact population of 600 people by the second year of construction. They have three reasons for anticipating this overload:

1. North Pole is closest to the pipeline corridor, and is very close to a 1,100-man work camp.
2. A new 1,000-student high school is scheduled for construction in North Pole next year.
3. The proposed oil refinery expected to be built in conjunction with the pipeline will be located at or near North Pole.

Impact on public services is expected in 6 categories: Police, Fire, Water, Sewers, Public Works, and General Government. In each category they have listed operational costs and capital investment. See Table 15-1 for a breakdown by subject matter and estimated amount needed due to pipeline impact. We will discuss each category.

Pipeline Generated Revenue.

The City of North Pole has a sales tax yielding \$6,000 per year, or \$20 per capita, but no personal property tax. Its' real property tax is 6 mills. There is no oil industry property in the City, and the proposed refinery will probably not be within the City limits.

TABLE 15-1

## Total Projected Operational Costs Only

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Police	10,600	66,900	92,900	116,900	142,900	168,900
Fire	15,600	66,900	92,900	116,900	116,900	116,900
Water	6,667	34,000	40,500	40,500	40,500	40,500
Sewers	6,667	34,000	34,000	34,000	34,000	34,000
Public Works	-0-	120,000	124,000	144,000	148,000	152,000
General Government	16,435	30,000	39,000	39,000	39,000	39,000
Totals		351,800	423,300	491,300	521,300	551,300

## Total Projected Capital Costs Only

Police	7,520	30,000	4,500	5,000	6,000	6,000
Fire	1,419	49,000	38,000	3,500	50,000	5,000
Water	9,151	300,000	20,000	25,000	200,000	500,000
Sewers	9,151	400,000	150,000	85,000	550,000	350,000
Public Works	-0-	110,000	28,000	100,000	40,000	65,000
General Government	10,000	4,000	1,500	8,000	8,000	8,000
Totals		893,000	242,000	226,500	853,000	930,000

The expected population increase should cause the construction of 130 housing units in 1974, and 70 more in 1975. At least half of these will be mobile homes. Assuming \$20,000 taxable valuation per unit, \$2,600,000 will be added to the total assessed valuation in 1975, and \$1,400,000 more in 1976. At 6 mills this will produce \$15,600 in taxes in 1975 and \$24,100 in 1976. In addition, State shared revenues produce \$36.70 per capita now. Estimating \$35, the new population will produce \$14,000 in 1974 and \$21,000 in 1975.

#### Police Needs.

North Pole's Impact Statement lists a need for one full-time Chief of Police and four full-time officers in order to keep one man in the field 24 hours per day, 7 days a week. It is true that it takes five persons to man one position around the clock 7 days a week, but in this case it produces a ratio of 7.4 officers per 1,000 people, assuming a 400-person increase in population in 1974.

A full-time police department for a city the size of North Pole is highly uneconomical. At least two alternatives exist; to contract with the Alaska State Troopers for police coverage, and to participate in a borough-wide police force if unification is adopted.

If police coverage is contracted for, the cost would vary according to the intensity of patrol desired, however, it is difficult to see how North Pole could constitute more than one-third of a patrol beat.

A third alternative would be to hire two or three full-time officers to provide supplemental coverage in the evening hours when bars are open, and rely on the Alaska State Troopers during the rest of the time.

Still another workable arrangement would be to employ five full-time public safety officers, who serve as fire-fighters when needed, and who

would be backed up by 14 volunteer firemen.

If we assume the method where AST would be supplemented by two or three full-time local officers, and we estimate the cost of a police officer at \$22,000 per year including equipment, then we would estimate:

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Personnel	44,000	66,000	66,000	44,000	44,000
Capital	<u>30,000</u>	<u>4,500</u>	<u>5,000</u>	<u>6,000</u>	<u>6,000</u>
	74,000	70,500	71,000	50,000	50,000

Fire Needs.

There is no agency with which North Pole could contract for fire protection, unless unification is approved by the voters and an area-wide fire service is established. However, they could use the public safety officer approach, or have a paid-volunteer force. In any case, a minimum of one full-time paid employee must be on duty at all times. Full time coverage for fire purposes will require the four full-time fire fighters and Fire Chief, as requested. Current budget costs for fire fighters in Anchorage are \$16,000 per year per position, including benefits and personal equipment. A Fire Chief will budget at \$20,000 to \$22,000 per year. Personnel, then should cost about \$86,000 per year to man a department with minimum full coverage. The present North Pole budget is \$15,600, so the increase would be \$70,400. The amount requested by North Pole for 1974 is \$66,900 for personnel, so this is reasonable.

However, this manning should be adequate to handle a substantial increase in population and protected property over the next few years. Subsequent expansions of manpower should not be necessary to meet the impact over the construction period.

North Pole proposes the acquisition of a 1,750 gpm pumper in 1974, a 2,000-gallon tank truck in 1975, and a second 1,750 gpm pumper in 1977. A pumper of that capacity is too great for a water system the size of North Pole's. It is doubtful if a unit that size could ever be used to capacity. It is a "big-city" unit, and even Anchorage does not use units that large. The best configuration for North Pole would probably be a 750 gpm pumper and 2,000-gallon tank truck. A 750 gpm pumper, fully equipped f.o.b. North Pole will cost about \$40,000, and a 2,000 gallon tanker with auxiliary pump and hose will cost about \$30,000. A second pumper unit should not be necessary; the amount of property in North Pole to be protected does not justify a second fire-fighting unit.

#### Water Service Needs.

The City of North Pole presently provides water to 68 homes and one school estimated at the equivalent of 240 people. The present City population is 267 persons. Adding 600 persons for pipeline impact, the system will need to serve the equivalent of 1,107 population.

In addition, North Pole wishes to plan system capacity to serve a proposed 100-unit mobile home park outside the present city limits, a 1,000-student high school planned for next year, and possibly the planned oil refinery. For each of these extensions the contracted service rates and extension agreements should amortize the expenses, and such costs do not need to be considered as oil impact costs.

The existing water supply and treatment facility has the following components, according to North Pole's statement:

1. Eight-inch well with 250 gpm pump.
2. Storage tank, 100,000 gallon capacity.
3. Filter, 60 gpm capacity.
4. Circulating pump, 2,700 gpm.

5. Two pressure pumps for system pressure of 50 psi on hydrants.
6. Two heat exchange boilers, 244,000 BTU capacity, for heating storage.
7. Emergency fire pump, 750 gpm capacity @ 100 psi.

The requested system improvements for 1974, necessary to meet the demands of an additional 600 people, are listed as follows in North Pole's statement:

1. A second well, 16" diameter, 750 gpm capacity.
2. Second storage tank, 200,000 capacity.
3. Second filter unit, capacity 250 gpm.
4. Chemical recharge system.
5. Pump house.
6. Heat exchanger and boiler - 500,000 BTU capacity.

North Pole estimates the cost of these improvements at \$300,000. Our analysis shows that a system to serve 1,000 people, plus or minus, should be able to produce 100,000 gpm for domestic use, and be able to meet fire flow requirements of 240,000 gallons in four hours (1,000 gpm @ 75 psi for four hours). Therefore, the request for 200,000 gallons of additional storage capacity is reasonable, assuming the need for fire storage under wellhead shutdown conditions. The request for additional filter capacity is also justified, since 1,000 population at 100 g.p.d. normal usage will require about 150 gpm of filtered water for domestic use in the high-use period of the day.

If the existing well can produce 200 - 250 gpm on a sustained basis, it can theoretically supply the needs of 1,000 people (200 gpm = 288,000 gpd, normal usage 100,000 gpd), but this allows no backup and very little time for pump maintenance shutdown. Therefore, we would consider the need for a second well justified. However, a 16-inch well is very big indeed; the largest wells used by Anchorage and Central Alaska Utilities are 12-inch. Two 12-inch wells drilled in Anchorage in recent years cost \$165,000 and \$75,000 respectively.

While the 1974 estimate of expansion needs is justified (except for the size of the second well), and the \$300,000 cost estimate is reasonable, the requests for 1975, 1976, 1977, and 1978 are questionable. The extension of lines to new customers should be defrayed by the customers. The need for a third supply well and storage tank is unjustified, unless the idea is accepted that North Pole should provide services to perhaps 3,000 people outside the City. The need for capital improvements fully justified by the impact within the City only will be:

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Water System Capital Improvement	\$300,000	-	-	-	-

The requested operational budget increase of \$34,000 for 1974 is justified. It provides full-time coverage, with the cost split between the water and sewage treatment plants. The additional part-time operator in 1975 will probably not be needed, since the full additional capacity will be achieved by the 1974 expansion.

Sewage Treatment.

North Pole presently has a sewage treatment package plant of 60,000 gpd, or sufficient to handle 600 population. Although North Pole has an existing population of less than 300 persons, the school also on the system contributes the equivalent of 240 more persons. Therefore, the present plant cannot stand more load.

For an impact population of 600, an additional package plant of 60,000 gpd will be necessary. North Pole requests a 100,000 gpd plant in 1974, and a second unit of 100,000 gpd in 1977. In 1976 they request funds to extend collector and interceptor lines to the refinery, an item the refinery should pay for.

If a package treatment unit of 100,000 gpd is added in 1974, it is our opinion this will suffice to handle the impact population with capacity to spare.

The personnel request for a part-time supervisor and four part-time operators, to cover around the clock and to operate the water treatment plant also, seems reasonable. Thus operational costs for impact growth will be \$34,000 per year.

The impact cost for capital improvements in the sewerage system is estimated at:

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Sewage Treatment Capital Improvement	\$400,000	\$50,000	-	-	-

Public Works.

The Public Works Department is expected to have additional pressure as a result of the impact. In addition to the full-time utility supervisor and four utility operator-maintenance men, who are already listed under the sewer and water categories, the Department will need one general clerk, two equipment operators, and one maintenance man. The request is for two maintenance men, but the equipment fleet is too small to justify two men.

The equipment requests cannot be justified by the size of the sewer, water, and street systems, even with 200 more homes. In communities of 1,000 population size, specialized equipment like sewage eductors, pumper trucks, boom trucks, and backhoes should be rented for the periods needed. Also, if a tanker truck is purchased for the Fire Department, this unit could also be used as a flusher unit by Public Works.

Based on this reasoning, the estimated need for impact-induced costs would be:

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Public Works Operational Costs	\$44,000	\$48,000	\$52,000	\$56,000	\$60,000
Public Works Equipment & Equipment Rental	56,000	16,000	6,000	6,000	30,000

General Government.

In this category North Pole proposes to add one clerk and one-half the City Administrator's salary, which is now paid from another source. In 1975, a full-time Bill-Clerk/Treasurer would be added. However, three full-time administrative people are sufficient to handle the business of a city of 1,000 persons. North Pole's impact statement proposes four. Bethel, with 2,600 population, has three, Nome has four, and Barrow three. For three full-time administrative personnel, the impact cost for General Government would be:

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
General Government Personnel	\$30,000	\$32,000	\$34,000	\$36,000	\$38,000
Equipment	4,000	1,500	2,500	2,500	2,500

In summary, the total impact expense found justified by this analysis for North Pole for all six categories is as follows:

<u>Operational Costs</u>					
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Police	\$44,000	\$66,000	\$66,000	\$44,000	\$44,000
Fire	66,900	70,000	70,000	70,000	70,000
Water	34,000	38,000	42,000	46,000	50,000
Sewer	34,000	38,000	42,000	46,000	50,000
Public Works	44,000	48,000	52,000	56,000	60,000
General Government	30,000	32,000	34,000	36,000	38,000
Totals	\$252,900	\$292,000	\$306,000	\$298,000	\$312,000

Capital Costs

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Police	\$30,000	4,500	5,000	6,000	6,000
Fire	40,000	30,000	-0-	-0-	-0-
Water	300,000	-0-	-0-	-0-	-0-
Sewer	400,000	50,000	-0-	-0-	-0-
Public Works	56,000	16,000	6,000	6,000	30,000
General Government	4,000	1,500	2,500	2,500	2,500
Totals	\$830,000	\$102,000	\$13,500	\$14,500	\$38,500

Offsetting Revenues.

In order to arrive at the need for impact assistance for North Pole, it is necessary to deduct the offsetting revenues that will be generated by the new population. These revenues are sales tax, property tax, and shared revenue. We will project them at the same per capita rate they presently produce:

Impact Revenues

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Sales Tax	8,000	12,000	12,000	12,000	12,000
Property Tax	-0-	15,600	24,100	25,000	26,000
Shared Revenue	14,000	21,000	21,000	21,000	21,000
Totals	\$22,000	\$48,600	\$57,000	\$58,000	\$59,000

Operational expenses due to pipeline impact could apparently be met in North Pole by a subsidy of \$580 per capita in 1974, \$405 per capita in 1975, and \$415 per capita in 1976. The capital costs could be handled through a subsidy for debt service, or a loan guarantee program.

SECTION XVI

CITY OF SEWARD

Description of Area.

Seward is on Resurrection Bay with a year-round port. It is one terminus of the Alaska Railroad, but has declined in importance due to the use of trainships coming to Whittier, and to the use of the Port of Anchorage.

Population.

The U.S. Census of 1970 shows Seward declining in population from 1,891 in 1960 to 1,587 in 1970. Statistics of the State Department of Labor show little increase through 1972.

Services.

The City of Seward provides the following services and utilities: Police, fire protection, street maintenance and lighting, a small boat harbor, water and sewer, and the electric utility. Library services are contracted for.

Taxing.

The 1973-74 budget calls for a 20 mill tax levy on a total assessed valuation of \$12,415,690, including personal property, with the exception of boats. A special tax on boats provided an additional \$1,330.

Debt.

The total G.O. bond debt on June 30, 1973, including interest due, was \$34,705.64. This amounts to 0.27% of the assessed valuation.

They have additional utility revenue bonds outstanding of \$104,373. Debt coverage seems to be comfortable on both utilities under present conditions: 1.63/1.0 for the water utility and 2.26/1.0 for the electric.

Impact - General.

Although Seward does not characterize the impact they will feel, it is assumed it will be in two fields.

It is expected that during the construction years, and the production well drilling on the North Slope, all seaports in Southcentral Alaska will see increased tonnages move over their docks. Seward should get some of it, as it does now.

Secondly, the City, with its' fine small boat harbor and marine facilities could experience an increase in recreational activities, however, the City believes these facilities may be used almost to the saturation point by present population.

Impact - Specific.

The City does not quantify any of the ways in which it expects to be impacted. There was insufficient time to do further research, so herewith is attached a copy of the letter submitted on behalf of Seward for your consideration. It outlines 9 ways in which the City Council believes Seward may be affected. I will comment briefly on two.

No. 1. The population increase of 250 to 600 would mean increased employment of from 100 to 250. This would represent an increase ranging from 15% to 37%. Either would be possible, depending upon the amount of increase in shipping tonnages and the direct and indirect jobs created. When I talked to the Manager of the Alaska Railroad, he had no information regarding the transportation needs of the Alyeska Pipeline Service Company nor its' contractors.

No. 4. If there is a population increase in any large amount, Seward believes there will be some increase in operational costs in the

police service. Water, sewage treatment, and the electric utility will need expansion.

# CITY OF SEWARD



P. O. BOX 337  
SEWARD, ALASKA 99664

CITY MANAGER CA 4-5214  
COMPTROLLER CA 4-5216  
INFORMATION CA 4-5215  
CITY POLICE CA 4-5201

November 20, 1973

Mr. George Sharrock,  
Committee Director and Coordinator,  
Special Petroleum Impact Committee,  
326 H Street, Room 8,  
Anchorage, Alaska 99501

Dear Mr. Sharrock:

In reply to your letter of October 30, 1973, regarding the possible impact effects the pipeline construction project will have on Seward, the City Council and administration have made the following estimates:

1. Population is anticipated to grow and will be limited by lack of adequate housing in this area. We estimate a jump of from 250 to 600 persons during the construction period.
2. Housing is needed for any increase in population. We have no facilities for excess growth inside the city limits, i.e. a mobile home park, but areas outside the limits could be utilized for temporary housing which would impact us without adding to the local tax base.
3. High School is at maximum capacity but double-shifting would satisfy the local condition expected. Grade school construction would be required on a limited or temporary basis but added dollars for extra shift teachers would be required.
4. Additions to the Police Department in the form of one or two officers would be required, the number of volunteer firemen would have to be expanded. Water supplies are in the process of being expanded now and would suffice unless a new industrial demand were placed on the system. Since this proposal has not been finally approved yet it is still tentative. Electrical power supplies are to peak capacity now and negotiations are underway with Chugach Electric to provide added capacity for the Seward system. If added capacity cannot be provided then Seward will not be prepared for any growth in 1974.

Mr. George Sharrock  
November 20, 1973  
Page Two

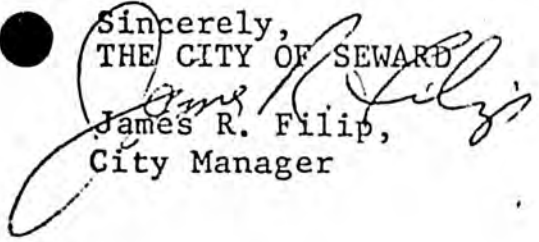
Plans are underway for a sewage treatment system, but construction is still months away from reality. If the City is called upon to provide new lines to pickup added residents then funds for this work must be available.

5. The local area has opportunities for summer recreation, but facilities are poorly developed and hundreds of visitors who live and work in the Anchorage area are anticipated here. During peak summer days the community reaches a heavy saturation and little excess for added growth is available.
6. The health problem cited as the most important is alcoholism. No local facilities are yet available for handling alcoholics but a local committee is beginning to function and some help may be ready on a limited basis. Also cited was the drug problem as likely to increase.
7. Medical facilities are adequate for anticipated growth. A need for a surgeon was noted.
8. In transportation it was acknowledged that daily bus service to and from Anchorage should be augmented as needed. Initiation of air service should be investigated and scheduled.
9. Additional revenues are expected to fall short of requirements. Impacts will be felt and have to be handled as quickly as possible while additions to the tax base will take months to complete and add to the assessment roll. The magnitude of the short-fall cannot be estimated at this time.
10. A copy of the approved Budget for 1973-74 is enclosed for your information.

Members of the City Council appreciated this opportunity to review our needs in light of possible developments and all were interested in receiving information from the Committee as the true impact of the line is realised or expected.

Thank you for your interest in this matter and for the chance of aiding in the review.

Sincerely,  
THE CITY OF SEWARD

  
James R. Filip,  
City Manager

SECTION XVII

CITY OF VALDEZ

General Description.

Valdez is located at the head of Valdez Arm, which is a fiord-like body of water off North Price William Sound. It is the terminus of the Richardson Highway and has a year-round seaport. Air transportation is not too reliable since neither instrument approach to the airport nor instrument landings are possible.

The Alaska State Ferry operates between Whittier and Valdez five days a week during the summer months, making a stop at Cordova two days a week.

The climate is marine in character and Valdez gets about 60 inches of precipitation a year.

Population.

The population of Valdez was relatively stable for the period 1940 to 1960. The 1970 census showed an increase of 81% over 1960, some due to the activities related to the pipeline in 1969 and 1970. The 1970 census gave the City 1,008 population.

Projections made by Mathematical Sciences Northwest seem to be as reasonable as any made. The following Table shows their numbers they estimate.

TABLE 17-1

Employment/Population Projections

<u>Year</u>	<u>Employment</u>	<u>Population</u>	<u>City of Valdez</u>
1972	467	1122	-
1973	584	1446	-
1974	1102	3008	1600
1975	1054	2613	2100
1976	952	2311	2500

The MSNW projections assumed a pipeline permit by October 1, 1973. The employment shown for 1973, therefore, is believed to be high. However, if the pipeline starts early next year, the build-up will be rapid, and employment and the population will rise quite rapidly.

Alyeska plans for 1,650 camp workers in the area in 1974 and 4,350 in 1975 and 1976. The population shown in the MSNW report does not include camp workers, with the exception of 5% which they believe may live in town. Of course, this percentage may be higher and any increase would be expected to increase the MSNW figures. The City projections are considerably more conservative than MSNW and may under-estimate the impact. Therefore, we are inclined, for the purposes of this report, to use the MSNW projections, with the exception of the impact on law enforcement and recreation, which should include camps.

#### Services.

Valdez offers nearly all normal urban-type services with quite modern, up-to-date facilities. The City was moved to a new site and rebuilt from scratch following the 1964 earthquake. The services will be discussed later in connection with impact needs.

Electrical energy and telephone services are provided by local units of the Copper River Electric & Telephone Cooperative (REA), with headquarters in Glennallen.

#### Taxing.

The City has a real property tax, but no personal property tax. The mill rate is different for different zones, depending upon the level of services provided. Zone I was 15.0 in 1972-73; Zone II, 12.0, and Zone III, 10.5. This averaged to 13.2 mills in 1972-73, on an assessed valuation of \$13,862,650. There is a tax rate limit of 30 mills.

Operations Impact.

Public Safety.

Valdez anticipates problems with law enforcement similar to other cities, however, perhaps aggravated by the 4,350 camp workers that will be within a few miles of town. The police force will need to be expanded. The following Table shows the impact costs for this department.

TABLE 17-2

Police Department Impact Costs (\$000)

<u>Year</u>	<u>Officers</u>	<u>Support Personnel</u>	<u>Personnel Costs</u>	<u>Equipment and Supplies</u>	<u>Total</u>	<u>Impact*</u>
1973	4	0	64	-	64	-
1974	4	2	141	26	167	99
1975	8	4	270	36	306	234
1976	8	4	270	40	310	234

\* Assuming that under normal conditions wages would increase @ 6% annually.

The present fire protection is done by a volunteer department, with a token payment, it is believed, to the Chief. The City believes that a small full-time force will be required. Following is a Table showing estimated costs.

TABLE 17-3

Fire Department Impact Costs (\$000)

<u>Year</u>	<u>Firemen</u>	<u>Chief, Dispatch Marshall</u>	<u>Personnel Costs</u>	<u>Equipment and Supplies</u>	<u>Total</u>	<u>Impact</u>
1973	-	-	-	-	-	-
1974	6	3	210	7	217	217
1975	6	3	210	2	212	212
1976	6	3	210	2	212	212

The City collects a sales tax of 4%. A projection of the assessed valuation for future years is difficult, however, an attempt will be made below under Projected Revenues.

Debt.

The City of Valdez has very little debt of any kind. General obligation bonds outstanding on June 30, 1973 were in the sum of \$46,000, which was only 0.33% of assessed valuation. Other debt amounted to an additional \$97,859. The nature of this debt was not defined.

Impact - General.

Valdez, being situated at the terminus of the pipeline, will receive the greatest impact of any community, percentage-wise. This is because of the present small economic base and the large expected increase of both service workers living in town and camp workers located nearby. As shown in Table 17-1, the resident population is expected to increase almost 200% in only a year or so. The permanent population following the completion of the pipeline is expected to be over 100% of the present figure.

Services, trade and commerce, shipping, and government services, both State and Federal, will expand rapidly in order to meet the demands. The City will be faced with the many problems of providing facilities for new housing, new commercial facilities, and the services necessary for a comparatively large transient population. All these will put a strain on the present government structure and its' ability to finance the public improvements called for.

Valdez is fortunate that it has a fairly solid base to start with in respect to community facilities, and practically no debt.

Following are the areas of concern expressed by the City government and their specific requests for financial assistance.

Because of an increase in both housing and commercial structures, building inspection will need to be done on a full-time basis. Heretofore, this work has been done on a professional fee basis, at a cost of about \$5,000/year.

Following is an estimate of the impact need, including camp ground maintenance and supervision.

TABLE 17-4

Building Inspection Costs Induced By Impact (\$000)

<u>Year</u>	<u>Building Inspector</u>	<u>Camp Custodian</u>	<u>Personnel Costs</u>	<u>Equipment &amp; Supplies</u>	<u>Total*</u>	<u>Impact</u>
1973	0	1/2	5	-	5	-
1974	1	1	50	14	64	59
1975	1	1	50	2	52	46
1976	1	1	50	2	52	46

\* Assuming a 6% annual increase under normal conditions.

Public Works.

Streets, sewers, water, refuse, and snow removal operations and maintenance costs will rise in proportion to the population increase and the itinerants, and recreation seekers. The following Table depicts the estimates of costs of these activities.

TABLE 17-5

Impact Costs of Public Works (\$000)

<u>Year</u>	<u>Personnel</u>	<u>Personnel Costs</u>	<u>Equipment &amp; Supplies</u>	<u>Total</u>	<u>Impact*</u>
1973	5	58	-	58	-
1974	6	160	51	211	150
1975	8	211	30	241	171
1976	10	261	12	273	203

\* Assuming normal personnel cost rise @ 6% a year.

Dock and Small Boat Harbor.

The dock and boat harbor operations to date have required together about one full-time person. The City estimates three full-time people will be needed to cover these functions. The next Table shows the impact costs.

TABLE 17-6

Estimated Dock and Small Boat Harbor Impact Costs (\$000)

<u>Year</u>	<u>Personnel</u>	<u>Personnel Costs</u>	<u>Equipment &amp; Supplies</u>	<u>Total</u>	<u>Impact*</u>
1973	1	10	0	10	-
1974	3	82	8	90	79
1975	3	82	22	104	93
1976	3	82	9	91	79

\* Assuming normal personnel costs will rise 6% annually.

The City anticipates administrative costs will rise as government services increase. The following Table shows the estimated increases in costs.

TABLE 17-7

Estimated Administrative Impact Costs (\$000)

<u>Year</u>	<u>Personnel</u>	<u>Personnel Costs</u>	<u>Equipment &amp; Supplies</u>	<u>Total</u>	<u>Impact*</u>
1973	2	46	-	46	-
1974	5	137	53	190	141
1975	6	158	46	204	152
1976	7	179	46	225	170

\* Assuming 6% increase in normal personnel costs annually.

The Finance Department heretofore has consisted of a billing clerk and a bookkeeper. The City contemplates a large increase in work-load. There is no City Attorney full-time, and this function is obtained on a contractual basis. No additions are included in the Valdez statement. Impact costs of the Finance Department are shown in the following Table.

TABLE 17-8

Estimated Impact Costs of Finance Department (\$000)

<u>Year</u>	<u>Personnel</u>	<u>Personnel Costs</u>	<u>Equipment &amp; Supplies</u>	<u>Total</u>	<u>Impact*</u>
1973	2	25	-	25	-
1974	4	117	44	161	135
1975	5	142	36	178	150
1976	6	167	36	203	174

\* Based upon a 6% annual increase in normal personnel costs.

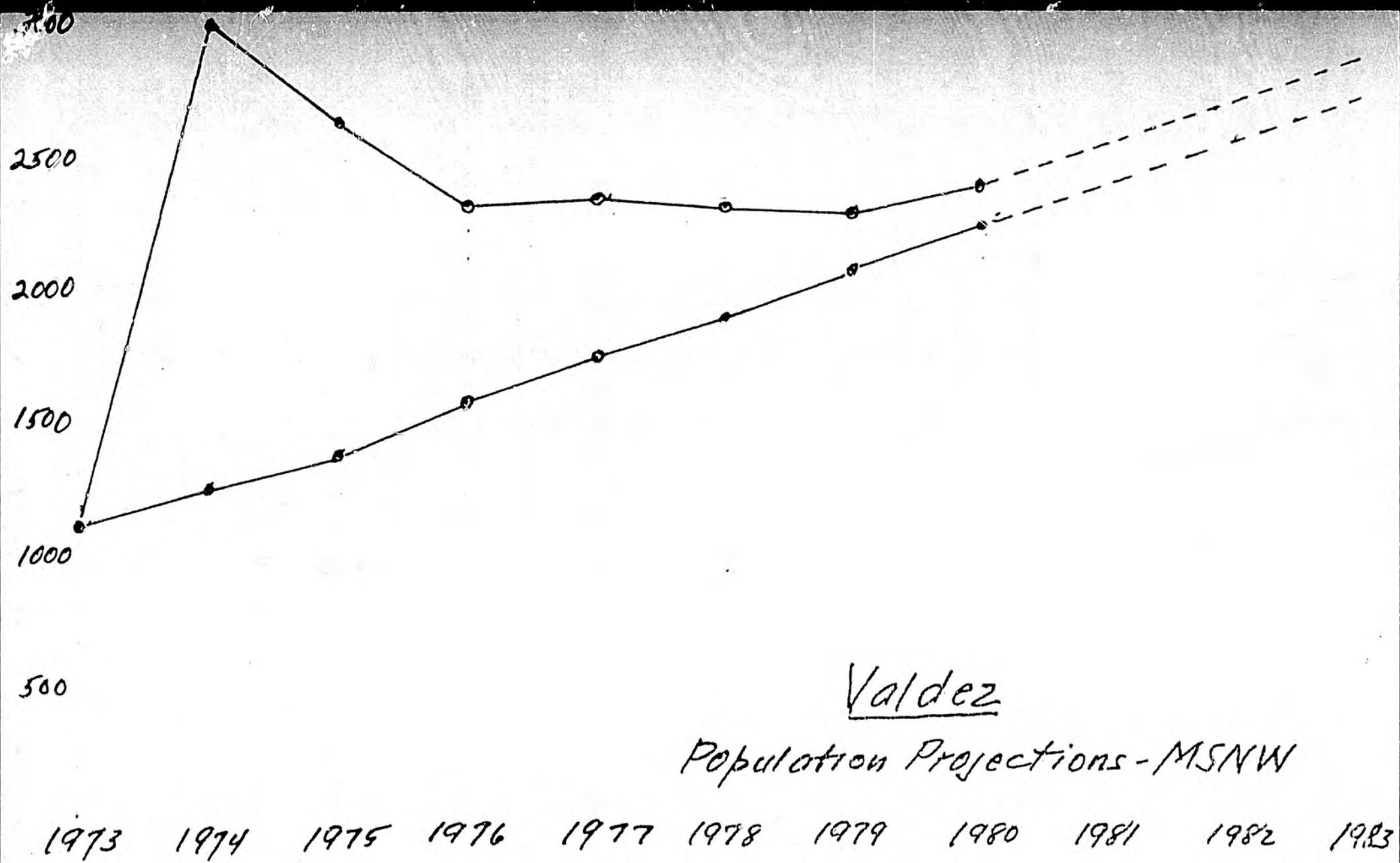
The seven categories of operational costs listed in the above seven Tables are not all-inclusive of the City's operational functions, but are those that they feel will be heavily impacted. The impact costs will be further analyzed in the Summary Section.

Schools.

The Valdez school system has three schools at present. There is a school population of 310 and only 51 additional students can be accommodated without increasing classrooms or going to double-shifting, or year-round schools. (They do not show year-round schools as an alternative.)

The 1973-74 budget recommended a mill rate for school purposes of 5.51 mills for the local contribution. Local contribution covers about 10% of the costs and amounts to \$246.46 per pupil in the 1973-74 budget.

The schools of Valdez estimate the operational costs for the first



year of the pipeline construction to be as follows. They did not project beyond 1974.

TABLE 17-9

Estimated Impact Costs of School Operations (\$000)

<u>Year</u>	<u>School Population</u>	<u>Local Contribution</u>	<u>Per Pupil Contribution</u>	<u>State Contribution</u>	<u>Additional Needed</u>
1973	310	76.4	246.46	687.6	-
1974	600*	108.5*	180.83	976.5*	546*
1975	750	Not Projected			
1976	700	"	"		

\* Based upon Valdez school administration projections.

Capital Improvements.

The capital improvements needed to meet the pipeline induced needs are covered below. The City of Valdez is concerned about making improvements that may not be needed if the population drops significantly following pipeline construction. It may be noted that Valdez is somewhat unique among the impacted communities in that the relatively large population projected in the first year or so will be a number of years ahead of the time when that population figure would be reached under normal conditions. Please refer to the graph attached and note that the population projected for 1974 would probably not be reached before 1985 under normal growth. The graph would indicate that, even after the population stabilizes in 1976, no significant growth starts again until 1979, when apparently a normal growth curve is resumed.

If these projections can be relied upon, it would seem to be wise for Valdez to make public improvements based upon a population of not more than 2,300 until the picture becomes a little clearer as to what

really is going to happen. The following analysis of the capital improvements will reflect this thinking.

Housing.

Valdez presently has 192 residential lots with conventional housing. In addition, it has 112 mobile home park spaces occupied. Land for additional housing is available, but rather limited. Following is an inventory of the potential.

55 Residential lots serviced with streets, sewers and utilities.

10 Residential, multi-family, serviced with streets, sewers and utilities -- 52 units could be built on these lots.

34 Residential lots need streets, sewers and utilities.

19-1/2 Acres of City land could be subdivided, and improvements to streets extended. This could make 160 additional family units.

The above unimproved properties could be improved for: 34 lots, \$175,000, and 160 lots, \$600,000.

There are six mobile-trailer parks within the City, three near town with 68 spaces, and three, 4 miles out with 118 spaces. One-hundred twelve spaces were filled in August, 1973.

The U.S. Army Recreation Camp can accommodate 33 trailers, the spaces being served with facilities and utilities. The City is attempting to trade land for the trailer park. It has room for 66 more units, however, utilities would cost an estimated \$250,000.

Thus the picture is as follows:

Conventional Housing

107 - ready for building.

194 - need streets, sewers and utilities.

Mobile Homes

74 - ready for moving in homes.

Trailer Spaces (assuming trade goes through)

33 - ready for use.  
66 - need facilities.  
374

With an average occupancy of three persons per unit, the above, if needed improvements were made, would handle 1,122 of the new population. If the temporary population goes up to 3,000, more temporary housing space will be needed. There are two alternatives.

1. There is University of Alaska land in the downtown area that is adjacent to utilities, sewers, et cetera, and which is suitable for housing. If the University could lease it for temporary housing, if it becomes necessary, it could help solve the problem.

2. By the extension of Egan Avenue to the west, it would open up new land for development. The extension of this street is also needed, according to the City, to provide access to their proposed site of a new State ferry dock (more later on this).

It would appear that the City should arrange for the funding of the costs of developing the 194 potential home sites as soon as possible at the total estimated cost of \$775,000. If the trade with the Army is successful, the additional 66 trailer spaces should be developed at the cost of \$250,000.

Water Utility.

The City operates the Water Utility and obtains its' supply from two wells capable of producing 1,100 gallons per minute. In addition, they have a 700,000 gallon storage tank. The daily per capita consumption is estimated at 150 gallons. The system capacity is large enough for a much larger population than is expected during the next few years

In the previous discussion of housing, it was stated that new

residential lots not being served by utilities would need water extensions, and the amounts needed were there estimated and included in development costs.

#### Sewers and Sewage Treatment Plant.

The City advises that the existing sewer system is adequate to serve the established townsite. Sewage is treated in a treatment plant and the effluent goes into the Bay. The plant is inadequate for the present population, although it was designed for a population of about 1,500. It seems water in-flow to the sewer system overloads the treatment plant. No method has been found to stop the infiltration of water, so the treatment plant must be enlarged.

The City says that the cost of a new treatment plant is \$1,500,000. Based upon an analysis of the report filed with ASHA, who managed the urban renewal project when Valdez was moved, the 150 gallons per capita per day design criteria, Valdez will need another 300,000 gallons per day of treatment capacity. At an estimated cost of \$200 per capita, the additional treatment unit would cost \$600,000. The City agrees that this might be considered the impact costs, providing it meets all EPA requirements.

#### Public Buildings.

Presently, the whole City government occupies the City Hall. This includes the administrative staff, police, fire department, city council, and State Magistrate. The building is completely filled. With the new personnel in all functions, more space will be necessary. There have been alternatives considered.

1. Build a new wing to house the police.
2. Rent or build a new administration building and turn the old building over to the police and fire departments.

3. Move in temporary mobile space.

Building the new wing would cost an estimated \$150,000. This plan has not been selected, or dropped, so it is included in the capital improvements impact.

Fire Station.

As the City builds out beyond the reasonable response time for the fire trucks located in the center of town, a new station should be located away from the center. The City has on order a new pumper, but they need a structure to house it and believe it could best be located near the airport. The new structure is estimated to cost \$150,000.

The City believes also that because of the expected new State government personnel that will be stationed in Valdez during and after the pipeline construction, that more State offices will be needed. The State has land in the central area.

Small Boat Harbor.

With the new resident population and the thousands of workers in the area, the present small boat harbor will be entirely inadequate, according to the City of Valdez. The harbor at present can accomodate 176 boats, ranging from 10-foot skiffs to 60-foot fishing boats. They expect that the demand will require doubling this capacity.

The work necessary to expand the harbor is estimated to cost as follows:

Excavation	\$405,000
Drive new piles	70,200
Re-locate ramps	25,000
Total cost	<u>\$500,200</u>

The value of the small boat harbor to Valdez, not only as an economic factor, but as a recreational facility, cannot be overestimated.

### Solid Waste Disposal.

Refuse disposal is provided by the City with one truck which is adequate for projected populations. The disposal site will need to be relocated, however, to handle the larger volumes expected. Estimated costs of covering the present site and relocating to a new site is \$20,000.

### Schools.

As stated above, the City has three schools, with space capacity (November, 1973) of 51 students. The school administration estimates they will have approximately 600 students the first year of pipeline construction.

Based upon a permanent population of about 2,300 for a few years, this figure seems to be reasonable. Based upon 20 pupils per classroom, the additional classrooms needed would be about 12.

The school administration is considering the following alternatives:

1. Rent available space on a temporary basis.
2. Provide modular classrooms.
3. Double-shift grades K - 8.
4. Double-shift grades 9 - 12.

They do not consider year-round schools as an alternative.

There has been consideration given to adding five classrooms to the elementary, <sup>and</sup> expanding related facilities, including the heating plant. The cost is estimated at \$570,000.

Also under this possible plan, the existing high school building would be used for the lower grades and a new high school would be constructed. It is believed these construction plans would serve over a longer range than just the pipeline construction period.

Assuming 12 classrooms were needed for the impact period and based

upon the alternatives considered above, costs could be estimated as follows (Staff estimate):

Alternative 2 above:

12 relocatable units                      \$ 600,000

Alternative: New construction

Classrooms needed - 12

Assume 6 elementary @  
\$130,000 per unit----- 780,000

Assume 6 secondary @  
\$175,000 per unit----- 1,050,000

Total    \$1,830,000

Electrical Utility.

The electric utility is operated by the Copper River Valley Cooperative and has a peak capacity of about 3,600 KW and a firm capacity of 1,800 KW. With the new B & B Freezer-Storage Plant going on the line recently, additional generating capacity will be needed to serve any new population. From the information I can get, it appears that the Cooperative may be unable to obtain additional funds for expansion of this utility.

The following courses of action have been discussed.

1. Arrange for the Cooperative to borrow money under some State program.
2. The City set up a temporary generating unit.
3. The Cooperative be aided in their attempt to purchase power from Alyeska.

From the standpoint of ease of implementation, the first alternative seems the most logical, even if the unit provided were only a temporary unit.

The second alternative would be only a last resort and would have

to be worked into the Copper Valley system. It should be resorted to only if the Copper Valley directors refused to take the appropriate steps.

The third alternative has been attempted. Alyeska was approached and the result was a firm negative -- they don't want to get into the power business. However, I believe the legal barriers, if they exist, could be overcome. Such a solution would necessitate the construction of a transmission line to Valdez from the pipeline terminal site, and in itself would be costly, but would eliminate other capital expenditures at this time. The feasibility of this alternative would depend upon the cost of power to the utility, the cost of the transmission line as compared to the amount of power that could be purchased and over what periods, and the extent to which transformers were needed at both ends of the line, and their cost. (See Appendix G, Valdez Power.)

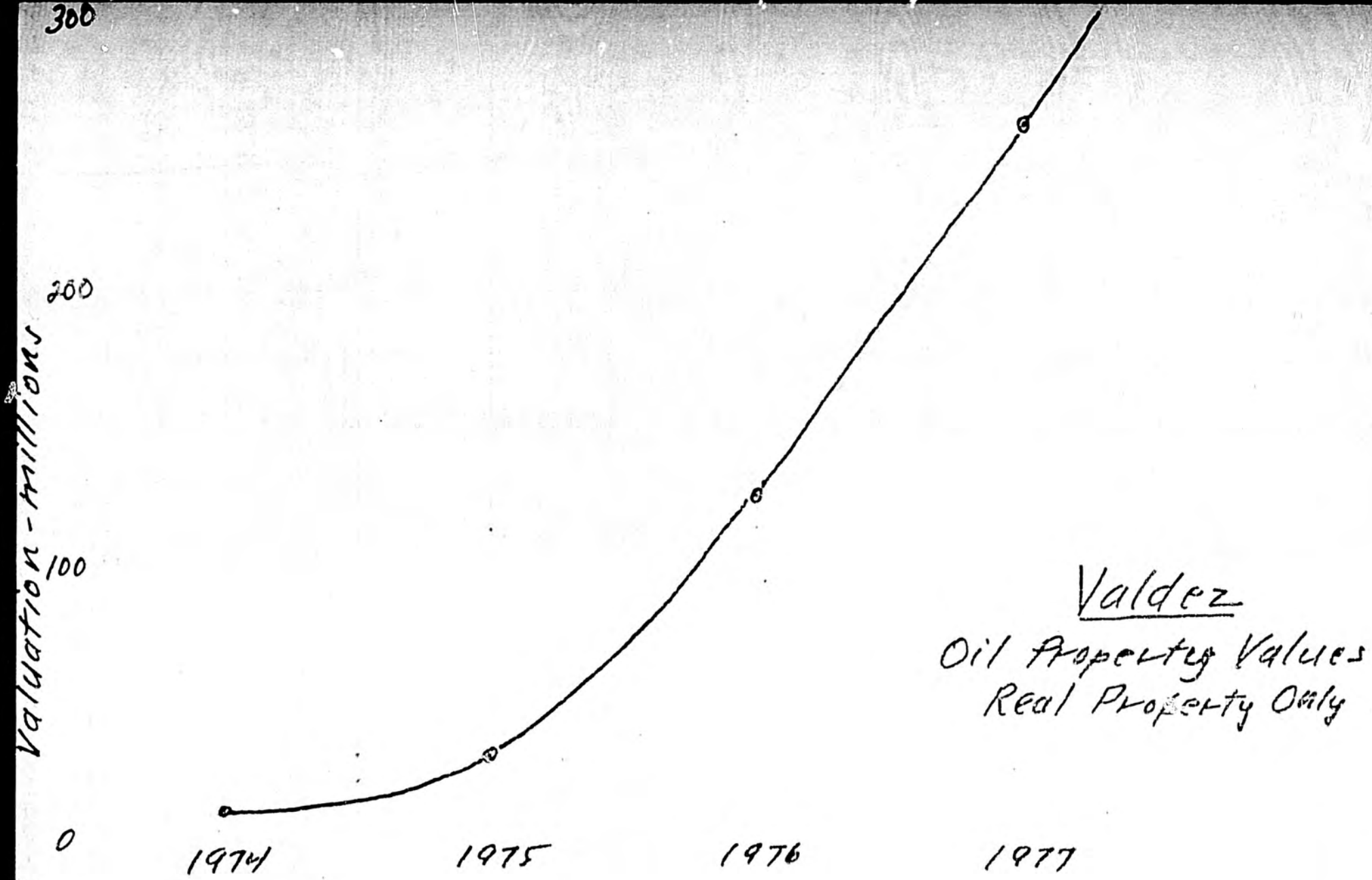
#### State Ferry Terminal.

The City says the State Ferry Terminal is presently at a poor location because passenger traffic on and off the ferry is in constant conflict with other port activities. This situation is expected to be aggravated by the larger volumes of marine traffic that will be moving over the dock during the construction period.

The City proposes that the Ferry Terminal be relocated to the Mouth of Mineral Creek and that the present dock be turned over to the City to help service the marine traffic.

The cost of the new Ferry Terminal is estimated at \$300,000.

In order to relocate the new terminal, Egan Avenue would have to be extended west. The right-of-way has not yet been acquired, the City says, and the project should be undertaken as a part of the State's primary road system. No estimate of cost is made.



Valdez  
Oil Property Values  
Real Property Only

300

200

100

0

1974

1975

1976

1977

158

8

Revenue Projections.

The following projections of property tax revenues for the City include those made by the City Manager prior to the passage of the new State ad valorem legislation.

Also included are my own projections that were made after discussion with the State Department of Revenue.

The Department projects real and personal oil property as \$131 million in 1975; \$279 million in 1976 and \$540 million in 1977. They estimate the personal property to be \$100 million. By deducting this, they get \$31 million in 1975, \$179 million in 1976, and \$440 million in 1977. I have chosen lower figures for my projections, allowing almost 50% of the State real and personal projections for personal property during the construction years. The attached graph and the Table show these projections.

TABLE 17-9

Property And Sales Tax Revenue Projections (\$000)

Year	City* Projections	Oil Real Property	Tax** @ 7 Mills	Other Prop. Values	Tax @ 13.5 Mills	Sales Tax	Totals
1973	320	-	-	-	-	160	-
1974	570	10,000	70	11,500	155	232	457
1975	813	30,000	210	17,500	236	305	751
1976	1,165	125,000	875	21,800	294	363	1,532
1977	1,400	260,000	1,820	27,300	369	435	2,624

\* City projections include sales and other taxes.

\*\* 7 mills used only as a shot in the dark. No decision has been made by the City as to making a new tax zone for oil properties.

It will be noted that my projections are lower in 1974 and 1975 than those of the City, but are higher after those years.

State Shared Revenue.

The following projections cover only those revenue sharing categories dependent upon population.

TABLE 17-10

State Revenue Sharing Projections

<u>Year</u>	<u>Populations Projections*</u>	<u>Police</u>	<u>Fire</u>	<u>Parks</u>	<u>Totals</u>
1973	1,100	11	5.5	5.5	22
1974	1,600	16	8.0	8.0	32
1975	2,100	21	10.5	10.5	42
1976	2,500	25	12.5	12.5	50

\* City projections.

It should be noted that the property tax picture would change radically if Valdez should assess and levy taxes on personal property.

SECTION XVIII

VILLAGES

The following relates to the impact of the pipeline on the native villages. Specific reference here is to the people living in the Copper River Valley and along the Yukon near the route of the pipeline. It was believed that their opinions should be sought regarding the way pipeline construction would affect them and what they were most concerned with.

It is reported that there are about 1,000 natives in the Ahtna Corporation. Rampart Village has 68 inhabitants, and Stevens Village about 74. The latter two are in the Doyon Corporation.

Generally, the people seem to know much about what the construction job is, and how it will be built, and they are aware of how it may affect their way of life.

Although there is a desire to have the opportunity to work on the line, there is the feeling that for most natives the work should be such that they will have to train only for short periods, 30 to 60 days. They want to work near home, or close enough so they can return home periodically. Instead of being transported to the point of hire, they would want the contractors to return them to their village.

The natives would like to register with their own native corporations for work, rather than go to the large cities.

Many of the native people would prefer permanent employment rather than short-term construction work, even though the pay would be lower.

Other pipeline-associated jobs for which some native people feel they can qualify, or be trained for are as follows:

1. Contract with Alyeska, or its' contractors, for providing gravel

needed for pipeline construction and associated road work. There is some question about their having the authority to use such gravel. First, it has not been determined if gravel is a surface or sub-surface resource. They do not know if they can use or sell gravel in their townships of selection before they have title to the land.

2. The natives believe some of them, or their corporations, can contract for security patrol, both during construction and after.

3. They believe native corporations could salvage timber in the pipeline right-of-way if it has any value.

4. They would like the opportunity of contracting for reclamation projects after the pipeline is completed.

5. There is some thought being given to groups or individuals entering business or offering services that would be needed during the pipeline construction.

6. They would like the State to train natives for auxiliary police work and employ them in the villages to maintain order during the construction period.

An important part of the pipeline construction project of great importance to the natives along the line is the effect of the corridor withdrawal upon the village's selection of land. Several of the villages are either adjacent to the line, or the line runs through townships which they want to select for the village.

It is their opinion that in the areas where there is conflict, the right-of-way be designated and the remainder of the corridor be released. The Secretary of Interior promised to consider this problem.

The native people are much interested in the education of their

children. They see education as the way for them to improve their way of life. Even though there seems to be resistance to changing their ways, they see change coming.

Because of the distances involved in going to school, most would prefer lower quality, temporary classrooms and be able to maintain regular school hours rather than double-shifting.

The quality of housing in the villages is not high. Most have no running water. The belief is that many of the younger generation who are now in Anchorage and Fairbanks will return to the villages during pipeline construction. New housing will be needed and any housing finance program should help them, too, since most programs will not.

There are several other matters that the native people are thinking about in connection with the construction period and the large number of people that will be "invading" their home territory.

1. Despite the fact that the pipeline may provide jobs, many native people are skeptical about their being able to depend upon full time employment, from here on out, for their livelihood. They fear that they may still have to depend upon subsistence living sometime in the future. Therefore, they are worried about what will happen to fish and game with the thousands of workers along the pipeline, and with the new road opening up the country to north of the Yukon.

They claim that game is already scarce and that a native family needs at least one, preferably two moose or caribou to survive the Winter. They find they must travel further away each year from the areas where sports hunters go to get their game. They believe that subsistence hunting should have some State protection.

The fish spawning streams in the path of the pipeline should be protected, since these streams are a source of livelihood for the subsistence hunters.

2. State health services should be improved to the villages.

3. The village governments should have the right to review liquor license applications for dispensary or package outlets near the village.

4. The State should pass and enforce laws along the pipeline and highway to prohibit junk, other discarded material, and waste from being dumped.

5. Firefighting training in the villages and the distribution of fire extinguishers should be expanded.

6. Any measure that is possible should be taken to protect the native gravesites.

7. An improvement program for the native village airstrip should be initiated.

8. As soon as possible, telephone communications should be made available to villages that do not have them -- at the very least, a public phone that could be accessible for emergencies.

APPENDIX A

CITIES AND GOVERNMENT AGENCIES ASKED FOR IMPACT STATEMENTS

Cities and Boroughs

Anchorage *BARPOW*  
Cordova  
Delta Junction  
Fairbanks  
Fairbanks North Star Borough  
Greater Anchorage Area Borough  
Haines  
Juneau  
Kenai  
Kenai Peninsula Borough  
Matanuska Valley Borough  
North Pole  
Palmer  
Seward  
Valdez  
Whittier

Other Agencies

Fairbanks Schools  
Anchorage Schools

APPENDIX B

POPULATION AND EMPLOYMENT

## EMPLOYMENT AND POPULATION PROJECTIONS

Mathematical Sciences Northwest did a study of the economic and sociological impact of construction and initial operation of the Trans Alaska Pipeline. Their report is available in our office for any Committee member who hasn't seen it.

Generally, it is believed that their projections of employment are low for the State and most of the communities for which separate projections were made. Consequently, the population projections are considered low, with the exception of Fairbanks. It is believed their population figures for Fairbanks are probably high because it appears they used a population/employment ratio higher than presently exists in Fairbanks. The ratio they use averages about 1.4 additional persons in the population for each worker; therefore, a multiplier of 2.4. My calculations of this ratio, based on the population/employment figures for the past few years indicate a present multiplier of about 1.8 exists, and it probably will drop during the pipeline construction period.

However, to maximize the possible impact, we have kept in mind MSNW population figures for Fairbanks in analyzing the impact statements from that area.

## EMPLOYMENT PROJECTIONS -- METHODS AND ASSUMPTIONS

1. The employment figures are for civilian employment and, therefore, exclude uniformed military personnel. The base figures used are those published monthly by the State Department of Labor, "Alaska Workforce Estimates."

2. No attempt has been made in this effort to project beyond 1976, because of many unknowns and the time required to develop such information. Several other studies have been made and they indicate some slowing of employment growth after 1976, if no new large projects are started.

Regardless of whether the economy continues at an increased pace after 1976 or not, the accelerated growth picture, as seen at present, will probably not change radically. If the impact is faced by assuming an adjustment period after 1976, the consequences of over-building can better be accounted for and avoided.

3. A "Basic" industry, as used here, means the project which creates the new demand for workers. Examples would be military construction during the Korean War; the construction following the Alaska earthquake; and the North Slope oil activity in 1968, 1969 and 1970.

4. Employment figures are annual averages. Peak annual figures may be 12% (or more) higher or lower than shown in the peak or off-seasons, respectively.

5. The 1960 - 1970 employment in the State increased at an annual average of 4.65. This includes two "boom" periods. The earthquake reconstruction period and the beginning of the North Slope oil exploration.

6. Population figures are all calculated on the exclusion of all persons living on military bases. These figures are:

Statewide	45,800
Anchorage	23,339
Fairbanks	15,246

as per 1970 United States census figures.

7. Eliminating large employment increases generated by large, short term projects, civilian employment in the period 1960 to 1970 increased about 3.4% annually, on the average. This rate of increase would appear to be close to the increase that would occur due to the natural increase of our population and an accompanying expansion of the economy to accomodate it.

8. The relationship between population and employment shows a decreasing ratio and varies from city to city, and statewide. Recent statistics, from 1970 to 1973, show a slight increase, probably due to the slowdown of the North Slope oil activity and the consequent lower number of single workers. However, the ratio is very close to 1.40 "dependents" for each person employed statewide. It is expected that with the influx of many single workers, or workers who do not bring their families, this ratio will drop.

The ratio in Anchorage is a little lower: about 1.24. Fairbanks is even lower: about 0.8, indicating a higher ratio of single people among the workers there than elsewhere.

In my projections, I use lower ratios all the way through in projecting population figures, because of the probable influx of a high percentage of workers without families during the construction phase.

9. An analysis of employment experience during the two "boom" periods in the 1960 - 1970 period indicates the following:

a. For each job in a "basic" industry, sustained for two to three years, approximately 2.4 "other" jobs were created, with some lag time (1 to 2 years).

b. Of the "other" new jobs created, roughly 50% or more, have been created in Anchorage, about 15 - 17% in Fairbanks (if Fairbanks is involved, such as in the North Slope activity) and the remainder scattered, being weighted to other areas in relationship to the location of the "basic" job location. Since Fairbanks has not grown dramatically in the 1960 - 1970 period, and since there has been considerable fluctuation, I have chosen to use Mathematical Sciences Northwest report impact figures for Fairbanks for 1974, 1975 and 1976. The new jobs, however, will be in the neighborhood of 15 to 20% of the statewide increase, but apparently will be associated more directly with pipeline work.

Because Valdez growth will be relatively large and closely related to the pipeline and terminal construction, other employment was difficult to project without much more research. Therefore, it was decided to base these projections on the MSMW report also.

c. Because of the preponderance of camp workers, and because it is presently not known to what extent Alyeska included their own transportation and other logistic workers in their "direct" pipeline employment, I have chosen the following to derive the multipliers for total statewide employment:

1st year: 1.0 additional job for each pipeline job  
2nd year: 1.4 additional job for each pipeline job  
3rd year: 1.8 additional job for each pipeline job

10. Methods used are as follows:

a. Determine the normal annual employment increase in the various categories of employment, as normally used: construction, manufacturing, mining, non-categorized, Federal Government, state and local governments, communications and utilities, retail trade, wholesale trade, finance, insurance and real estate, transportation and services.

b. Determine the increase in each category which has been generated by a surge in a "basic" employment activity.

c. Add the increases in all the categories of employment for the year or period under study. Divide this total figure by the increase in the employment of the "basic" activity to give the ratio, or the number of "other" jobs created by the "basic" employment.

d. Perform the above steps for both the statewide employment and the local area employment to get the multipliers which may be used for future projections.

e. Use Alyeska projections for direct employment on the pipeline, and the British Petroleum and ARCO projections for North Slope employment for the years 1974, 1975 and 1976, to derive statewide employment projections and local area projections.

f. Using the employment projections, calculate the population projections for the State and local areas.

11. Alyeska has projected direct pipeline employment as follows:

1974	5,000 - 6,000
1975	10,000 - 13,000
1976	10,000 - 12,000

I have used the figures in the third column shown above. If lower employment is realized, my employment and population projections will be high.

Atlantic-Richfield and British Petroleum have estimated employment on the North Slope in production drilling operations and in construction of the oil-gathering system as follows:

	<u>Construction Contractors</u>	<u>Company Personnel</u>	<u>Non-construction Contractors</u>	<u>Totals</u>
1974	235	72	155	462
0 - 2 years	690	130	245	1065
0 - 1 years	670	220	390	1280
0 + 2 years	320	660	330	1320

"0" year is the year of beginning of pipeline operation.

It has been implied that the employment will be fairly level between 0 - 1 years and 0 + 2 years. These people are in addition to pipeline workers and do not include further exploration work, if any is done in this period.

CALCULATION  
OF  
EMPLOYMENT & POPULATION PROJECTION

1974 - State

New pipeline and Slope jobs----- 6,462  
Multiplier----- 2.0 x 6,462 = 12,924 jobs above normal

Normal increase @ 3.4%  
1973 employment: 118,700 x 1.034 = 122,800  
1974 projection: 122,800 + 12,924 = 135,724

Anchorage

1974 State-----	135,724
1973 State-----	118,700
Additional jobs-----	<u>17,024</u>
Less new "basic" jobs-----	6,462
New "other" jobs-----	<u>10,562</u>
50% of above-----	<u>5,281</u> new Anchorage employment

Fairbanks

20% of 10,562 = 2,112 new Fairbanks employment

1975 - State

1974 pipeline/Slope jobs----- 6,462  
1975 added pipeline/Slope jobs----- 7,603

6,462 x 2.4 = 15,509  
7,603 x 2.0 = 15,206  
Jobs above  
normal----- 30,715

Normal increase 122,800 x 1.034 = 126,975  
1975 projection: 126,975 + 30,715 = 157,690

Anchorage

1975 State-----	157,690
1974 State-----	135,724
Additional jobs-----	<u>21,966</u>
Less new "basic" jobs-----	7,603
	<u>14,363</u>
50% of above-----	<u>7,182</u> new Anchorage employment

Fairbanks

20% of 14,363 = 2,872 new Fairbanks employment

1976 - State

1974 pipeline & Slope jobs----- 5,677  
1975 pipeline & Slope jobs----- 7,603

5,677 x 2.8 = 15,896

7,603 x 2.4 = 18,247

Jobs above  
normal----- 34,143

Normal increase 126,975 x 1.034 = 131,292

1976 projection: 131,292 + 34,143 = 165,435

Anchorage

1976 State----- 165,435

1975 State----- 157,724

Additional jobs----- 7,711

50% of above----- 3,856 new Anchorage employment

Fairbanks

20% of 7,711 = 1,542 new Fairbanks employment

PRELIMINARY  
EMPLOYMENT/POPULATION PROJECTIONS  
1974, 1975, & 1976

STATE  
(Less 45,800 Military)

	<u>Employment</u>	<u>%</u>	<u>Population</u>	<u>%</u>	<u>With Military</u>
1972	117,600		278,481		324,281
1973	118,700	1.0	273,000	1.75	327,119
1974	135,700	14.0	298,500	6.0	344,300
1975	157,700	16.0	347,000	16.0	392,800
1976	165,400	5.0	363,880	5.0	409,680

(Population increases include pipeline workers.)

ANCHORAGE BOROUGH  
(Less 23,339 Military)

1972	54,000		120,800		144,139
1973	55,700	3.0	124,200	2.75	147,539
1974	61,000	9.5	134,200	8.0	157,539
1975	68,200	12.0	150,040	11.5	173,379
1976	72,000	5.5	158,400	5.5	181,739

FAIRBANKS BOROUGH  
(Less Military Est. 8,100)

	<u>Employment</u> <u>My Projection</u>	<u>MSNW</u>	<u>Population</u> <u>My Projection</u>	<u>MSNW</u>
1972	17,325			
1973	17,325		32,900	34,220
1974	19,400	16,275	36,860	39,125
1975	22,300	17,748	42,370	42,306
1976	23,850	17,907	45,300	42,172

## VALDEZ

	<u>Employment</u>	<u>%</u>	<u>Population</u>	<u>%</u>
1973	500		1,200	
1974	1,000	100.0	3,000	150.0
1975	1,250	25.0	2,600	-13.0
1976	1,000	-20.0	2,300	-11.5
1977	1,100	10.0	2,300	0.

## POPULATION PEAKS

Population figures used in this report are based on employment only and do not include those looking for work or temporary visitors for any reason. It is assumed that those that can't find work in a reasonable time will go back to where they came from and that other transients will not affect schools, normal housing or capital intensive public services.

However, those looking for work and other transients will definitely affect public safety costs, certain health services, recreation and transportation, and must be accounted for in the impact in respect to additional costs in these services.

Also, as pointed out earlier, seasonal employment will increase the average population figures by around 12% in the summer months and decrease the average by about the same during the winter months, if past experience is repeated. These people added during the annual peaks will be employed and probably need housing and normal government services, except schools, and they will be here when the electrical demand is not at the peak.

Therefore, when calculating the need for police services and some health services, the average population should be borne in mind. For Anchorage, the additional people here looking for work, their families, and summer seasonal workers could be as high as almost 35,000 persons in the peak year, 1975. (See attached calculation.)

## PEAK ANNUAL POPULATION

A = Employment, annual average.

K = Population/employment factor (off-base population and civilian employment)

R = Percentage of annual average employment added during peaks. Assume these employees are single and will leave after employment terminates in the fall.

E = Unemployment percentage, of the total work force.

AK = Population derived from annual employment average.

AR = Seasonal employment figure.

$\frac{EA}{1-E}$  = Unemployment figure.

$K\left(\frac{EA}{1-E}\right)$  = Unemployed and families.

Pmax = Total peak population due to seasonal peaks and unemployed and families.

$$= AK + AR + K\left(\frac{EA}{1-E}\right)$$

$$= A\left(K + R + K \times \frac{E}{1-E}\right)$$

$$P_{max} = A\left[\left(1 + R + \frac{E}{1-E}\right)\right]$$

$$P_{max} \text{ for Anchorage} = A\left[2.2\left(1 + .12 + \frac{.10}{(1-.1)}\right)\right]$$

$$= A(2.7082)$$

APPENDIX C

INCREASED COSTS DUE TO INFLATION

### INCREASED COSTS DUE TO INFLATION

For a number of years we have faced the consequences of inflation. It has become customary to think in terms of everything costing more next year than it does now. Understandably, those who are responsible for government administration need to consider the effects of inflation.

Even though we believe that costs will rise and have seen them do so for years, we know there are compensations and adjustments that go along with inflation which somewhat balances out the effects.

One factor is that of increased productivity. Theoretically, if the inflationary and productivity factors are equal, the effects of the inflation of costs are supposed to be minimal or non-existent. However, this has not been the case in recent years; costs have increased faster than productivity.

But other adjustments are made, though. If they weren't, we would all be out of business, including government agencies. Costs would have increased to the point where income would have been entirely inadequate. In other words, we would all be bankrupt.

Fortunately, compensating adjustments are made, even though the process may be disturbing and painful. Wages rise, government receipts increase and total income and receipts rise to meet the rise in costs. The real question then is, how long does an inflation of costs affect the person, business or government that is called upon to meet the increases, before adjustment takes place?

The answer is, only long enough to be able to pass the increase along to the sources of income. For an individual it means a salary increase, for business it means increased prices for commodities or services, and for governments it means increased revenues in one form or another.

These increased revenues could be in the form of increased tax rates or increases which are caused by the inflated prices themselves, such as increased sales taxes or an increase in property taxes because of an increase in the value of property caused by the inflation.

The significance to the individual, business or government is the length of the period after the inflation of prices begins to the time when the increase in the income take place. If it is a long period, some belt-tightening is necessary; if it is a short period, the inflation of prices and costs has little effect.

Based upon a recent article in Fortune (July, 1973), real estate values are increasing faster than the cost-of-living index. In Alaska, where property assessments are made on full market values, such increases should be reflected in increased property taxes, and, therefore, compensate, for the inflation on that portion of costs paid from property taxes. The only problem here is the lag of the increased revenues because property re-evaluation is not done yearly. If it were, there would only be a one year lag.

To counter inflationary costs, other government revenue sources do go through periodic increases in rates. Therefore, over-time, inflationary costs to government agencies are balanced by increased revenues. The experience has been that the revenue increasing process has been evolutionary and is almost concurrent with the inflation.

In Alaska, since 1970, revenue sharing has helped the communities. Originally, I believe the program was intended to reduce local taxes, however, it appears that it has done little more than help reduce the effects of inflation. Without the revenue sharing, the local communities

would have relied more heavily upon passing the increases along to the citizens in more current up-dating of property values and in the costs of other services, thereby increasing revenues sufficiently to meet inflated costs.

Without advocating an increase in taxes, one could point to the fact that increasing wages and increases in property values will probably have to support the increases in government costs caused by inflation. The only answer is a lower level of government services (or a large increase in efficiency).

No legislative body wants to increase tax rates and usually does so as a last resort. The usual increases in revenues come from new property added to the tax rolls, more people paying taxes, and, of course, increases due to the rise in property values and the cost of services. Such increases, although just as painful to the taxpayer, seem to be more acceptable than tax rate increases.

If State funds during the next three years are going to be limited, and many communities of the State in a boom economy, it would appear that the people of a community should bear their share of local government costs by contributing in amounts commensurate to existing wage levels and current property values, rather than on wages and property values that were in force prior to the inflation caused by the boom.

This will mean annual adjustments of property values and keeping current the rates and prices of all services and fees, so that the inflation of costs to government are fully passed on to the beneficiaries of government, without the normal lag. If this is done, we could practically ignore the inflationary effects, as far as considering aid to the local government is concerned.

HYPOTHETICAL DEBT ISSUE FOR CAPITAL IMPROVEMENT

1973 Cost of project - \$1,000,000  
Interest rate 7%, 20 year maturity.  
Annual debt service \$94,300., 20-year cost \$1,885,000. at an inflation rate of 10% (used by some).

1974 Cost would be 1,100,000.

1975 Cost would be 1,210,000.

1976 Cost would be 1,330,000.

Debt service on these issues would be:

1974 issue \$103,700 -- 20-year cost \$2,080,000

1975 issue \$114,000 -- 20-year cost \$2,280,000

1976 issue \$125,700 -- 20-year cost \$2,550,000

Thus, if a community was required to provide capital improvements in 1973 which, under normal growth, would not be needed until 1976 the following cost picture would prevail:

1976 construction -- 20-year cost \$2,550,000

1973 construction -- 20-year cost \$1,885,000

Additional cost for waiting----- \$ 665,000

APPENDIX D

CAPITAL IMPROVEMENTS, FINANCING, AND INFLATIONARY FACTORS

CAPITAL IMPROVEMENTS, FINANCING  
AND INFLATIONARY FACTORS

Several communities face the probability of the need for capital investments to meet the accelerated growth because of pipeline construction. In most cases the improvements will be needed in a few years because of expected normal growth. Under these circumstances, what is the extent of the burden on the local governments because of early construction?

If the community were to pay cash for the improvement, the additional cost to the community would be either the loss of investment revenue which could have been earned until the money was needed under normal growth, or the loss of benefits which could have accrued to the community if the money had been spent for other immediate needs.

However, if cash is not available and the improvement requires considerable capital, the community will resort to debt financing. Under these circumstances, and if the investment will need to be made in a few years anyway, the only money that the community must furnish, prior to the date when it will be needed under normal growth, is the debt service payments. For long-term debt these amounts will be small compared to a cash investment. Therefore, loss of investment interest or benefits from other uses will be comparatively small.

The bonding capacity of the community, or the ability to sell bonds at reasonable rates, will be an important factor in whether the community will, or can, resort to this kind of debt financing.

If cash is not available or bonds cannot be sold, other means of financing should be available, and the Legislature should consider State programs aimed to do this, alternative methods will be discussed later.

If costs of capital improvements are expected to be higher in the future because of inflation, there are advantages, cost-wise, to the community to build now and pay later, within certain limitations. These limitations are quite wide, however, and mainly are concerned with the interest rates which would apply if the funds were invested instead of used for the improvements; also with interest rates paid on indebtedness; and with the rates of inflation currently existing and expected in the period from now until the capital improvements would normally be needed.

Computations (see Appendix C for details) show that savings are considerable if there is any significant inflation of costs over time. For example, at inflationary rates of 7.5%, bond interest rates at 6% and surplus capital investment rates at 7% a \$3,000,000 capital investment project built now would cost the local government \$1,219,000 more if built three years from now. Their debt service payments over the 20-year life of bonds would be \$63,500 less per year by building now. In the above example the rate of inflation would have needed to drop to less than 1/2 of 1% a year before savings would not have been realized. Some people are saying that construction costs are inflating as much as 10% a year. It can be seen that, at this rate, very substantial savings would result if capital improvements were undertaken as early as possible.

Despite assured savings, it is assumed that a local government would not undertake capital improvements unless there was a reasonable assurance that they were needed or that benefits would accrue to the community now. They would also want assurance that the benefits would be commensurate with the expenditures and further that an increase in revenues would pay the added debt service. In other words, capital improvements would not be made before needed just to reduce costs.

If pipeline construction creates demands now for facilities which cannot wait, the local community must weigh all factors and select the method of financing which will reduce the short term and long term burden to the community and also meet the long term service needs of the community.

Savings formula:

$$\text{Savings} = Pr \left[ \frac{(1+r)^n}{(1+r)^n - 1} \right] \left\{ n \left[ (1+i)^N - 1 \right] - \left[ \frac{(1+R)^N - 1}{R} - N \right] \right\}$$

P = Amount of improvement (bond sale or debt).

n = Number of years to bond maturity.

r = Interest rate on bonds.

i = Rate of inflation per year.

N = Number of years from now until improvement would normally be built.

R = Interest rate realizeable for surplus funds investments.

If the community were to pay cash from surplus or reserve funds for an improvement needed for accelerated growth caused by pipeline construction, the above does not apply. The future value of this money would depend upon the investment rate and if it was as high as the rate of inflation, there would be no savings. If it were higher, there would be a loss.

Under present conditions, a community impacted by the pipeline construction will not be burdened by accelerated construction of public works, provided the improvements will be needed at a future date and the community has bonding capacity now and the ability to make debt service payments.

Not the need for money at a date earlier than normal, but its' impact on the community's ability to fund the project and to meet debt service payments earlier than normal, should be the determinants in whether to provide aid, or how to do so.

APPENDIX E

INTEREST RATE LIMITATION

### INTEREST RATE LIMITATION

Businesses in Alaska often find it necessary to resort to some debt financing when making substantial purchases of services or equipment. This usually is accomplished by arrangements with local banks. However, local financing has not always been possible and some method of financing with outside money has been used.

Some national manufacturers have found it advantageous to provide financing for sales of their products, through local dealers. At interest rates that prevailed in the other states and in Alaska such financing, if it wasn't profitable to the manufacturer or his banker, it didn't lose him money. Presently, interest rates prevailing in the other states, vis-a-vis legal rates in Alaska, are such that financing sales here is not a good investment.

In the past, some manufacturers sold goods and financed them on a "time sales" basis, with the understanding that such sales were not loans of money in Alaska. Therefore, the interpretation was that Alaska usury laws were not applicable. When interest rates started rising in general, the interest on the "time sales" financing rose to a point above the Alaska limit.

It is understood that a number of other states have usury laws similar to Alaska in respect to interest rate limitations. A recent court case in one or more of these states ruled that "time sales" financing was legally a loan of money, and therefore, came under the state's usury laws, and interest rates applying to such loans must be within the legal limitations.

I find that time sales agreements in Alaska are being looked at by

national suppliers with disfavor and in one case, at least, a large manufacturer of electrical and other equipment has advised dealers in Alaska that they will not in the future finance sales in Alaska because of the court decisions, and because the limitation on the interest rate would amount to actual loss of money.

The pipeline construction period will mean large demands for money by Alaskan business firms. Because of the high general interest rates, the flow of money to Alaska will not increase and is likely to decrease. Unless Alaskan banks can sell paper outside or get participation by outside banks, it is very unlikely they can meet the demands for money in the next two or three years. Interest rates could drop radically in the other states, however, this is not expected.

Some say, let foreign banks come in and they will bring capital. This is extremely unlikely unless interest rates in Alaska are two or three percent higher than anyplace else. Money goes where the rate is best, so these banks could actually drain off Alaskan capital to be invested elsewhere.

APPENDIX F

STATE INCOME TAX PROJECTION

STATE INCOME TAX PROJECTION  
(Pipeline Construction Created Jobs)

One of the impacts of the pipeline construction will be on the magnitude of the State income tax revenues. Using even a conservative figure for the average salary for workers on jobs created by the pipeline construction, a modest amount of revenue will accrue to the State on a current basis during the construction period.

The following figures were derived using these assumptions:

(a) The average annual salary of all new jobs created by the pipeline construction is \$15,000. It is expected that pipeline workers themselves will earn much more than this amount, however, the 1970 census indicates the average salary to lie between \$10,000 and 15,000 per year, and this was during fairly heavy oil-related activities.

(b) The per worker income tax figure is based upon three exemptions and a total of \$1,000 deductions.

(c) The average worker in the above category will pay \$350 State income tax.

Additional State Income Tax Revenue

<u>Year</u>	<u>Jobs Above Normal</u>	<u>Individual Tax</u>	<u>Revenue</u>
1974	12,900	\$350.	\$4,515,000
1975	30,700	350.	10,745,000
1976	34,000	350.	<u>11,900,000</u>
	Total - three years		\$27,160,000

## APPENDIX G

### VALDEZ ELECTRIC POWER

Several proposals have been made which would increase the electric power generating capability for Valdez.

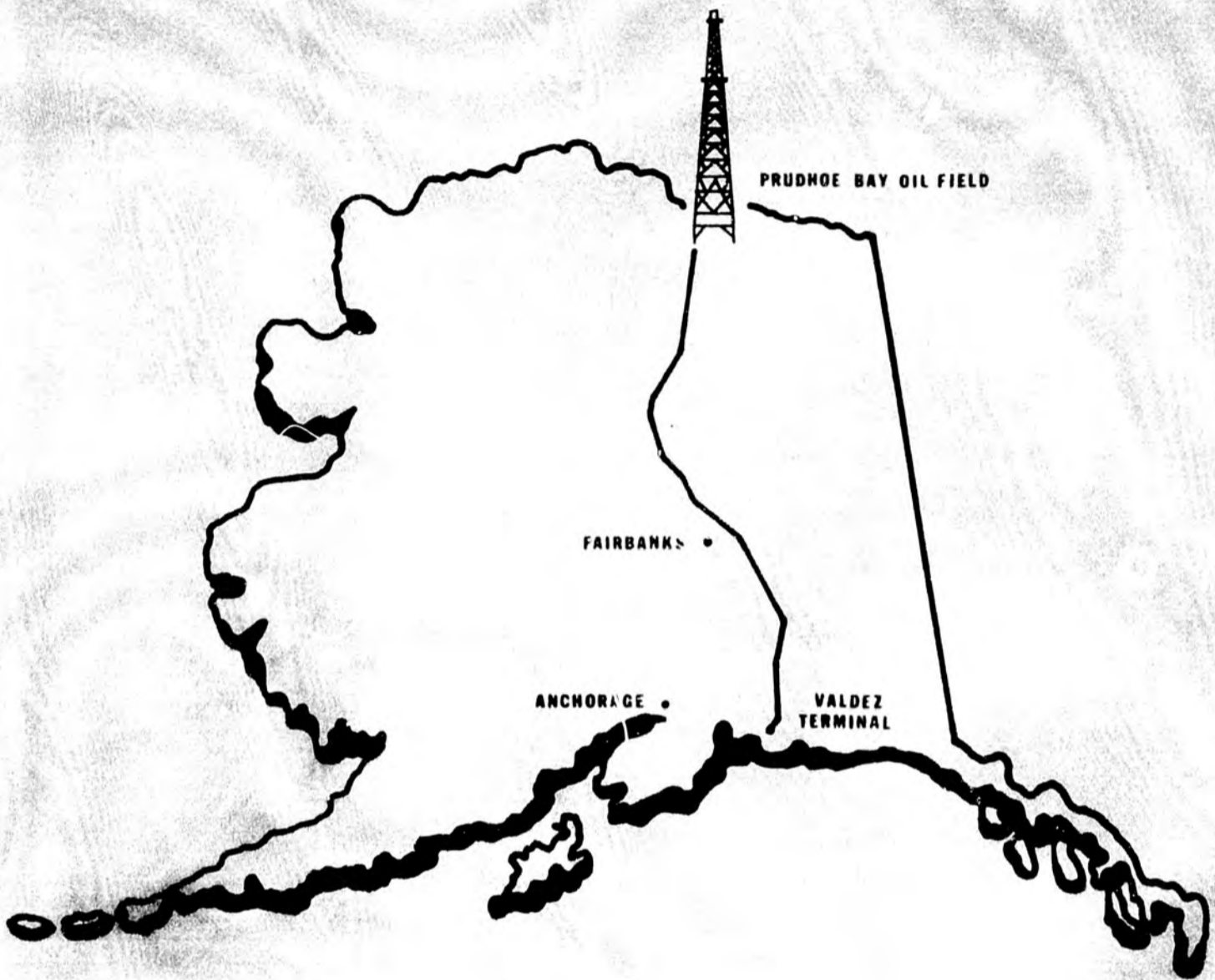
One would be to construct a hydro-electric plant across the Bay from Valdez which could serve Valdez, and Alyeska if they desired. Generating equipment already is in Alaska which could be used for such an installation and could be done quite rapidly.

The second proposal would require the cooperation of Alyeska, and is quite an intriguing method of producing power. The oil that arrives at the pipeline terminal is at high pressure. The pressure must be dissipated before the oil can go into the terminal tanks. The way Alyeska proposes to do this is by routing the oil through several pressure reducing units. The power generating proposal would have the oil flow through one or more turbines. The turbines would use the energy of pressure to turn electric generators and thereby produce power much like hydro-power is produced. These turbines would necessarily need to present a constant load to the flowing oil and therefore the electrical loads on the generators would have to be fairly constant. This could be accomplished by using the excess electrical energy for pumping water to the hydro-electric water impoundment area for use in peaking requirements.

The size of the latter project would envision the construction of a transmission line to Glennallen, Alyeska using part of the generated power for their terminal needs and also using power for their service needs only at pump stations south of Glennallen.

The beneficiaries in both cases would be Valdez, and in the second proposal Glennallen and points in between.

CITY OF ANCHORAGE, ALASKA



TRANS-ALASKA OIL PIPELINE IMPACT STATEMENT

Prepared by Office of the City Manager  
Revised December 18, 1973



*International*

*Polar air crossroads of the world*

**CITY OF  
ANCHORAGE**



**ALASKA**

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ANCHORAGE, ALASKA  
99510

December 17, 1973

Mr. Bernard E. Kelly, Chairman  
Northwest Federal Regional Council  
1321 Second Avenue  
Seattle, Washington 98101

Dear Mr. Kelly:

We appreciate this opportunity to present on behalf of the City of Anchorage the enclosed statement concerning the impact from the construction of the Trans-Alaska Oil Pipeline and related petroleum industry activities.

This statement contains an overview of the additional demands that we feel will be placed on the City of Anchorage for governmental and public utility services and facilities from pipeline and related construction based on the information and studies completed to date. There are many areas on which very little information has been developed or made available to us. For example, there could develop a grave shortage of professional and skilled personnel essential to the provision of additional services and facilities. No attempt to our knowledge has been made to measure the inflationary impact from such a large construction job or to develop counter measures to minimize it.

We urge the Northwest Federal Regional Council to use its considerable resources in providing financial and other assistance to the City of Anchorage and other impacted local governments in Alaska. We particularly urge the council to consider and favorably act at an early date on the following:

A. Criminal Justice - Approve adequate LEAA grants to fund the additional costs for law enforcement personnel shown in Attachment "D". In this connection, an LEAA application is being submitted in a few days. It is being coordinated with the District Attorney's Office and the Alaska Court System.



Mr. Bernard E. Kelly, Chairman  
Northwest Federal Regional Council

Page Two  
December 17, 1973

B. Water System - Approve a grant of \$5,562,500 for water source improvements to be made to the City of Anchorage Water Utility. This represents one-half of the estimated capital improvement costs listed in Attachment "F". The balance of the funding is planned from a twenty-five (25%) per cent State of Alaska grant and City of Anchorage Water Utility Revenue Bonds. We feel there is an urgent need to firm up this financing so engineering can be completed and initial construction contracts let in 1974.

C. Port of Anchorage - Approve a grant of \$2,894,000 for providing one-half the funding to complete the construction of the dock at Terminal No. 3, Port of Anchorage. The City of Anchorage will provide the other half of construction costs from approved General Obligation Bonds. It is essential that this construction be completed in 1974; and to do so requires a firm funding plan now.

We need financial assistance in all areas of operation and maintenance and capital improvement programs cited in this statement, but the foregoing are the most urgent.

We suggest the Council, and the State of Alaska, develop as soon as possible manpower data and take affirmative action to avoid shortages of professional and skilled personnel.

We feel that inflation is a real threat to the impacted communities and that counter measures must come from the Federal and State governments.

We appreciate that conventional grant and other programs may not be designed or funded to allow immediate approval of the requests for financial and other assistance contained herein. In that event we ask that authority and funding be immediately requested and obtained at the earliest practicable date.

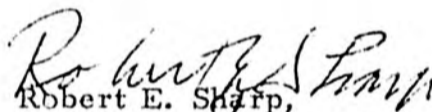
Mr. Bernard E. Kelly, Chairman  
Northwest Federal Regional Council

Page Three  
December 17, 1973

In view of the wide public interest in this matter copies of this letter and statement are being distributed as indicated below.

Again, we appreciate your having invited us to make this presentation and the interest of the council in providing assistance to local governments in Alaska.

Sincerely yours,

  
Robert E. Sharp,  
City Manager

RES:py

cc: Mayor and Council  
Governor of Alaska  
Washington, D. C. Delegation  
Anchorage Area Legislators  
All Anchorage Media

CITY OF ANCHORAGE, ALASKA

TRANS-ALASKA OIL PIPELINE IMPACT STATEMENT

GENERAL

The City of Anchorage, and the surrounding environs, has felt the impact from the petroleum industry development for the past decade, and more. This impact was generally well within manageable limits, but since 1969 the growth effect on both the private and public sectors has accelerated.

Following the State oil lease sale on September 10, 1969, the private sector economic activity showed a marked increase which inevitably increased the demand for governmental facilities and services in the City of Anchorage, and the surrounding area in which municipally-owned public utility services are provided. A few of the economic indicators listed below demonstrate this point:

<u>POPULATION</u>	<u>1970</u>	<u>1973</u>
City of Anchorage	65,973*	76,610**
Greater Anchorage Area Borough	126,333	154,610**

\*Includes Military Bases annexed in 1973.

\*\*Percent Increase - City 16.12%, GAAB 19.21%

<u>CITY BUILDING PERMITS ISSUED</u>	(Values in Millions of Dollars)				
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Issued	\$34.8	\$52.2	\$55.2	\$70.2	\$78.0 (Est.)*

\*Percent increase in 1973 over 1969 - 124.16%

CITY OF ANCHORAGE TELEPHONE UTILITY

	<u>1970</u>	<u>1973</u>
Number of Telephones	56,607	79,000 (Est.)*

\*Percent increase - 39.55%

CITY OF ANCHORAGE MUNICIPAL LIGHT AND POWER

	<u>1970</u>	<u>1973</u>
Peak Demand	56.472	80.000 MW (Est.)*
Kilowatt Hours Sold	267,756,305	417,188,507 (Est.)*
*Percent increase - Peak Demand	41.7%	KW Hours 55.8%

CITY OF ANCHORAGE WATER UTILITY

	<u>1969</u>	<u>1973</u>
Millions of gallons of water delivered	4,525	5,560 (Est.)*
*Percent increase		23%

<u>CITY OF ANCHORAGE COMBINED GOVERNMENT AND UTILITY EXPENDITURES (In Millions of Dollars)</u>	<u>1969</u>	<u>1972</u>
Operating	\$29.2	\$50.8
Capital	<u>11.5</u>	<u>18.8</u>
Totals	\$40.7	\$69.6
*Percent increase - Operating		Capital

These economic indicators are cited to show what has already happened before the recent Congressional action allowing the issuance of the Trans-Alaska Oil Pipeline permit by the Secretary of Interior and before the construction of this multi-billion dollar project is commenced. They are impressive, and have already caused a strain on the governmental and utility financial capability of the City of Anchorage. However, with the issuance of the permit and commencing of construction of this project, the impact in the next few years will be many times greater. It is the purpose of this statement to discuss this future impact and the need for federal and state financial assistance.

The City of Anchorage and environs is the transportation, financial, cultural and population center of the state. The pipeline construction will not come through this vicinity, but because of existing facilities and services and climate, it is and will remain the headquarters for oil firms and

petroleum related operations. It will also serve as the major rest and recreation center for pipeline employees, and the residence of their dependents. The economic impact on municipal services will come almost immediately, and will be felt primarily in the people-oriented services and facilities, such as police, fire, street and road maintenance, traffic, parking, housing and public utilities. These types of services (except utilities) are generally tax supported, and as such, the expansion created by the pipeline activity will impose a definite hardship on permanent residents unless assistance is provided by the Federal and State governments.

#### EMPLOYMENT AND POPULATION

The key to an analysis of the impact lies in the employment and population generated from the pipeline construction. The City of Anchorage has used the Anchorage Area estimates prepared by the Department of Interior and published in the Pipeline Environmental Impact Statement in December of 1971. Attachment "A" summarizes this data which we feel is still valid for general planning purposes. It should be noted that we have also assumed a gas pipeline will be under construction by the third year of oil pipeline construction. This data includes direct, associated, and indirect employment, which ranges from 4,400 in the build-up year to 7,200 at the peak in the second year of construction, and down to 2,800 after the first year of operation of the oil pipeline. Alyeska Pipeline Company has recently increased the peak year estimate to 10-20,000. Similarly, the population will increase by 13,400 in the build-up year to 24,000 in the second year of construction, and down to 15,700 after the first year of operations of the oil pipeline.

The Anchorage area has approximately 125,000 people residing off of the two military installations. The increase of 24,000 by the second year of construction means a population growth of almost 20 percent in two years time. Obviously, this tremendous growth will create many problems for both

the government and private sectors. To compound the problem, we see little, if any, slacking in the previous annual growth pattern of about four percent. Combined, then, the annual rate will be in the magnitude of 12 to 14 percent per year in each of years 1974 and 1975. This is an increase of about 12,000 people a year, which is greater than the population of all but two or three communities in the state. To provide the facilities and services for this number of people poses a great challenge to all levels of government.

#### HOUSING

The City of Anchorage, earlier this year, analyzed the existing and projected housing needs based on the population assumptions in Attachment "A", and the results are summarized in Attachment "B". This forecast of housing requirements was made on the further assumption that 4,000 to 6,000 units were vacant in mid-1973. 1974 is the year of peak demand, requiring almost 6,000 new starts to meet the increased cumulative population growth of over 30,000 people in the area by the first year of construction (22,700 pipeline and 10,000 normal growth at end of first year of construction as reflected in attachment "A"). The prime responsibility to meet this need rests with the private sector, particularly lending institutions, but the FHA insurance program will be required to play a key roll. The housing construction industry is capable of meeting this demand for housing if the subdivision and utility improvements are provided by the responsible governmental and public utility agencies. There are sizeable areas in the City of Anchorage either vacant or occupied by single family residences that are improved with streets and public utilities on which multi-family units could be constructed with a minimum of capital outlay for public and utility improvements.

### GOVERNMENTAL OPERATIONS AND MAINTENANCE

The impact will affect all City governmental services and capital improvement programs, with the public safety and public works areas receiving the greatest initial impact. In fact, this impact has already started, and it is particularly noticeable in police activity (See Attachment "C" - Police Statistics 1970 - 1973).

Attachment "D" is a summary of the impact on operations and maintenance activities of the City of Anchorage in 1974. A total of 111 additional employees and an annual expenditure of \$2.2 million is required to maintain a reasonable level of governmental services.

### POLICE SERVICES

During the pipeline construction, a "boom" situation in Anchorage is inevitable. With it will come criminal elements looking for a fast buck. The size of this boom will make potential vice operations big enough to attract the professional criminal capable of organizing these operations. We must provide adequate manning for the Police Department (as well as the District Attorney's Office and the Trial Courts) if the people of the City of Anchorage are to be safe in their persons and property. This impact, coupled with the already heavy crime rate, causes us a great deal of concern. Attachment "C" demonstrates the great increase in Part I crimes already experienced in 1973. Forty-one (41) commissioned and support personnel should be hired early in 1974 by the City of Anchorage. This will bring the total force to 186, which is over two police personnel per thousand of population. An additional sixteen commissioned and support personnel are needed in the Spenard Service Area of the Greater Anchorage Area Borough which has a population of about 28,000 and is policed by the City of Anchorage under contract. This will bring the Spenard Force up to a total of fifty-five commissioned and support personnel. This increase in police manpower will not be fully effective

unless the presently understaffed State District Attorney's Office and Trial Courts are also adequately manned. It does little good for the police to make an arrest unless there is vigorous prosecution and a trial court that can hear the cases. Otherwise, violators of the law that otherwise would be convicted will continue to prey on society.

#### FIRE SERVICES

Two additional engine companies and twenty-five men are needed for fire prevention and suppression. These engine companies would be housed in existing fire stations, and they are needed to protect additional residential, commercial and industrial properties. The Port of Anchorage and adjacent industrial park with its petroleum tank farms is a critical area requiring increased protection. Early funding of these two fire engines and hiring and training of personnel is ranked high in our priorities.

#### TRAFFIC SERVICES

The population growth, coupled with the increased industrial and commercial activity to provide logistical support for the pipeline construction companies, will bring a rapid increase in motor vehicle traffic requiring increased traffic engineering services. The present street system, and the signal system, is inadequate with considerable traffic congestion already evident. Substandard streets, particularly intersections, cannot accommodate the increased traffic without immediate improvement. The accident rate is already among the highest in the country. The need for immediate improvement of high accident intersections will be further discussed in the capital improvement section.

#### PARKS AND RECREATION AND LIBRARY SERVICES

Anchorage will be the principal rest and recreation center for oil pipeline construction workers and workers in related activities.

This will cause a great increase in the useage and need for parks and recreation, library and related facilities. An additional nineteen employees are needed for operation and maintenance of these facilities. The need for new facilities will be discussed later in this statement.

#### OTHER SERVICES

Other operations and maintenance personrel needs include one in street maintenance and six 'n support activities.

#### EXISTING SERVICE LEVELS

For statistical purposes Attachment "E" has been prepared to show the existing manning and expenditures for governmental services of the City of Anchorage. The City has 927 employees and a budget of \$18.6 million to provide a broad, comprehensive range of governmental services. Per capital expenditure for governmental services will amount to \$296 during 1973.

#### CAPITAL IMPROVEMENT PROGRAMS

The City of Anchorage's regular capital improvement program for 1974 totals about \$45 million for governmental and public utility improvements. The impact from the projected population will increase the demand for all types of capital improvements. The impact can be absorbed initially in some cases without financial assistance, and in others it cannot. The impact also has the effect of advancing the need for capital facilities from one to seven years. We have selected the capital improvements of greatest concern at this time and which require the early provision of funding and construction. There will be other capital improvements

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requirements developed in 1974 and 1975 which will be addressed at a later date. Attachment "F" summarizes the selected capital improvement program needs related to the impact of the oil pipeline construction.

#### HIGH ACCIDENT STREET INTERSECTIONS

Increased population brings more motor vehicles which will add to the problem on those streets that are already congested. We are not going into the overall problem at this time except to point out a critical problem at over fifty high accident street intersections. These intersections involve City, State, and Borough streets and highways. We feel it is mandatory to start construction in 1974 to improve these substandard intersections. To do so the engineering, right of way, and other work to let this important work to contract cannot be handled in a routine manner. All agencies will have to give special handling to these projects. An estimated \$1.2 million in funding is required, with most of it needed in 1974. The amount is not too great but the expeditious handling may pose a challenge to the agencies concerned.

#### SUBDIVISION IMPROVEMENTS

Subdivision improvements will require an additional \$3,070,000 during 1974 and 1975 if the housing needs are to be met. These improvements include street and storm drainage facilities. This additional engineering and contract administration can be accomplished by the Department of Public Works if its present professional staff can be retained. Public agencies do not have the flexibility when competing for salaries and other benefits offered by the private sector. This may be a serious problem area.

#### PORT OF ANCHORAGE

The Port of Anchorage has one petroleum terminal, one combination petroleum and general cargo terminal, and one general cargo terminal, and a third general cargo terminal under partial construction. There is an immediate need to complete the dock at Terminal No. 3 at an estimated cost of just under \$6 million. The City has funding approved for one-half of this amount but must obtain financial assistance for the balance. Another POL terminal is needed, and it is estimated to cost about \$6.2 million. No funding is available and it should be built no later than 1975. We feel

the Port of Anchorage is an essential facility for the logistical support of the oil pipeline construction. The Port of Anchorage serves South-central Alaska and the North Slope. The new Anchorage area population must be served along with the Interior Alaska areas served through the Port of Anchorage. These latter areas will place an increased demand on the marine trade and port facilities at Anchorage. The largest tank farm capacity is at Anchorage and served through the Port's facilities. We must have federal and/or state financial assistance during the next two years.

#### LIBRARY

The City of Anchorage operates a headquarters library and two major branches. The headquarters library also serves the three GAAB libraries. The headquarters library should be expanded immediately if this important service is to be maintained at a reasonable level. It is estimated \$4.5 million will be required to build the needed space for this facility and it should be built no later than 1975. No local funding has been approved.

#### ADMINISTRATIVE OFFICE SPACE

The added personnel that must be hired to handle the impact will require at least \$300,000 in expansion of administrative office space in 1974. No funding has been approved for this project.

#### CITY OF ANCHORAGE WATER UTILITY

The Water Utility has consistently been concerned with the ability to meet the projected demands that would be placed upon its system and water source studies have periodically been made to insure an adequate supply for our citizens. A comprehensive study made by the U. S. Geological Survey, begun in 1965 and completed in 1972, indicated the Anchorage Bowl area would need a source of water around the 1980's, depending upon the

demands that new industry would place upon the system. Upon the completion of the U.S.G.S. report, a local engineering firm was commissioned to prepare a more detailed report leading to definite recommendations for development of Anchorage's future water source, and to prepare cost estimates of the capital expenditures necessary with associated time tables to adequately meet this need.

As a result of the impact created by the pipeline, we now find ourselves unable to enjoy a comfortable lead time to plan, finance, and develop a new source, but instead suddenly find ourselves in the position of having to accelerate this time table to 1974, some six years ahead of the original U.S.G.S. prediction.

Attachment "G" depicts the demands placed upon our system on a normal peak day and indicates the projected water needs based on a normal growth pattern, and also shows the effect of the pipeline impact in accelerating the development of new sources of water. As is shown on the graph, under normal conditions the Water Utility would have needed to provide a 30 MGD supply around 1980. Because of the demand created by the pipeline, this 30 MGD supply will have to be on line in 1975. In addition, another 10 MGD will have to be provided to meet fire protection requirements.

Our consulting engineer's report is presently being drafted in final form and is due within several weeks. Even though this information is not presently published, sufficient data has been developed and furnished to us to determine the course of action recommended to supply this additional water. To meet this demand will require the capital expenditures of \$4,625,000 in 1974, \$1,000,000 in 1975, and \$5,500,000 in 1976. A detail of these requirements is shown in Attachment "H" enumerating the need to immediately begin a well exploration program in logical areas to determine the amount of ground water available, followed by the installation and development of a minimum of six wells capable of producing at least one million gallons of water per day. This must be followed by an expansion of the water treatment plant, construction of a second main water transmission line and installation of a 5-million gallon storage tank for

treated water. In 1975 work on off-stream storage would have to begin and also modification of an existing diversion structure to permit additional water withdrawal. Construction of an addition to the Water Treatment Plant to increase its capacity to 30 MGD along with more treated water storage and additional off-stream storage reservoirs would have to commence in 1976.

Because of the magnitude of these expenditures, the Water Utility cannot absorb the financial impact of such a construction program at this time. In addition, we have the added problem, even without pipeline impact, of trying to recover from the recent loss of funding by deletion of Department of Housing and Urban Development's program for Basic Water and Sewer Grants. It was our original planning, even prior to pipeline impact, to finance any new water development source expenditures by receiving assistance in the form of 25% from the State from authorized bonds for this purpose, and 50% from D.H.U.D.

The sudden demise of that grant program has in itself left us in a precarious financial position. In most cities of the Lower 48 which incorporated a sanitary sewer program within their scope of services the sudden termination of the Basic Water and Sewer Grant program was not as significant because at about the same time the Environmental Protection Agency increased its participation in the cost of providing sanitary sewer facilities from approximately 30% to approximately 75% within a relatively short period of time. Since most of these cities operated water and sewer programs from the same department the loss of the water grant program was absorbed through the increase in the sanitary sewer grant program. Unfortunately here in the City of Anchorage the sanitary sewer system is not operated by the City but rather is a function of the Borough and the loss of the Water Grant program has had significant impact on our water utility operations.

Because of these facts we feel that there is merit in the Federal Government considering a restoration of either the Basic Water and Sewer

Grant program or some other special program of Federal grant for Alaska in meeting the impact of the proposed construction of the Alaska oil pipeline. This is considered the most critical funding problem confronting the City because there is no question an adequate supply of water for domestic and fire requirements is mandatory.

#### MUNICIPAL LIGHT AND POWER

The Municipal Light and Power Department operates four gas-fired turbines, with 80 MW firm capacity and 92 MW peak capacity. A fifth unit is under construction and a waste heat boiler and turbine on order which will add approximately 75 MW in additional firm capacity by 1975. However, demand projections indicate another unit will have to be placed under contract in 1976. The lead time for manufacture and construction is some 18 months before added revenue results from the capital outlay. This utility may require financial assistance for this accelerated construction program, particularly in the light of increased labor and material costs.

#### C. I. P. SUMMARY

In summary, the selected capital governmental needs for 1974-76 total \$21.8 million; and the utility needs total \$16.3 million. Combined, over \$38 million will be needed, and this figure could increase considerably from inflation.

#### INFLATION COSTS

There is no doubt that the rapid growth expected will cause additional inflation in Anchorage and elsewhere in the State. This, coupled with the spiral already experienced this year, poses a serious threat to the economy of the Anchorage area. We have seen no forecasts of what the inflationary impact will be. To demonstrate the effect of assumed ten per cent impact, Attachment "I" has been prepared. This shows over \$4.2 million in 1974 in regular capital and operating budgets, and rising to \$8.6 million in 1975; \$10.2 in 1976; and \$13.2 million in 1977. We hope the impact is not this high but this is obviously a cost factor that must be considered in federal and state financial assistance programs.

### REVENUES

For statistical purposes Attachment "J" has been prepared to show the 1973 General Fund Revenue sources. This indicates total revenues of just over \$18.5 million, or approximately \$296 per capita.

We have closely analyzed new revenues likely to be generated by the added impact population. (See Attachment "K") It will be noted that 1974 will produce very little in new revenues because of the lag in new construction becoming taxable. In 1975 just under \$1 million will be generated; in 1976, \$1.5 million, and in 1977 about \$1.8 million. These new revenues will help but they will not begin to finance the impact costs.

### CONCLUSION

We believe this statement demonstrates the very substantial challenges and problems confronting the City of Anchorage on what we believe is the eve of construction of the trans-Alaska pipeline. We believe the development of the petroleum reserves in Alaska is in the national interest as stated many times by the President of the United States, Congressional leaders, and the Governor of Alaska. This development has become even more critical as the energy crisis unfolds day by day.

This is the largest private construction job ever undertaken. Any multi-billion dollar job to be accomplished in four short years in a relatively isolated, small population area will have an abnormal impact on local government, particularly since it supplies so many services directly to people. Local government in Alaska must have financial and other assistance if this project is built on a timely basis and if Alaska cities are not to be left in financial chaos.

This statement does not cover many services and facilities (for example, health and social services) provided by other units of local or State government. It does not cover all City services affected but only those which we believe require immediate attention. New problems come to light daily as new information or more studies are completed. Our staff is already burdened with a heavy workload which made this analysis difficult and it will no doubt be modified many times in the next few years.

Office Budget (Feds)

says there is precedent for fed loan &  
grants. - check into

Desk  
\$ 75 mil is what  
impact will cost

CITY OF ANCHORAGE

EMPLOYMENT AND POPULATION PROJECTIONS

The following assumptions were made based on oil pipeline impact studies by the State of Alaska and the Department of Interior:

Employment in the Anchorage Area

	<u>Build Up Year</u>	<u>First Year Constr.</u>	<u>Second Year Constr.</u>	<u>Third Year Constr.</u>	<u>Final Year Constr.</u>	<u>First Year Operation</u>	<u>Then</u>
Direct	2,200	3,300	3,300	3,300	2,200	1,200	700
Associated	200	400	400	400	200	100	100
Indirect	<u>2,000</u>	<u>3,000</u>	<u>3,500</u>	<u>3,000</u>	<u>2,100</u>	<u>2,100</u>	<u>2,000</u>
TOTALS	4,400	6,700	7,200	6,700	4,500	3,400	2,800

Direct - Attributed to Arctic Slope oil in mining, construction, transportation, communications, public utilities, finance, insurance, real estate, services, trade, self-employed; and Federal, State, and local government employees.

Indirect - Additional employment can be expected due to new areas being opened up for mining and mineral exploration, etc. This also includes the effect of the Native income from North Slope oil.

Effects on Population in the Anchorage Area

	<u>Build Up Year</u>	<u>First Year Constr.</u>	<u>Second Year Constr.</u>	<u>Third Year Constr.</u>	<u>Final Year Constr.</u>	<u>First Year Operation</u>	<u>Then</u>
Direct Employees	2,200	3,300	3,300	3,300	2,200	1,200	700
Dependents	3,100	4,600	4,600	4,600	3,100	2,200	1,600
North Slope Dependents	1,200	3,800	3,800	3,800	2,500	1,200	400
Workers on Leave from North Slope	300	500	500	400	400	300	200
Unemployed	200	400	400	400	400	100	100
Families Unemployed	300	700	700	700	700	200	200
Associated Employees	200	400	400	400	200	100	100
Families of Associated	400	700	700	700	400	200	200
Indirect Employees	2,000	3,000	3,500	3,000	2,100	2,100	2,000
Families of Indirect	<u>3,500</u>	<u>5,300</u>	<u>6,100</u>	<u>5,300</u>	<u>3,700</u>	<u>3,700</u>	<u>3,500</u>
TOTALS	13,400	22,700	24,000	22,600	15,700	11,300	9,000
Alaska Gas Pipeline Adjustment*				1,400	8,300	11,300	6,700
				24,000	24,000	22,600	15,700

\* The assumption is that the gas pipeline will utilize the proposed oil pipeline right-of-way. If the gas pipeline is routed through Anchorage, the impact would be greater.

CITY OF ANCHORAGE

HOUSING UNIT STARTS NEEDED\*

<u>Year</u>	<u>City</u>	<u>Outside City</u>	<u>Total GAA Borough</u>
1974	1,725	4,025	5,750
1975	1,325	1,325	2,650
1976	1,230	820	2,050
1977	440	110	550
1978	875	375	1,250
1979	1,175	1,175	2,350

\* Assumes 4,000 to 6,000 units were vacant in mid-1973.

Revised December 18, 1973.

ATTACHMENT "B"

CITY OF ANCHORAGE  
 FIVE YEAR STUDY  
 ANCHORAGE POLICE DEPARTMENT REPORTED PART ONE CRIMES

	1969		1970		1971		1972		1973 (Projected)		1973 Compared To 1969 Per Cent Variation
	Number Offenses Reported	Per Cent Variation From Previous Year	Number Offenses Reported	Per Cent Variation From Previous Year	Number Offenses Reported	Per Cent Variation From Previous Year	Number Offenses Reported	Per Cent Variation From Previous Year	Number Offenses Reported	Per Cent Variation From Previous Year	
Murder	7	0.0%	7	0.0%	5	(-28.6%)	9	80.0%	7	(-22.2%)	0.0%
Manslaughter	3	50.0%	4	33.3%	1	(-75.0%)	7	600.0%	0	(-100.0%)	(-100.0%)
Forcible Rape	35	59.1%	26	(-25.7%)	53	103.8%	40	(-24.5%)	69	72.5%	97.1%
Robbery	100	11.1%	150	50.0%	105	(-30.0%)	98	(-6.7%)	109	11.2%	9.0%
Aggravated Assault	116	52.7%	146	25.9%	191	30.8%	158	(-17.3%)	191	20.9%	64.7%
Burglary	707	1.0%	688	(-2.7%)	643	(-6.5%)	698	8.6%	1,072	53.6%	51.6%
Larceny	2,337	9.8%	2,648	13.3%	2,640	(-0.3%)	2,827	7.1%	3,077	8.8%	31.7%
Auto Theft	511	23.0%	513	0.4%	565	10.1%	539	(-4.6%)	554	2.9%	8.4%
Total Part One	3,816	9.7%	4,182	9.6%	4,203	0.5%	4,376	4.1%	5,079	16.1%	33.1%
Traffic Accidents Investigated	2,991	13.9%	3,429	14.6%	4,023	17.3%	4,340	7.9%	4,471	3.0%	49.5%
Total Calls & Requests for Service	20,183	10.7%	23,257	15.2%	32,461	39.6%	34,231	5.5%	36,701	7.2%	81.8%

CITY OF ANCHORAGE -- OPERATION AND MAINTENANCE PIPELINE IMPACT REQUIREMENTS - 1974

	1973 Revised Budget			1974 Pipeline Impact		1974 Required Budget		
	Personnel	Budget	Per Cent of Total	Personnel	Budget	Personnel	Budget	Per Cent of Total
<u>Public Safety</u>								
Police-City	160	2,768,932	14.9	41	793,160	201	3,562,092	17.2
Police-Spenard (1)	41	920,240	4.9	16	312,900	57	1,233,140	5.9
Fire-City	78	2,114,490	11.4	25	511,200	103	2,625,690	12.6
Civil Defense	3	56,560	.3	0	-0-	3	56,560	.3
Traffic Engineering	19	792,910	4.3	1	23,723	20	816,633	3.9
Building Safety (2)	22	440,920	2.4	2	39,087	24	480,007	2.3
	<u>323</u>	<u>7,094,052</u>	<u>38.2</u>	<u>85</u>	<u>1,680,070</u>	<u>408</u>	<u>8,774,122</u>	<u>42.2</u>
<u>Parks &amp; Recreation</u>	120	1,574,985	8.5	16	217,080	136	1,792,065	8.6
<u>Library</u>								
City	29	464,380	2.5	1	56,050	30	520,430	2.5
GAAB (3)	23	277,768	1.5	2	65,800	25	343,568	1.7
	52	742,148	4.0	3	121,850	55	863,998	4.2
<u>Public Works-Street Mtce.</u>	53	2,186,810	11.8	1	44,620	54	2,231,430	10.7
<u>Other City</u>	379	6,996,618	37.5	6	121,090	385	7,117,708	34.3
TOTALS	<u>927</u>	<u>18,594,613</u>	<u>100.0</u>	<u>111</u>	<u>2,184,710</u>	<u>1,038</u>	<u>20,779,323</u>	<u>100.0</u>
Per Capita Cost (4)		296.26			29.29		311.46	

	Population: July 1, 1973		Population: Jan. 1, 1974		Population: Jan. 1, 1975	
	City	Borough	City	Borough	City	Borough
Normal Civilian Population	48,350	122,500	48,350	128,100	50,700	128,100
Military	24,500	24,500	24,500	24,500	24,500	24,500
Pipeline Impact	3,760	13,400	6,700	22,700	11,350	22,700
TOTALS	76,610	160,400	79,550	175,300	86,550	175,300

- (1) Funded by Spenard Service District.
- (2) The 1973 budget for Building Safety is funded with \$85,843 Pipeline Impact.
- (3) Funded by Greater Anchorage Area Borough - Non-Areawide Service Library.
- (4) Per Capita costs exclude the 17,892 military annexed in 1973 and Spenard Police and GAAB Library.

Revised December 18, 1973.

CITY OF ANCHORAGE  
 REVISED APPROPRIATIONS 1973 AS OF SEPTEMBER 30, 1973

	<u>Employees</u>	<u>Amount</u>	<u>Per Cent Total Budget</u>	<u>Per Capita Costs (1)</u>
<u>Mayor and Council</u>	<u>1</u>	\$ <u>78,660</u>	<u>.4</u>	\$ 1.34
<u>City Manager</u>				
Administration	12	145,125	.8	
Personnel	7	98,900	.5	
Internal Audit	4	40,405	.2	
Community Promotion		99,579	.5	
Human Relations	4	62,590	.4	
Data Processing	39	-0-		
	<u>66</u>	<u>446,599</u>	<u>2.4</u>	7.61
<u>City Clerk</u>	<u>10</u>	<u>127,552</u>	<u>.7</u>	2.17
<u>Law</u>				
City Attorney	15	249,870	1.3	
Property Management	7	31,060	.2	
	<u>22</u>	<u>280,930</u>	<u>1.5</u>	4.78
<u>District Court</u>	<u>12</u>	<u>160,334</u>	<u>.9</u>	2.73
<u>Finance</u>	<u>114</u>	<u>451,030</u>	<u>2.4</u>	7.68
<u>Public Safety</u>				
Police-City	160	2,768,932	14.9	
Police-Spenard	41	920,240	4.9	
Fire	78	2,114,490	11.4	
Civil Defense	3	56,560	.3	
Traffic Engineering	19	792,910	4.2	
Building Safety	22	440,920	2.4	
	<u>323</u>	<u>7,094,052</u>	<u>38.1</u>	105.14
<u>Public Works</u>				
Administration	5	32,850	.2	
Engineering	15	148,290	.8	
Engineering Projects	70	1,305,690		
Engineering Projects		(1,305,690)		
Building Maintenance	52	211,940	1.1	
Street Maintenance	53	2,186,810	11.8	
Merrill Field	6	99,060	.5	
	<u>201</u>	<u>2,678,950</u>	<u>14.4</u>	45.62
<u>Library</u>				
City	29	464,380	2.5	7.91
GAAB	23	277,768	1.5	
	<u>52</u>	<u>742,148</u>	<u>4.0</u>	
<u>Parks &amp; Recreation</u>	<u>120</u>	<u>1,574,985</u>	<u>8.5</u>	26.82
<u>Museum</u>	<u>6</u>	<u>177,728</u>	<u>1.0</u>	3.03
<u>Miscellaneous</u>	<u>0</u>	<u>511,348</u>	<u>2.7</u>	8.71
<u>Debt Service</u>	<u>0</u>	<u>4,144,574</u>	<u>22.3</u>	70.58
<u>Cash Match Federal &amp; State Grants</u>		<u>125,723</u>	<u>.7</u>	<u>2.14</u>
TOTALS	<u>927</u>	<u>\$18,594,613</u>	<u>100.0</u>	<u>\$296.26</u>
Federal & State Grants		<u>1,580,996</u>		
		<u>\$20,175,609</u>		

(1) Per Capita Costs are based on a population of 58,718 and do not include military annexation of 17,892. The costs for Spenard Police and Greater Anchorage Area Borough Library Services are not included.

Revised December 18, 1973.

ATTACHMENT "E"

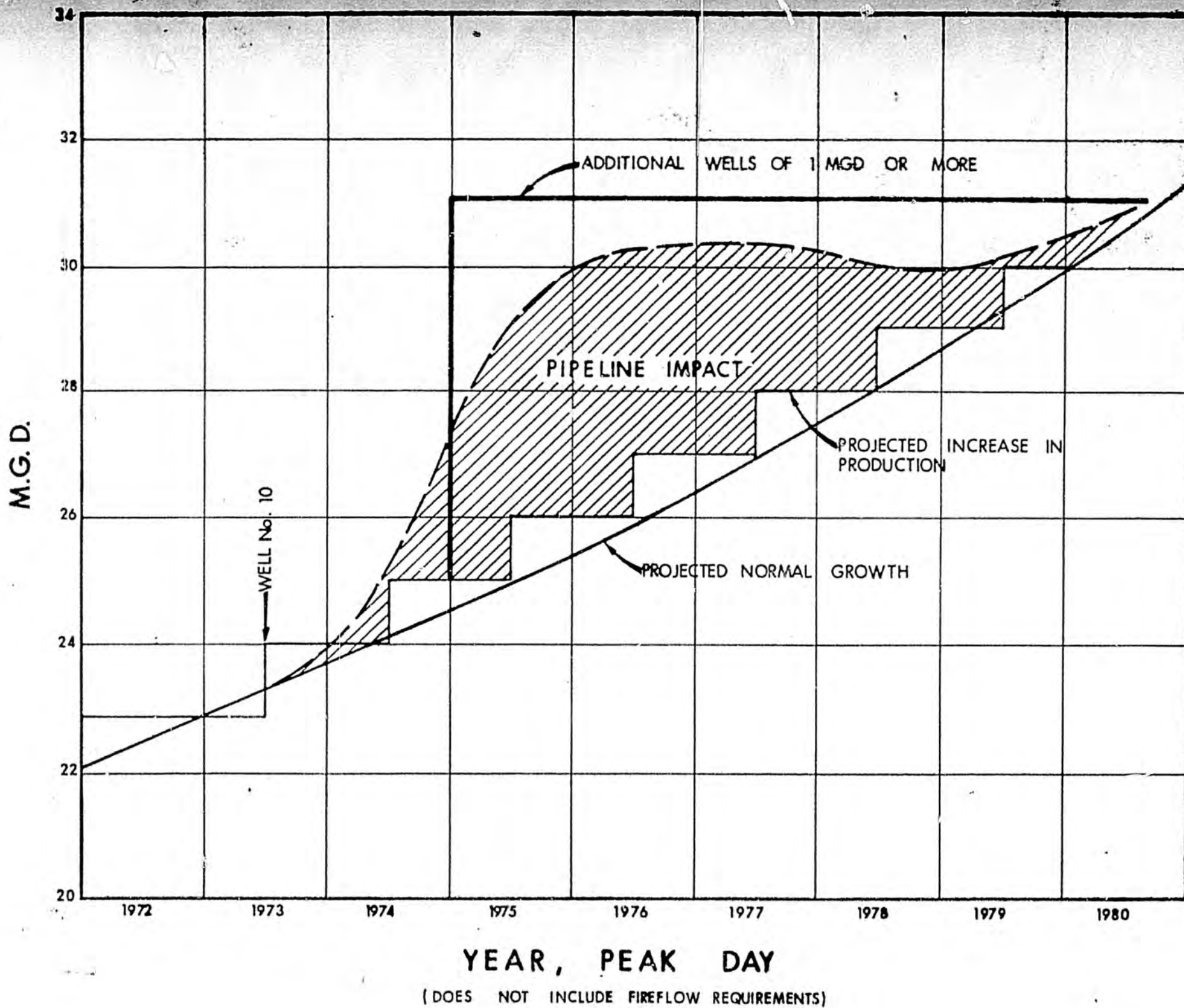
CITY OF ANCHORAGE

IMPACT OF OIL PIPELINE ON SELECTED CAPITAL IMPROVEMENT PROGRAMS

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Total</u>
High Accident Street Intersections	\$ 740,000	\$ 250,000	\$ 200,000	\$ 1,190,000
Subdivision Paving	2,092,500	187,500	-0-	2,280,000
Storm Sewer System	727,500	62,500	-0-	790,000
Port	5,788,000	6,245,000	553,000	12,586,000
Headquarters Library		4,500,000		4,500,000
Administrative Office Space	300,000			300,000
Fire Apparatus	<u>150,000</u>	<u>                    </u>	<u>                    </u>	<u>150,000</u>
TOTAL GENERAL FUND	\$9,798,000	\$11,245,000	\$ 753,000	\$21,796,000
Water Utility	4,625,000	1,000,000	5,500,000	11,125,000
Municipal Light & Power	<u>                    </u>	<u>                    </u>	<u>5,200,000</u>	<u>5,200,000</u>
	\$ 4,625,000	\$ 1,000,000	\$10,700,000	\$16,325,000
GRAND TOTAL IMPACT	\$14,423,000	\$12,245,000	\$11,453,000	\$38,121,000

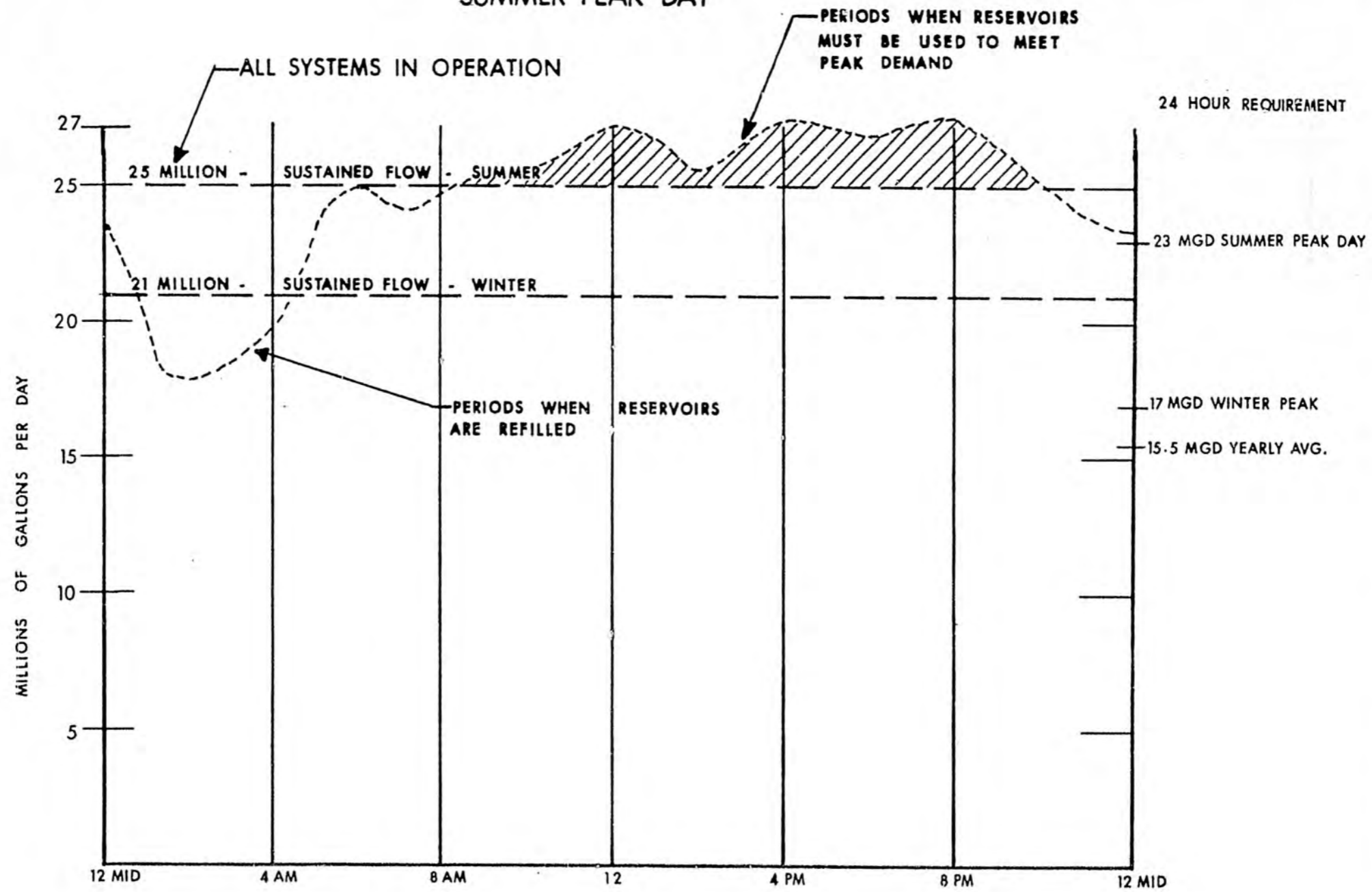
ATTACHMENT "F"

Revised December 18, 1973.



YEAR, PEAK DAY  
(DOES NOT INCLUDE FIREFLOW REQUIREMENTS)

# 24 HOUR DEMAND CURVE SUMMER PEAK DAY



ATTACHMENT "G-2"

FIRST PHASE - 1974

Drill 6 or 7 Exploratory Wells		\$ 90,000
Drill and Develop Production Wells and Connect to System		
2 on North Fork of Campbell	220,000	
2 on South Fork of Campbell	525,000	
1 on Old Seward Highway	190,000	
1 Near Recharge Pit	350,000	
1 East of Muídoon	250,000	
		1,535,000
Modification to Water Treatment Plant New Influent Setup Including Controls, Trashrock Chemical Feeds and Rapid Mix - Increase Capacity to 20M6D		1,000,000
New Line to Diversion Dam 36"		1,250,000
Additional 5 MG Treated Water Storage		750,000
		<hr/>
		\$ 4,625,000

SECOND PHASE - 1975

Modify Diversion Dam for Additional Outlets		500,000
Construct Offstream Storage Pit with Pump and Piping		500,000
		<hr/>
		\$ 1,000,000

THIRD PHASE - 1976

Additional Supply Line to T.P.		1,000,000
Construct Offstream Storage Pit with Pump and Piping		1,000,000
Construct Additional Storage (Treated)		1,000,000
Modify Water Treatment Plant to 30M6D Add Additional Filters		250,000
		<hr/>
		\$ 5,500,000

FUTURE

Add Additional Offstream Storage as Required  
Double Existing T.P. to 60M6D - 8 million

ATTACHMENT "H"

General Government Capital and Operating Budgets  
Inflation Increase 10% Per Year

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>Total</u>
Population*	61,650	68,150	70,570	72,110	272,480
CIP	21,529,600	19,470,400	8,519,780	5,192,560	54,712,340
Inflation	2,152,960	4,088,784	2,820,046	2,409,867	11,471,657
Per Capita Increase	35	60	40	33	42
Operations	20,779,323	21,558,495	22,420,834	23,317,667	88,076,319
Inflation	2,077,932	4,527,283	7,421,294	10,821,727	24,848,236
Per Capita Increase	34	66	105	150	91
Total Inflation	4,230,892	8,616,067	10,241,340	13,231,594	36,319,893
Per Capita Increase	69	126	145	183	133

\*Population excludes 17,892 military annexed in 1973.

CITY OF ANCHORAGE  
Revised Revenues 1973 As Of 9/30/73

	<u>Amount</u>	<u>Per Cent</u>	<u>Per Capita Value (1)</u>
<u>Taxes - Real &amp; Personal</u>			
Real	\$ 5,398,360	29.0	
Personal	1,467,580	7.9	
Penalty & Int. Delinquent Taxes	<u>50,000</u>	<u>.3</u>	
	6,915,940	37.2	\$117.78
<u>Taxes - Other</u>			
Payment in Lieu City Utilities	1,398,826	7.6	
Franchise Tax - Gas	135,743	.7	
Franchise Tax - Electric	<u>40,757</u>	<u>.2</u>	
	1,575,326	8.5	26.83
<u>Licenses and Permits</u>	350,860	1.9	5.98
<u>Fines and Forfeitures</u>	861,100	4.6	14.67
<u>Intergovernmental Revenues</u>			
State of Alaska Business License	1,191,213	6.4	
State of Alaska Liquor License	105,000	.6	
State of Alaska Aviation Fuel	19,680	.1	
State of Alaska Cannery Tax	4,351		
State of Alaska Shared Revenues	1,478,323	8.0	
Federal Civil Defense	28,280	.1	
Federal Revenue Sharing	<u>1,337,529</u>	<u>7.2</u>	
	4,164,376	22.4	70.92
<u>Contributions from City Utilities</u>	1,240,173	6.7	21.12
<u>Charges for Services</u>			
State Highway Maintenance	250,000	1.3	
GAAB Libraries	312,240	1.7	
Spenard Police	1,034,890	5.6	
School Crossing Guards	53,820	.3	
Emergency Communication 911 State	9,030	.1	
Emergency Communication 911 GAAB	53,060	.3	
Recreational Activities	222,720	1.2	
Traffic Electronics	52,210	.3	
Public Works-Misc. Work Orders	59,690	.3	
Other Misc. Receipts	<u>101,050</u>	<u>.5</u>	
	2,148,710	11.6	16.18
<u>Cost Recoveries</u>			
Bond Principal	409,775	2.2	
Bond Interest	254,567	1.3	
Port Crane Insurance	<u>14,100</u>	<u>.1</u>	
	678,442	3.6	11.55
<u>Miscellaneous Revenues</u>			
Interest	38,000	.2	
Rental Revenues	263,200	1.4	
Loussac Foundation	25,000	.1	
Other Misc. Revenues	<u>305,882</u>	<u>1.7</u>	
	632,082	3.4	10.76
<u>Appropriation Year End Surplus</u>	27,604	.1	.47
	18,594,613	100.0	<u>\$296.26</u>
<u>Federal &amp; State Grants</u>	<u>1,580,996</u>		
	<u>\$20,175,609</u>		

(1) Per Capita value is based on a population of 58,718 and does not include military annexation of 17,892. The costs for Spenard Police and GAA Borough Library Services are not included.

ATTACHMENT "J"

CITY OF ANCHORAGE  
New Revenues Generated by Pipeline

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>Total</u>
<u>Property Taxes (7.9 mills)</u>					
Real		408,825	762,350	1,093,350	2,264,535
Personal (25%)		102,206	190,588	273,340	566,134
<u>Taxes - Other</u>					
Gas & Elec. (% incr. Prop. Tax)		13,500	25,000	36,500	75,000
<u>Licenses &amp; Permits</u> (% incr. Population)	13,500	45,500	40,000	15,000	114,000
<u>Fines &amp; Forfeitures</u> (% Population)	33,000	111,500	98,000	36,500	279,000
<u>Business Licenses</u> (% Population)		46,000	154,500	136,000	336,500
<u>Aviation Fuel Tax</u>		2,000	2,500	2,500	7,000
<u>State Shared Revenue</u>	73,500	189,750	206,000	188,500	657,750
<u>Federal Shared Revenue</u>					
<u>Recreational</u>	8,500	29,000	25,000	9,500	72,000
Totals	128,500	948,281	1,503,938	1,791,200	4,371,919
Population	2,940	7,590	8,240	7,540	26,310
Per Capita	44	125	182	238	166

INTERIM REPORT  
OF THE  
JOINT GAS PIPELINE IMPACT COMMITTEE

Legislative Reference Library  
Legislative Affairs Agency  
Pouch Y State Capital  
Juneau, Alaska 99811

This Committee, through public hearings and staff investigation, has become convinced that immediate action by the State of Alaska is essential if the citizens of this State are to receive maximum benefit from the State's natural gas resource.

The Committee will issue a full and complete report on its findings and recommendations at a later date, but is impelled to submit this interim report to the Legislature and the people of the State of Alaska because of the urgency of the present situation.

The Committee finds and concludes the following:

1. A federal decision authorizing the transportation of North Slope natural gas across Canada would be inimical to the interests of the State of Alaska. The State's resource would be drained, its people denied access to a premium fuel and raw material, its work force deprived of employment opportunities, and productive economic growth would be thwarted.
2. A federal decision authorizing the transportation of North Slope natural gas across the State of Alaska to an open port will serve the best interests of the State.
3. The level of benefits, and burdens reasonably to be expected by the State as a consequence of any decision on a North Slope gas transportation system are of such magnitude that the routing decision must be regarded as critical to the future of the State. Action to secure a Trans-Alaska routing must be pursued as expeditiously as possible; no reasonable step should be left untaken.
4. The position of the state as owner of a one-eighth royalty in natural

gas and natural gas liquids produced from State-owned lands on the North Slope creates an immediate opportunity for effective State action which can assist in securing a Trans-Alaska transportation system.

5. Affirmative, aggressive action by the Governor, the Commissioner of Natural Resources, the State Royalty Board, and the Legislature with respect to the State's royalty gas is imperative.
6. Effective use of the State's royalty gas, to serve the best interests of the State, requires:
  - a. The State must elect to take its royalty share of natural gas natural gas liquids in kind.
  - b. The State must commit a portion of its royalty gas to purchasers who will assist in securing approval of a Trans-Alaska transportation system, and who will thereafter utilize such a Trans-Alaska system.
7. Present levels of natural gas demand in Alaska permit a commitment of a portion of the State's royalty gas to purchasers outside the State; while every effort must be made to retain a substantial part of Alaska's gas for present and future in-state needs, it is in the overall best interests of the State to offer for sale outside the State, a substantial portion of the State's royalty gas to purchasers who can, and will, assist in securing authorization of a Trans-Alaska transportation system.
8. Those persons and firms interested in the construction and operation of a Trans-Alaska transportation system can materially alleviate State unemployment problems, and the State should, in striking a bargain for the commitment of State resources to a Trans-Alaska

system, secure appropriate commitments for the hire and training of Alaska residents in the construction and operation of such a system.

9. Finally, the risk that non-action by the State, or delayed action by the State, will cause the selection of a Trans-Canadian routing, and the risk that the State will lose substantial benefit of its natural gas resource are so great, ~~it is the sense of this Committee~~ that State action must not be delayed.

BY REASON OF THE FOREGOING, IT IS THE RECOMMENDATION OF THIS COMMITTEE THAT:

1. The Commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with interested out-of-state purchasers to reach definitive sales and/or exchange agreements covering disposition of substantial portions of the State's royalty gas on the best obtainable terms.
2. The Commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with natural gas transporters involved in the proposal for a Trans-Alaska system to reach definitive transportation agreements covering the State's royalty gas sold for out-of-state use, and the State's withdrawal of the unsold portion of its royalty gas from the system for in-state use; appropriate commitments should be obtained with respect to hire and training of Alaska residents.
3. The arrangements and agreements so negotiated should be presented to the Legislature for ratification ~~(as soon as possible and in all events)~~ prior to the end of the Second Session of the Ninth Legislature, *to avoid the necessity of a special session*
4. The Legislature should hold itself ready for immediate consideration of and prompt action on, the recommendations of the Commissioner and

Board.

5. Such arrangements, contracts, and agreements as are negotiated by the Commissioner and Board and approved by the Legislature should be incorporated into the pending applications for a Trans-Alaska transportation system, presented to the Federal Power Commission by the appropriate transporter-applicant, and approval thereof obtained in the pending Federal Power Commission proceedings.
6. The Legislature should adopt SCR 66 and further seek the active cooperation of all owners of North Slope gas in support of the Trans-Alaska pipeline route.

*SDK to Union for  
negotiation -  
Banking Bill*

JOURNAL  
SUPPLEMENT

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February 19, 1974

HOUSE

No. 12

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"Report by  
Special Petroleum Impact  
Committee

The statements and testimony from communities and knowledgeable individuals have led to the following conclusions relative to the impact of pipeline construction. They are drawn with the aim of placing in perspective the possible courses of action which may be open to the Legislature and which are discussed later in this Summary.

1. The communities found it difficult, in most cases, to determine what effects pipeline construction would have on their areas. Most did not have the staff to do research or make employment and population projections. The communities had very little information on the specific plans for the pipeline at a date early enough to be helpful.

2. The early impact will be in the areas of law enforcement, recreation, unemployment, drugs, alcohol and welfare. These matters will increase the operational costs of local governments, but will not increase the potential for additional revenue. These problems will be associated with a transient population and with pipeline workers looking for recreation.

3. The more permanent population will place demands on schools, public facilities, housing, utilities and government services which, in some communities, will be difficult to meet. Although revenue to the local governments will rise, there will be an over-all lag in revenue, especially in property taxation. Some categories of State shared revenues will rise in proportion to population increases. Where a sales tax is in effect, an increase should be felt almost at once.

4. Increased population will accelerate the need for many public improvements, often necessitating substantial financing at a date earlier than normal. In some cases, this presents the community with the problem of meeting higher maintenance costs and debt service payments while raising a question in the minds of community leaders as to whether required substantial tax increases can be sufficient. Without assistance, this may be the case in many communities.

5. Population increases will occur in most Alaskan cities, and in general, the impact will be in proportion to the increase. However, the relative severity of the impact on any community will be more related to the percentage of population increase rather than the number of persons arriving in any given community.

6. Some government leaders are concerned that public improvements made to meet demands during construction may lead to over-building with a resultant debt-burden existing in a community long after construction is completed. In nearly every case, the Committee's conclusion is that the cities will not decrease substantially in population after construction is completed.

7. Even with a lag in revenue receipts, findings show that by 1977, most community revenues will have reflected the population increase and further impact aid, per se, should not be required.

8. The agencies of the State Government will have an important role in meeting many of the problems associated with the pipeline construction, both in the organized communities, the unincorporated communities and in the unorganized borough. The effectiveness of these agencies will depend upon the money available to them and the direction given by the Administration. The Committee or the Legislature should review whatever plans are drawn to determine their adequacy.

9. Some communities are deficient in certain facilities or utilities and include funding of these deficiencies as related to pipeline impact. Even though there may be a real deficiency, the total demand for financing must be considered along with the amount needed only to meet the impact.

10. Some communities desire to provide improvements which are in excess of the need due to impact alone. In these cases, the impact portion should be isolated and the additional funds needed should be considered separately (see Appendices C & D).

11. There are capital-improvement projects being accelerated because of pipeline construction, but which will be needed regardless of the pipeline within a reasonable period of time under normal growth conditions. Aid made available should be designed to help the community during the interim period only.

Communities which are required to make capital improvements many years in advance of normal requirements may need a higher degree of immediate help, but not beyond the point where local revenues are created to support debt service.

12. Inflationary pressures will be a factor in operational costs of local government. It is believed that this factor need not be considered except for the first year of the impact. (See Appendices C & D.)

The following observations and suggestions for consideration are offered to reflect, as nearly as possible, the composite concern expressed in committee meetings, as well as in hearings and interviews with community leaders and citizens of the various impact areas:

1. Numerous city officials have suggested that increases in State Revenue Sharing would provide the aid so badly needed by the local governments. Administratively, this would be a simple solution, assuming that a general increase in the various categorical formulae used in revenue sharing would provide the amounts of aid necessary in individual cases.

This method was tested against the net needs of the five communities requesting the largest amounts of aid and found successful, if any general formula is to apply. The per-capita needs for operational aid range from about \$15 per-capita in the larger communities to over \$250 per-capita in the smaller ones.

Categorical grants might be made to the communities in response to formal applications, but this would not provide a total solution covering all communities.

Therefore, the first suggestion is an attempt to formalize grants for operational impact aid on a population percentage increase basis.

As stated earlier, the percentage increase in population is more significant to the community than an increase in actual numbers. Therefore, a formula based upon the percentage increase can be devised to provide for operational impact grants which apply to all communities affected by population increases.

Assume, for example, that a 12% increase in population would warrant a \$20 per-capita grant. Then, a 150% population increase would require a \$250 per-capita grant. In order to coordinate the situation of the boroughs with service districts, the Committee feels that grants should be broken down by percentage as follows: 50% for general government, 17% police, 17% fire, and 16% roads.

2. The revenue sharing grants for operational impact costs should be formally requested by the cities, with supporting evidence of need.

3. The Committee has found that per-capita impact costs will drop in 1975 and again in 1976. Any assistance programs should be reviewed for 1975 applications to determine the need, and if it exists, to establish a new per-capita grant formula.

4. Caution should be exercised in making substantial allowance for inflation.

5. Aid for capital improvement programs undertaken on an accelerated basis by the community, and which, under normal growth conditions, would be needed by 1976, 1977 or 1978, could be in the form of a State loan or bond-guarantee program. Such a program should be available to all cities and would enable the smaller communities, which may not be able to sell bonds, to obtain debt financing. A bond-guarantee should assure the smaller communities lower interest rates.

6. In cases where capital improvements are required to meet impact needs, but under normal conditions would not be needed for, perhaps, five years or more, the State could

undertake a program to finance a portion of the debt service, or interest, for a period of time.

7. In those cases where debt limitation on general obligation bonds makes it impossible to sell bonds for a capital improvement necessary to meet the impact needs, the State should consider a grant program, if an urgent need can be shown.

8. In those cases where funds are urgently needed by a municipal water utility and the earnings potential is such that the required debt coverage cannot be maintained, the State could establish a loan program, at a reasonable interest rate, to cover the interim period until bonds can either be sold or utility rates increased to improve the earnings.

9. Legislation similar to Senate Bill 235 (an Act creating the Alaska State Electric and Telephone Authority) should make available a loan program for municipal and cooperative electric and telephone systems when other financial sources are unavailable.

10. The State should establish a stronger program to make housing loans or purchase available mortgages if normal financing sources are not available.

11. No doubt, much of the impact of pipeline construction will fall in the areas of responsibility of the various State Departments. Funds should be provided for health services and health nurses; State-Operated Schools; police; the Department of Highways for maintenance in the impacted areas; airports and airstrip construction and maintenance; various training programs; environmental health law enforcement; protection of fish and game along pipeline route; expansion of the Motor Vehicle Division; review of voter registration capability; review of the Court System in impacted communities, and the prosecution of crimes.

The Committee suggests isolation of impact requirements of State Departments in order to prevent permanent build-up of departmental structures.

12. Impact on district and borough schools varies greatly. The per-student requirements range from over \$450 to over \$900.

Since the Foundation Program and the other State contribution programs are quite intricate, a formula based on a per-student ratio and on the percentage increase of students should be devised for each of the communities needing school operational funds.

13. Some school districts will be requesting funds for new construction or for temporary classrooms. Consideration should be given to double-shifting until the population trend is fully established. If there is a clear need for more classrooms, temporary quarters should be provided until the growth pattern is clear.

14. Special action should be taken, either legislatively or administratively, to protect fish and game along the pipeline route.

15. Non-critical construction projects should be delayed until pipeline construction reaches its peak and begins to taper off.

16. The Alaska State Legislature should authorize, if appropriate and necessary, the University of Alaska to lease University land for temporary housing in areas where private land is not available.

17. The Alaska State Legislature should consider the formation of a special agency or task force to investigate and make recommendations to the Administration and the Legislature concerning the availability of Federal funds relating to pipeline construction. In light of the urgent needs in various areas of the State, the Committee recognizes that any such agency will need emergency authority. The Committee also feels that such an agency should be composed of members of the Administration and the Legislature or their appointees.

Finally, the Committee concludes that, in general, a case-by-case approach to the solution of impact problems would best serve to cope with the broad variety of local stresses bound to occur in varying degrees during the pipeline construction period. Suggested legislation to accomplish this approach is offered in "An Act Creating the Pipeline Impact Agency" and its companion measure establishing a "Pipeline Impact Fund".

DECLARATION OF PURPOSE

The legislature finds that construction of the trans-Alaska pipeline, from its commencement to completion over a period of approximately three years, will impose severe to mild strains on local and state governmental services and facilities. While the pipeline construction indubitably will, in the long run, mean immense growth and development to the communities and areas along the pipeline route, and to those areas coming under direct pipeline construction influence, the legislature further finds that localities most affected will be unable to cope with the probable impact on facilities and services brought about by the anticipated overwhelming and sudden increases in numbers of citizens to be served. The legislature finds, also, that communities while likely to be impacted are willing and ready via local taxation to do all possible themselves to meet impact requirements, even to the full limits of local taxation tolerance, nevertheless, recognizing the state will be the prime beneficiary of pipeline construction via realization of enormous oil development revenues for the total state, the legislature finds that local impact financial burdens logically should be borne by the state as its investment in those future revenues. It is, therefore, the intent of the legislature, in this measure, to provide a means of quickly and decisively determining specific impact problems and, additionally, for moving quickly and decisively to provide funds, facilities, personnel or other means for quick solutions. Finally, the legislature intends via this legislation to meet local and state pipeline construction impact problems as quickly and efficiently as possible in manners similar to the handling of disaster impact problems. The legislature finds, too, that revenue-sharing formulas on per capita or percentage per capita increase basis are less desirable, less effective, and more costly than the case-by-case approach intended in the legislation. Under the formula approach, provision would have to be made for all probable as well as all possible impact contingencies, some of which may never develop. "

SCOMM

#13:3

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, Governor

POUCH K - STATE CAPITOL  
JUNEAU 99801


January 21, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Acting Comm. Fackler	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross  
Attorney General 

RE: Outer Continental Shelf and Gas Pipeline Task Force

The December 26, 1974 meeting of the task force on the outer continental shelf and gas pipeline was held in the office of the Attorney General. Present were the following:

Lee McAnerney, Commissioner, Community and Regional Affairs  
William Fackler, Acting Commissioner, Department of Natural Resources  
Cameron Edmondson, Commissioner, Department of Economic Development  
Jim Brooks, Commissioner, Department of Fish and Game  
Avrum M. Gross, Attorney General, Department of Law  
Kay Allred, Policy Development and Planning  
Charles Matlock, Deputy Commissioner, Department of Highways  
Kevin Waring, Department of Community and Regional Affairs

Jerry Reinwand, Deputy Commissioner, Department  
of Environmental Conservation  
Fred Boness, Department of Law

The meeting was devoted entirely to discussion of matters relating to the gas pipeline. It was noted that the Department of Interior-FPC Task Force preparing the Environmental Impact Statement for the gas pipeline had scheduled public meetings for the week of January 6 - 10, 1975 in Juneau, Fairbanks and Anchorage. The exact purpose of these hearings was unclear since a draft EIS has not yet been prepared. After some discussion of whether Governor Hammond should make a statement at the January 6 hearing in Juneau or whether someone else from the state government might make a statement, the issue was left pending until additional information on the purpose of the hearing could be obtained.

A second topic of discussion was the ability of each state department to undertake the necessary studies related to the gas pipeline proposals. Several people present noted that doing a good job would require a substantial commitment of time and manpower and that this would have an adverse impact on the day to day activities of their department. It was decided that each department should consider what studies it could handle without seriously neglecting other responsibilities and what studies should best be contracted to outside consultants. This review would be presented at a later task force meeting.

Following this discussion, the meeting was turned over to Mr. Fred Boness, Department of Law, who presented a comprehensive briefing on the gas pipeline proposals. Mr. Boness' discussion presented general background information on both the Arctic Gas and El Paso proposal, outlined a number of topical issues related to the gas pipeline and the status of state studies of these issues, and reviewed various possible courses of action which the task force might ultimately recommend to Governor Hammond.

Arctic Gas has studied several alternative routes for moving Prudhoe Bay gas to the lower 48 states via Canada. The route favored by Arctic Gas, called the prime route, runs through the Arctic Wildlife Range between three and thirty miles inland from the shore and connects with a line in Canada running from the Mackenzie River Delta south to the United States-Canada border. Other routes studied by Arctic Gas include an Offshore Corridor which is similar to the prime corridor but when the pipeline reaches the border of the Arctic Wildlife Range it moves offshore into 10 to 30 feet of water and does not return to land until the Alaska-Canada border is past, at which point

the pipeline follows the same route as the prime corridor. The Interior Corridor moves from Prudhoe Bay down along the western and southern borders of the Arctic Wildlife Range through the Brooks Range and into Canada where it again joins the pipeline from the MacKenzie River Delta, only in this case at a juncture somewhat further south than in the case of the other corridors. Another possible route, called the Fort Yukon Corridor, moves south from Prudhoe Bay along the Alyeska corridor for approximately 100 miles after which the route moves southeast through Fort Yukon and follows the Yukon River to Dawson where it again intersects with a line from the MacKenzie River Delta. The Fairbanks corridor like the Fort Yukon corridor follows the Alyeska pipeline corridor south, this time as far as Delta Junction where the corridor moves southeast across the border to Whitehorse.

The principal corridor studied by El Paso follows the Alyeska Pipeline corridor from Prudhoe Bay almost all the way to Valdez. Just before reaching Valdez, the corridor swings southeast to Gravina Point. Another corridor studied by El Paso follows the Alyeska line as far as Fairbanks and then follows the railroad right-of-way to Cook Inlet. A third corridor examined by El Paso would run from Prudhoe Bay to the vicinity of Nome. This corridor might travel westward either north or south of the Brooks Range depending on its placement. Within each of these corridors several possible variations of actual pipe-placement and terminus are possible. For example, in the case of the Cook Inlet corridor several possible terminus sites exist including some on the east side of Cook Inlet and some on the west side, as well as other sites on Kachemak Bay or western Prince William Sound.

The El Paso proposal calls for construction of approximately 809 miles of 42 inch diameter pipe, 12 compressor stations, and a liquifaction plant and terminal at Gravina Point. At maximum operating capacity the El Paso line would transport 3.5 billion cubic feet per day. The Arctic Gas proposal calls for construction of 195 miles of 48 inch diameter pipe in Alaska. The Arctic Gas proposal calls initially for movement of 2.25 billion cubic feet of gas per day. Movement of additional quantities of gas could be accommodated by construction of compressor stations in Alaska. At maximum capacity, four compressor stations would be built in Alaska (five compressor stations for the Interior Route) and a total quantity of 4.5 billion cubic feet per day would be transported.

Arctic Gas has demonstrated its commitment by

expenditures of approximately \$60 million to develop base-line data for the Environmental Impact Statement. However, as Commissioner Brooks pointed out, much of this has been for study in Canada and may not be directly applicable to Alaska. El Paso on the other hand has spent substantially less, but because they followed the Alyeska corridor a large amount of base line data is already available. Some people have questioned El Paso's commitment to the trans-Alaska pipeline proposal. In most cases El Paso's reticence can be explained by their desire to avoid committing substantial money to a risky venture. This is certainly true with regard to El Paso's dispute with Interior over the necessity of filing with Interior for a right-of-way permit before receiving certification by the Federal Power Commission. If El Paso filed with Interior prior to certification by the FPC it is possible El Paso would be obliged to pay \$10 million or more for environmental impact studies and still not receive certification.

Of the many issues which bear upon any policy recommendations, two of the most important are utilization of royalty gas and revenues from the gas pipeline. Several potential uses for state royalty gas have been suggested. These include development of a petrochemical industry in Alaska, use of the gas as a source of energy in Fairbanks (either by direct distribution of the gas to homes in the Fairbanks area or indirectly by use of the gas for generating electricity), use of gas in other towns and villages along the pipeline route, use of LNG in southeast (either for direct distribution or as fuel for generating electricity), and use of the gas as an energy source for development of mineral resources near the pipeline corridor. None of these possibilities has been studied comprehensively. A preliminary review of the possible utilization of gas in villages along the pipeline route indicates that this is likely to be noncompetitive with the use of fuel oil. Petrochemical development is a complex subject involving numerous variables, including the size and location of a facility, product output, transportation economics, and spin-off development possibilities. Furthermore, any commitment of state royalty gas must await the approval of the Alaska Royalty Oil and Gas Development Advisory Board created by AS 38.06.

In the case of a Trans-Alaska gas pipeline, the pipeline will be subject to FPC regulations as an inter-state pipeline and it is likely that state royalty gas moving in this pipeline will be subject to FPC regulations even if consumed within Alaska. Furthermore, if the State initially commits its royalty gas to a use outside of Alaska, we may experience difficulty in subsequently withdrawing the gas for use within Alaska as markets develop because such action would require approval by the FPC. One possibility for avoiding this difficulty is inclusion of underlift clause in the

lease agreement. This clause would permit the state to refrain from taking a portion of its royalty gas for a certain period of time, after which the State could take its royalty gas at a rate which in effect would be greater than 12 1/2 per cent.

In the event a Trans-Canada line is built the State might still obtain some royalty gas by trading gas reserves at Prudhoe Bay with existing or to be discovered gas reserves elsewhere in the state. However, this could become a very complicated matter as it may necessitate three and even four or five way trades of gas. It should also be pointed out that Arctic Gas has studied the economic feasibility of a small diameter gas pipe line from Prudhoe Bay to Fairbanks. According to statements made by Bob Ward in public discussions this study indicates that it would be economically feasible to build such a line if a market existed in Fairbanks for the state's royalty gas, assumed to be 218 million cubic feet per day.

State revenues from the pipeline are derived principally from a property tax on the pipeline, severance taxes, and royalty payments. Which pipeline will yield the greater revenues depends upon several factors. First, severance taxes and royalty payments, at present, are determined on the basis of wellhead value of the gas. The FPC after hearings will determine the wellhead value for Prudhoe Bay gas. Under procedures which the FPC is currently employing for valuation of natural gas, the wellhead value of Prudhoe Bay gas would be determined independently of the pipeline. In that case, state severance tax and royalty payments would be the same regardless of which pipeline is constructed. On the other hand, if gas is de-regulated, the market price for Prudhoe Bay gas will be determined in the lower 48 and from that market price it will be necessary to deduct transportation costs in order to determine wellhead value of the gas at Prudhoe Bay. Under these circumstances state severance taxes and royalty payments will be greater for that pipeline which is able to transport gas to markets in the lower 48 for the least cost.

A second aspect of the potential revenue from a gas pipeline relates to secondary development effects of the pipeline. That pipeline which stimulates the greatest degree of economic activity, for example, in construction, petrochemicals, mining, and support activities, will also likely generate the greatest amount of additional revenue by virtue of income taxation and other lesser taxes. However, this consideration, to be properly evaluated, must include not only the income side of the picture but also the expenditure side. That is, while

this increased level of economic activity may produce additional revenues, it will also produce additional demands for governmental services. Only careful analysis will enable us to estimate whether the benefits outweigh the costs for various possible scenarios of secondary development. This type of analysis has not yet been done for the gas pipeline.

Either gas pipeline will have substantial social and economic effects upon the state. The temporal range of these effects can be subdivided into a construction period and postconstruction period. The social and economic impact during these periods has not been adequately studied either by the State or by Arctic Gas and El Paso. In order to make policy recommendations which incorporate social and economic considerations it will be necessary to develop a general framework for evaluating the kinds of impacts which will result from each potential pipeline route. Additionally, it will be necessary to define a set of variables which may serve as proxies for the underlying social and economic impacts. These variables might include income, per capita income, income distribution, employment statistics, unemployment statistics, employment and unemployment statistics for certain subgroups (such as women or natives), and other similar variables.

After an initial set of policy objectives is developed the State has a number of alternatives which it may pursue in attempting to give affect to the policy decisions. Trade-offs with either Arctic Gas or El Paso or the individual producer companies are possible. The state might agree to support one route or another in exchange for certain agreements by the companies. Such agreements might relate to use of royalty gas, environmental protection, commitments relating to various aspects of the social and economic impact of a pipeline, or possible financial commitments by the companies. The State also has the power to threaten delay through court litigation of the issue of a natural gas company's right to condemn state lands.

The State will also likely have several national forums in which to present its views. As an intervener in the FPC proceedings, the State is entitled to present witnesses of its own and cross-examine witnesses presented by others. We must decide what kind of a role we wish to play in the FPC proceedings. This role could range from a relatively passive one of only submitting written testimony, to a very active one of presenting expert witnesses of our own and cross-examining witnesses of other parties. Furthermore, the State could limit itself to only a few issues which are directly and specifically related to Alaska or it could be prepared to deal with all issues

relevant to Alaska as well as issues of national significance which may have little importance for Alaska (for example, balance of payment problems, shrinkage during transportation, Canadian Native claims problems, and others). The FPC hearings may begin by mid or late April.

Other possible forums at which the state might want to have an input include the probability that Congress itself will consider legislating a pipeline route and the possibility that President Ford will, on recommendation of Secretary Morton, endorse a pipeline route. If these forums develop the State must decide what degree of participation it wishes to make in them.

AMG:jf

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, Governor

POUCH K— STATE CAPITOL  
JUNEAU 99801


January 27, 1975

### M E M O R A N D U M

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Acting Comm. Fackler	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross   
Attorney General

RE: Outer Continental and Gas Pipeline Task Force

The weekly meeting of the outer continental shelf and gas pipeline task force was held on Friday, January 17, in the Governor's Conference Room at which time representatives of El Paso Natural Gas Company explained their proposal to build a Trans-Alaska Gas Pipeline. In attendance at the meeting were the following:

Jay S. Hammond, Governor  
Avrum M. Gross, Attorney General  
Robert B. Weeden, Director, Policy Development and  
Planning  
James Brooks, Commissioner, Department of Fish & Game  
Cameron Edmondson, Commissioner, Department of  
Economic Development  
William Fackler, Acting Commissioner, Department of  
Natural Resources  
Sterling Gallagher, Commissioner, Department of Revenue  
Lee McAnerney, Commissioner, Department of Community  
and Regional Affairs

Ernst Mueller, Commissioner, Department of Environmental Conservation  
William H. Race, Department of Public Works  
Scott Grundy, Department of Fish & Game  
John Becker, Department of Highways  
Kevin Waring, Department of Community & Regional Affairs  
Fred Boness, Department of Law  
Tom Williams, Department of Law  
Sandy Sagalkin, Department of Law  
Bob Ward, Arctic Gas  
Harold Stranburg, Arctic Gas  
Representatives of the press  
John Bennett, El Paso  
George Carameros, El Paso  
Mike Holland, El Paso  
Dave Rainey, El Paso  
Don Maciver, El Paso  
George Lipsett, El Paso  
Jack Thompson, El Paso  
John Craig, El Paso  
Ivan Schmidt, El Paso  
Bob McCoilum, Dames & Moore, representing El Paso  
Charles Flynn, Burr, Pease & Kurtz, representing El Paso

Attorney General Gross stated that El Paso would be given as much time as needed to present their position after which the task force would ask questions. Mr. Bennett began the El Paso presentation with a review of certain major points he wished to make. Mr. Bennett stated he believed the FPC would make a "threshold decision" on whether the pipeline should go trans-Alaska or trans-Canada; that with active State support of El Paso he was confident the FPC would endorse the trans-Alaska concept; but that without the State's support El Paso would not continue the fight for a trans-Alaska line and would cut its losses at eight million dollars.

Mr. Bennett next reviewed the importance of North Slope gas to the lower 48 states. He noted that a substantial portion of all energy consumed in the U.S. is natural gas; that last year the U.S. consumed 22 trillion cubic feet and discovered only 6 trillion and that this imbalance has existed for the past six years. Gas from the Alaska North Slope therefore is urgently needed in the lower 48 states, as will be future gas discoveries in Alaska. Therefore, Mr. Bennett contended that which ever gas pipeline is built, Trans-Alaska or Trans-Canada, that line will control future movement of gas from the North Slope for decades.

Mr. Bennett outlined the characteristics of the El Paso proposal, explaining that the proposal was to lay down 809 miles of 42 inch diameter pipe, to build a liquifaction plant at Gravina Point, to move the gas from the liquifaction plant to California by means of 11 tankers 165 cubic meters in size,

and in California to supply approximately 1/2 the gas to Western markets and 1/2 to Midwestern and Eastern markets by displacement. Displacement means that gas which is presently flowing from Texas and Louisiana to California would instead be shipped to the Midwest and East and replaced in California by Alaskan gas. According to El Paso, rerouting of gas using the method of displacement is possible because reports on file with the FPC indicate an expected unused capacity of 11 billion cubic feet by 1980.

Mr. Bennett next outlined several advantages of a trans-Alaska gas pipeline. First, a trans-Alaska pipeline would be completely under U.S. control, there would be no temptation to the Canadians and no possibility for unilateral actions by the Canadians which might be detrimental to United States interests. As an example, Mr. Bennett explained that the British Columbia Government, when it encountered insufficient supplies to meet all obligations, satisfied all Canadian obligations and forced American consumers to bear the entire shortage and at the same time increased prices drastically. The adverse impact on the United States balance of payment was also cited as a disadvantage of the Trans-Canada line.

Second, Mr. Bennett stated that according to FPC procedures for determining wellhead value, the value would be the same under either project. He further contended that transportation costs to California were about the same for El Paso and Arctic Gas or perhaps greater for Arctic gas. He made the assumption that each company could move gas to California for approximately \$1.20 per MCF and then divided the \$1.20 transportation costs into its component parts. Under the El Paso system, the entire \$1.20 would be distributed to American interests in the form of taxes to Alaska, taxes to the United States, wages to American workers and return on investment to American investors. In the case of the trans-Canada line only 36 cents would return to American interests, while 84 cents would be attributable to Canadian interests.

Third, on the question of environmental impact, Mr. Bennett drew several comparisons (length of the line, number of compressor stations and so forth) to indicate that the El Paso line would have less impact on the environment.

Fourth, Mr. Bennett discussed the necessity of early movement of Prudhoe Bay gas citing potential damage to the reservoir as a major reason. He contended that El Paso can build its line quicker than can Arctic Gas because the El Paso line is shorter, procurement of supplies will be easier, and Arctic Gas will encounter delays in obtaining approval by the Canadian government.

Fifth, Mr. Bennett outlined several benefits to the State of Alaska. These benefits included 2.4 billion dollars in taxes over the life of the project, employment of 600 persons, and the availability of royalty gas for residential heating,

generation of electricity, processing of ore on-site and development of a petrochemical industry.

Following Mr. Bennett's presentation, Mr. George Carameros discussed certain aspects of the El Paso proposal. He indicated that El Paso was indeed committed to the trans-Alaska project; that El Paso had spent 7 million dollars and by comparison the most money spent by any one company in the Arctic Gas consortium was 2 million dollars. Mr. Carameros again stressed the point that State support of the El Paso proposal was vital and that without State support El Paso would not stand a chance of obtaining FPC certification. Mr. Carameros stated environmental studies of great detail are not necessary for the FPC to make a threshold decision on whether to certify a trans-Canada or trans-Alaska line and therefore El Paso did not intend to undertake additional detailed studies until after conditional certification by the FPC.

Mr. Carameros indicated that the project cost was estimated to be approximately 6 billion dollars and that El Paso's net worth was approximately 336 million dollars. In spite of this disparity, the project could be financed using the concept of "project financing." He explained that El Paso's Algerian project cost approximately 2 billion dollars and was financed on this basis. Mr. Carameros concluded by outlining the special interest in the trans-Canada project of each member of the Arctic Gas consortium. He explained that several of the producer companies had interests in the MacKenzie River delta area and that these discoveries could only be brought to market in the near future by a trans-Canada pipeline also carrying Prudhoe Bay gas, since the reserves in the MacKenzie are not, at this time, large enough to justify construction of a separate line.

Several questions were then asked by members of the task force and in response to those questions the following points of clarification or additional information were elicited from El Paso:

1. El Paso's assertion that gas could be reinjected for only a limited time without causing damage to the reservoir was based on the State's intervention petition. El Paso was not aware of more recent analysis by the State which indicates reinjection is possible for as long as 8 years without damage to the reservoir.
2. El Paso anticipates no problems in constructing the 11 cryogenic tankers within the projected timetable.
3. Little if any Canadian gas will be made available to markets in the United States because Canadian needs for its own Arctic gas are growing rapidly. The Canadians according to Mr. Carameros, would in fact build their own separate pipeline from the MacKenzie River Delta if financing was possible. However, as yet, sufficient reserves have not been proven up to justify construction of a line and in the absence of sufficient reserves, bankers will not lend money.

4. In response to a question whether El Paso was advocating that the FPC first make a decision and then do the environmental studies rather than first doing the studies and then making a decision. Mr. Carameros stated that he believed sufficient data is available for the FPC to make a decision in favor of either the trans-Canada or the trans-Alaska concept; and that once this conceptual decision was made, El Paso would be more than happy to spend the 750 million dollars or whatever amount was necessary to do the detailed environmental statement.

5. Site selection was done using a matrix analysis which included variables for engineering, environmental, and economic considerations. Cook Inlet was eliminated because of navigational problems resulting from ice, strong currents and large tides which would create difficult docking problems. Mr. Carameros also indicated that at this time consideration of any trans-Alaska route other than to Gravina Point would cause delays.

6. El Paso has no commitments for gas or for money support from other companies at this time. However, some discussions have taken place.

7. Although some problems have been encountered in LNG plants in Africa, the general record of the LNG industry is good, as evidenced by the few problems encountered by the Phillips plant located at Nikiski. Furthermore, the process selected for the proposed LNG plant at Gravina Point is more reliable than the process used by the African plants.

8. The El Paso projection of 6 billion dollars includes the cost of facilities in California.

9. According to Mr. Carameros and Mr. Bennett, the reason most Midwestern interests support the Arctic gas proposal even though El Paso contends gas can be moved to the Midwest sooner with a trans-Alaska line is twofold:

(1. Exxon, as well as other members of the Arctic consortium has conducted a very strong lobbying effort in Washington and around the country while Alaska has done nothing and El Paso has done very little;

(2. Midwestern interests are eager to see a pipeline physically located in the midwest because they believe gas supplies would be better assured and they will be able to get a larger share of the North Slope gas. However, in fact, who gets what share of Prudhoe Bay gas has not been decided because no contracts have been signed.

10. El Paso does not think Congress will step in prior to an FPC decision but hopes that once the decision is made, Congress will act to prevent extended litigation which otherwise might take two or three years to move through the Court.

11. On the displacement of gas, El Paso stated there would be sufficient excess capacity for additional Alaskan gas (from, for example, Cook Inlet) also to move to the west coast and then by displacement (or by actually reversing the lines) move gas to the Midwest and East. El Paso has not done any specific studies of displacement because gas contracts have not been signed yet and in the absence of such contracts, final allocation and distribution cannot be determined.

12. El Paso vigorously asserted that deregulation would mean bidding in the field without account for transportation costs. Therefore, the wellhead value of state royalty gas would be the same for either pipeline even if one or the other pipeline could move gas to markets in the lower 48 more cheaply.

13. Under careful questioning, El Paso conceded that the State would need FPC approval to take gas off a Trans-Alaska line and that one factor the FPC might consider in granting or withholding its approval was the end use to which the gas would be put.

14. El Paso is assuming that once the FPC certifies the El Paso proposal, even preliminarily, other corporations, such as producers and pipeline companies, will join El Paso and that in this way, financing will be possible.

15. El Paso has not conducted any discussion with Pacific Alaska LNG on the possibility of building and utilizing shared facilities at Cook Inlet. According to Mr. Carameros, there would be little advantage to this since the Pacific Alaska LNG project is less than 1/8 the size of the El Paso project.

AMG:jdg

J. Hammond

February 3, 1975

MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Acting Comm. Fackler	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross  
Attorney General

RE: Outer Continental Shelf and Gas Pipeline  
Task Force

The Outer Continental Shelf and Gas Pipeline Task Force met Monday, January 27, 1975, in the office of the Attorney General. Present at the meeting were the following:

Lee McAnerney, Commissioner, Department of  
Community and Regional Affairs  
James W. Brooks, Commissioner, Department of  
Fish and Game  
Avrum M. Gross, Attorney General  
Ernst W. Mueller, Commissioner, Department of  
Environmental Conservation  
A. Cameron Edmondson, Commissioner, Department of  
Economic Development  
Jon Tillinghast, Department of Law  
Sandy Sagalkin, Department of Law  
Kevin Waring, Department of Community and Regional  
Affairs  
M. P. Wennekens, Department of Fish and Game

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Fred Boness, Department of Law  
Kathy Hollier, Department of Revenue  
John C. Becker, Department of Highways  
William H. Race, Department of Public Works  
James Wiedeman, Policy Development and Planning  
Robert LeResche, Department of Fish and Game

Attorney General Cross opened the meeting by explaining the contents of the recent FPC order on the gas pipeline. Most importantly, the FPC decision denied the Department of the Interior's request to dismiss El Paso's application. The decision also ordered that the El Paso, Arctic Gas and related proceedings be consolidated for a joint, comparative hearing. The hearing will be conducted in two phases with the first phase dealing with such matters as gas supply, markets, cost of facilities, financing, reserves, expenses, income, tariff, system design, environment reports and other matters of a related nature. The second phase of the hearing will be concerned only with "the issues raised by the final environmental impact statement." The FPC decision also established a very expeditious timetable, with formal hearings commencing on May 5, 1975; a prehearing conference to be convened on April 7, 1975 and the filing of direct testimony by applicants by March 24, 1975. The time for filing testimony by intervenors and rebuttal cases will be set by the presiding law judge.

Attorney General Cross stated that he believes the task force has now received a substantial amount of information regarding the Arctic Gas and El Paso proposals and posed the question of what additional information the task force felt it might need to make a recommendation to the Governor and how such information could be obtained. Commissioner Brooks noted that if Alaska, in fact, has the reserves which the Department of Natural Resources and others predict, then movement of North Slope gas through Canada would not deprive the state of future availability of natural gas for home heating and industrial development. He stated that, given this fact, he would prefer a trans-Canada route, but also indicated he believed it would be political suicide for the governor to endorse a trans-Canada route. Commissioner Brooks indicated he believed the FPC would endorse a trans-Canada route regardless of what the State of Alaska supported, and suggested that therefore the state might continue to support a trans-Alaska pipeline but should take a low profile in the FPC proceedings.

The ensuing discussion revolved principally around two points: (1) the sentiments of most Alaskans with respect to the competing gas pipeline routes; and (2) what additional study might be undertaken to provide the task force with information needed to make a recommendation. On the first point, it was noted that many community leaders across the state have endorsed a trans-Alaska gas pipeline and that these people often guide public

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opinion. However, it was also noted that many of these people would be the ones to benefit from construction of a gas pipeline and that many other people in the community would in fact receive few benefits from construction of the gas pipeline but might have to bear many of the burdens. It was suggested that we did not, in fact, really know the attitudes of this latter group of people. Commissioner McAnerney noted that many Alaskans and people in the Lower 48 simply were opposed to having our gas pass through another country.

Several persons commented that if, in fact, the task force should conclude that a trans-Canada gas pipeline had more benefits for Alaska, the governor would be able to make a reasoned statement of his position and it would then be opened for the people to agree or disagree. Others commented, however, that the difficulty with this approach is the fact that many crucial issues simply cannot be pinned down because they depend on speculation about future events in Alaska, Washington, D.C., and the world.

Attorney General Gross noted that the task force had approximately \$30,000 which it could use to obtain some type of consultant study if the members believed that such a study would be worthwhile. He suggested that such study might be made of the economic aspects of the pipeline and potential use of royalty gas in Alaska. The task force concurred in this and Attorney General Gross said he would therefore contact Arlon Tussing to see if Dr. Tussing would be able to do such a study. Mr. Gross also suggested that the task force await the "definitive paper" comparing the competing pipeline proposals promised by Arctic Gas during the presentation last week. This paper is expected in about one month.

Discussion turned to the state's participation in the upcoming hearings in Anchorage, February 3-4, on the Department of the Interior's draft Environmental Impact Statement on Outer Continental Shelf oil drilling. Jon Tillinghast stated that he had reserved a block of three hours for state participation. Lee McAnerney, Ernst Mueller and Jim Brooks stated that their departments would like to present oral testimony.

It was agreed that the Department of Law would prepare a draft of the governor's presentation at the hearings and circulate the draft to members of the task force for comments.

Jon Tillinghast stated that February 24 was the deadline for written comments on the EIS. Sandy Sagalkin and Jon Tillinghast stressed the need for completeness in the written comments, to get all documents possible into the administrative record.

It was agreed that February 14 would be the deadline for submission of departmental comments to the Department of Law for review. The Department of Law will prepare comprehensive state comments, attaching the departmental comments as appendices.

AMG:as:FB

cc: S. Sagalkin, Fred Boness, Jon Tillinghast

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, Governor

POUCH K - STATE CAPITOL  
JUNEAU 99301

February 5, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Acting Comm. Fackler	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross  
Attorney General

RE: Outer Continental Shelf and Gas Pipeline  
Task Force

The Outer Continental Shelf and Gas Pipeline Task Force met on January 23, 1975, in the Governor's Conference Room for the purpose of hearing Arctic Gas present its proposal to construct a trans-Canada Gas Pipeline. Present were the following:

Jay S. Hammond, Governor  
Avrum M. Gross, Attorney General  
Tony Motley, Commissioner, Department of Commerce  
Ernst Mueller, Commissioner, Department of Environmental Conservation  
Dr. Robert Weeden, Director, Policy Development & Planning  
William Race, Department of Public Works  
Lee McAnerney, Commissioner, Department of Community & Regional Affairs  
William Fackler, Acting Commissioner, Department of Natural Resources  
Cameron Edmondson, Commissioner, Department of Economic Development  
James Brooks, Commissioner, Department of Fish & Game  
Kevin Waring, Department of Community & Regional Affairs  
Sterling Gallagher, Commissioner, Department of Revenue

John Becker, Department of Highways  
Kathy Hollier, Department of Revenue  
John Palms, Department of Fish & Game  
Sandy Sagalkin, Department of Law  
Jerry Williams, Department of Law  
Fred Boness, Department of Law  
Bob Ward, Alaskan Arctic Gas  
William Brackett, Alaskan Arctic Gas  
Harold Strandberg, Alaskan Arctic Gas  
James Harvey, Canadian Arctic Gas  
Donald Dickey, State Chamber of Commerce  
Representatives of the press

Mr. Ward began the Arctic Gas presentation by reviewing the owner companies of the Arctic Gas consortium. He noted that the owner companies provide policy and general direction for Arctic Gas as well as expertise on specific problems. Several of the companies in the Arctic Gas consortium supported the trans-Alaska oil pipeline but now support a trans-Canada gas pipeline. According to Mr. Ward the companies' differing opinion concerning which pipeline is appropriate for oil and gas is the result of their conclusion that it is more efficient and practical to move gas entirely by pipeline avoiding the necessity of liquifaction.

Mr. Ward contended that movement of North Slope gas along the coastal plain to the MacKenzie River and then down the MacKenzie River corridor was the most direct and efficient means for moving gas from the North Slope. He noted that estimates of Alaskan gas reserves published by the State indicate a potential of 423 trillion cubic feet of which approximately 100 trillion cubic feet may be located on the North Slope or just offshore. Mr. Ward asked: If other discoveries are likely to be made near tidelands so that liquifaction and transportation by LNG tanker will be the most logical method of transportation to the lower 48 why should Alaska build unnecessary LNG facilities to move gas which can be better moved in a trans-Canada gas pipeline system?

Mr. Ward next described the system Arctic Gas proposes to build. He indicated that large diameter pipe would be layed on the Arctic Coastal plain across the Arctic Wildlife Range and into Canada to the vicinity of the MacKenzie River where the pipe from Alaska would link up with a large diameter pipe from the MacKenzie River delta area. This pipe would move south approximately 1300 miles to Caroline, Alberta where the pipe would branch-- one link going west to Kingsgate and the other branch going east to Monchey. The western branch would link up with pipelines which are proposed for construction to Los Angeles and San Francisco; while the eastern branch would link up with a proposed pipeline which would run through the Dakotas, Minnesota, Iowa, Illinois and on east to central Pennsylvania.

Mr. Ward cited three major advantages to the nation from a trans-Canada gas pipeline. First, Mr. Ward contended that the trans-Canada gas pipeline could move gas cheaper than could a trans-Alaska pipeline which would require liquifaction. He estimated

savings would be in the order of thirty to fifty cents per MCF or at a minimum 200 to 300 million dollars per year. The reason for this savings according to Mr. Ward is the avoidance of the very expensive liquifaction process.

Second, Mr. Ward contended that the Arctic Gas proposal would provide direct access to all market areas of the United States. He stated that displacement as advocated by El Paso, is in reality a very complicated process and that there is no assurance that El Paso will be able to make the deliveries in the manner they are proposing. Furthermore, even if sufficient capacity is available El Paso's system will entail substantial costs because the gas needed to operate the system will be high priced North Slope gas and also because the system when operated at full capacity requires greater quantities of energy to supply the needed compression.

On the subject of shrinkage Mr. Ward stated that the Arctic Gas system will have a total loss of 9% of the gas in transmission to market areas and contended that El Paso's system involves a 16% loss of gas in transmission to California only, and that additional losses would be involved in moving gas to the Midwest and East. Mr. Ward questioned El Paso's ability to recover much of the energy stored in the cold LNG, as El Paso claimed they might be able to. Mr. Ward stated if any energy could be recovered it would be only a very small percentage; he suggested .1%.

The third advantage cited by Mr. Ward is the possibility of incremental expansion of the Arctic Gas line to carry additional volumes of gas as they become available. He explained that the present plans are to have an initial through-put for the Alaskan segment of 2 billion cubic feet per day. That after three years this would be increased to 2 1/4 billion cubic feet. Capacity may be increased beyond 2 1/4 billion cubic feet by the addition of compressor stations along the line; and in this way, a maximum through-put of 4.5 billion cubic feet is possible for the Alaskan segment of the line (with 4 compressor stations). The line can be expanded beyond 4.5 billion cubic feet by looping. According to Mr. Ward, this looping process will enable incremental expansion of the line until the entire line will be looped at which point there is in effect a second gas pipeline.

Mr. Ward contended that for the El Paso proposal such incremental expansion was not possible because it is not possible to build a portion of an LNG processing line or a portion of an LNG tanker.

On the subject of State royalty gas, Mr. Ward contended that the advantages outlined above outweigh the use of royalty gas within the State. He further stated that as other reservoirs are developed, Alaska will have all the royalty gas it could possibly use. Arctic Gas has conducted a study of alternative fuels for Fairbanks and this study indicates it would be economically feasible to construct a small diameter gas line if a satisfactory market existed in Fairbanks.

Mr. Brackett next explained the status of the Arctic Gas project. In addition to the filings which Arctic Gas has already made with the FPC two additional filings are still to be made. One on the available gas supply would be filed on Monday according to Mr. Brackett and a second filing would be made sometime in the near future detailing the economic impact on the United States of the proposed Arctic Gas pipeline. Mr. Brackett stated that he was hopeful hearings would begin sometime in April and that he expected the FPC to expedite the process as much as possible.

Mr. Brackett next discussed the fact that negotiations were currently underway between the United States and Canada with the hopes of reaching agreement on a treaty by late spring or early summer. It was expected that this treaty would cover three areas: 1) It would involve an agreement that there would be no interference with throughput; 2) that the product moving through the line would not be taxed; and 3) that there would be no discrimination in the regulation of the trans-Canada gas pipeline.

Mr. Brackett indicated that Arctic Gas' analysis of the British-Northern American Act (Canada's constitution) indicates that the Provinces have the power to tax gas pipeline property located within the province, but that the tax can not discriminate against any particular pipeline.

On the subject of Canadian issues, Mr. Brackett termed the Canadian Native claims problem a "red herring" because, he contended, the Federal Government has the power to authorize construction of the pipeline and negotiate a settlement to any valid native claims at a later date. Mr. Brackett asserted that the Canadian regulatory process can move faster than the process in the United States because there is a limited right of appeal and because the NEB panel hears the evidence directly.

Mr. Brackett left with the task force copies of a socio-economic report done for Arctic Gas by outside consultants, answers to questions which the task force had submitted to Arctic Gas, and indicated that Arctic Gas was in the process of preparing a comprehensive document which compared side-by-side the El Paso and Arctic Gas proposal. He stated that this document was expected to be complete in approximately one month.

Following Mr. Brackett's presentation the task force asked several questions eliciting additional information and clarification of points already made. These points are enumerated below:

1. The expected tariff from the Alaska-Canada border to the Canada-U.S. border is about 83 cents per MCF. This tariff was filed with the Canadian regulatory authorities. Arctic Gas agreed to supply a copy to the State of their submission to the Canadian authorities.
2. The estimated operating costs would be approximately

five million dollars per year and Arctic Gas anticipated paying between three and four million dollars per year in income taxes to the State of Alaska.

3. Financing of the project will be done primarily in the United States and Canada but foreign markets such as the Eurodollar market also will be tapped.

4. Arctic Gas suggested the possibility that the FPC in determining wellhead value for North Slope gas may take into account the cost of gas at the final market. If this is done, Arctic Gas contends that their pipeline would mean greater royalty and severance taxes for Alaska because they can move gas to the markets cheaper than can El Paso.

5. Arctic Gas has examined, and is continuing to examine the alternative corridors. The difficulty with the Offshore corridor is the high potential for problems during operation if the pipeline should become damaged from ice scour or for any other reason during break-up or freeze-up. At this time of year repairs may be impossible with the result that the line would be shut down for a month or more. The Interior route is possible but more costly and, according to Mr. Brackett, entails as much or more environmental damage than does the prime route. The Fairbanks and Fort Yukon corridors are so much more costly that they are uneconomical. This greater cost is due to the longer length of the MacKenzie lateral.

6. Mr. Brackett stated that he believed that the predicted reserves in the MacKenzie River delta area will eventually be found but that the discovery of substantial reserves is a slow process. Prudhoe Bay is atypical.

7. Arctic Gas is not asking for State support, although it of course would be delighted to have such support. Mr. Ward indicated that his personal belief was that the State should hold off supporting either pipeline route until it had an opportunity to evaluate the facts developed at the FPC proceedings.

8. According to Mr. Brackett, Alberta Gas Trunk is not owned by Alberta although the Province does have the right to appoint directors. The antidiscrimination provision in the Canadian taxing laws would not be hollow. Furthermore, excessively high taxation would have to be borne by the Eastern, consuming Provinces and would bring about retaliatory measures, according to Mr. Brackett.

9. Arctic Gas has surveyed the world scene for large diameter pipe and believes there should be no problem in obtaining such pipe. If U.S. Steel converts one of its plants, it will be able to roll 48 inch diameter pipe and a substantial portion of the pipe will then be purchased in the United States.

10. Construction of compressor stations within the Wildlife Range could be avoided if the pipe were looped but this would involve higher costs.
11. Arctic Gas will supply us with a copy of the alternative fuels for Fairbanks study.
12. The pipeline would be self-sustaining at a through-put level of 3 1/4 billion cubic feet per day. With a through-put beyond that level, reductions in tariffs would be possible.
13. Arctic Gas will supply us with copies of the Offshore corridor studies.
14. According to Mr. Brackett the FPC does not normally make a conceptual decision as advocated by El Paso, however under the circumstances he thought it possible that the FPC might make such a decision in this case. If the FPC made a conceptual decision in favor of trans-Alaska, Mr. Brackett did not know what the owner companies would do; specifically he was not aware of any contingency plans by the various members of the consortium to file for a trans-Alaska route.
15. On the subject of reinjection of gas, Bob Ward indicated that he was not aware of any reservoir engineer who was claiming that reinjection beyond three or four years would damage the reservoir. However, he noted that reinjection entails an economic costs because it is necessary to maintain crews and equipment to operate the reinjection facilities.
16. The current supply and demand hearings being conducted by the NEB of Canada are developing information which indicates that Canada will face a shortage of gas by the early 1980's and that the only alternatives available to Canada for meeting the shortage will be cutting exports or bringing frontier sources of gas on line. This shortage constitutes the pressure on Canada to bring MacKenzie River delta gas on line.
17. The FPC has on occasion authorized a conditional certificate without specific financing arrangements and may do so in this case.
18. Mr. Brackett indicated he was uncertain whether Arctic Gas would still be interested in building a pipeline along the Interior corridor because the cost differential has accelerated since the time of their original studies and he was therefore uncertain whether the Interior route was still economically feasible.
19. Arctic Gas has not made any studies of the expected

wellhead value of Prudhoe Bay gas and would not speculate on the matter.

20. Mr. Brackett insisted there would be no allocation problems between Canadian and Alaskan gas, as the time honored method is to build-in capacity before excess gas is ready for movement.

21. Arctic Gas expects some type of Congressional involvement but would not speculate on the nature or timing of such involvement.

22. If gas were discovered in the Selawik Basin, movement by the proposed trans-Canada pipeline would be possible, but whether it would be the most feasible way depends on several factors. Arctic Gas has not at this time made any study of the matter.

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL


JAY S. HAMMOND, Governor

POUCH K— STATE CAPITOL  
JUNEAU 99801

February 11, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

FROM: Avrum M. Gross   
Attorney General

RE: Status of Gas Pipeline Task Force

In the event you are asked by the press concerning the State's position on the gas pipeline and the status of the task force analysis, you will want to be aware of the following dates:

(1) On March 24 El Paso and Arctic Gas will be required to submit their opening case in writing to the FPC.

(2) An Environmental Impact Statement prepared by Interior should be completed by April 1.

(3) On April 7 there will be a prehearing conference in Washington concerning the format of the hearings to follow.

(4) On May 5 the formal presentation of evidence will occur on Phase One of the pipeline hearing, the phase relating primarily to economic analysis. Phase Two will follow at a later date not yet set.

No date has been set yet for the response of the intervenors in the case, of which we are one. Intervenors will be permitted to participate in the May 5 hearing but only to cross-examine those witnesses of the parties who testify. The intervenors will not be presenting their case or position until a later date, probably August.

The Honorable Jay S. Hammond  
Governor

February 11, 1975

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It appears, therefore, that there is no necessity to take a formal position in this proceeding until late in the summer. We may participate in the May 5 hearing without the necessity or, for that matter, the opportunity, to advocate a particular route or position.

In formulating the State's position, we are waiting for the results of a comparative study done by Arctic Gas on the two routes. That will be completed by the end of February, along with certain other studies which Arctic Gas is furnishing to the State at our request. We have also retained, as consultant to the task force, Arlon Tussing, who is preparing for us an analysis of the various economic and other benefits to the State existent under the two proposals. Dr. Tussing's analysis will include a critique of the Arctic Gas comparative study.

What I am implying here is that there is no necessity for the State to take a position in this matter for some time. Clearly it would help to have our position formulated by May 5 so that our cross-examination may take the posture of exposing the strengths and weaknesses of a particular position desired by the State. Even then, though, there would be no necessity for the State to do that. The only necessary date for the formulation of a State position has not yet been set (the date the intervenors present their case), but I would anticipate it will not be earlier than August.

We hope to have a position formulated at least a month prior to the May 5 date of formal presentation. The position, whatever it is, will be fully documented. We are attempting directly and through Dr. Tussing to analyze all possible alternatives for the State including, incidentally, routes which have been as yet proposed by neither party. In essence we are considering which route or routes will bring the greatest financial, economic and social benefit to the State, at the least environmental and social cost. We have done a substantial amount of work, but a substantial amount still remains.

AMG:as

cc: Members of OCS Task Force

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, Governor

POUCH K - STATE CAPITOL  
JUNEAU 99801


March 14, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Commissioner Martin	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross  
Attorney General 

RE: Outer Continental Shelf and Gas Pipeline  
Task Force

The Outer Continental Shelf and Gas Pipeline Task  
force met in the Governor's Conference room on Thursday,  
March 6, 1975 at 10:00 A.M. In attendance were the following:

Jay S. Hammond	Governor
Avrum Gross	Attorney General
Walter Parker	Commissioner, Dept. of Highways
Robert S. Weeden	Director, Div. of Policy Development and Planning
James Brooks	Commissioner, Dept. of Fish & Game
Lee McAnerney	Commissioner, Dept. Community and Regional Affairs

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Cameron Edmondson	Commissioner, Dept. of Economic Development
Guy Martin	Commissioner, Dept. of Natural Resources
Tony Motley	Commissioner, Dept of Commerce
William Race	Dept. of Public Works
Kevin Waring	Dept. of Community & Regional Affairs
Larry Eppenbach	Dept. of Revenue
Kathy Hollier	Dept. of Revenue
Bob LeResche	Dept. of Fish & Game
John Palms	Dept. of Fish & Game
John Becker	Dept. of Highways
Jon Tillinghast	Dept. of Law
Sandy Sagalkin	Dept. of Law
Gerry Hol:	Dept. of Environmental Conservation
Jerry Reinwand	Dept. of Environmental Conservation
Fred Boness	Dept. of Law

At this meeting matters relating to both the gas pipeline and outer continental shelf were discussed.

#### GAS PIPELINE

The merits of an alternative pipeline route from the MacKenzie River to Prudhoe Bay and then down the existing TAPS corridor as far as Delta Junction and out the AlCan highway were discussed. It was noted that this route would have the advantage of following existing corridors most of the way. In addition, the MacKenzie River-Prudhoe Bay lateral hopefully could be laid offshore. Commissioner Parker stated that the costs involved with this route would be substantially greater and that therefore the advantages would likewise have to be substantial.

The question was raised what consequences would follow if the State endorses any alternative route and the FPC does not certify that route. Attorney General Gross noted the importance of supplying gas to Fairbanks and asked if it would be possible to have a study done by the Department of Natural Resources on the alternatives available. Fred Boness reported that a study of alternative fuels for Fairbanks done by a consulting firm for Arctic Gas showed that gas could be economically marketed in Fairbanks, but that certain assumptions had to be made in the study relating to the price of crude oil and the demand for gas. If these assumptions are changed the economic feasibility of the project may disappear.

Commissioner Martin reported Covington & Burling's opinion on the course of the FPC proceedings. He noted that a very key event is the April 7 pre-conference hearing since many of the unresolved procedural questions will be decided at that time. Among those questions to be decided will be the scope

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of cross examination, the order of presentation of cases, and the degree to which a party will be bound by his opening statement. Commissioner Martin stressed the importance of the State attempting to formulate the best opening statement it can by April 7 and the necessity for reviewing the prefiled testimony between March 24 and April 7.

OCS

Commissioner Martin gave a report on OCS developments in Washington, D.C. He reported that the Senate Commerce and Interior and Insular Affairs Committees were scheduling hearings on several OCS bills, beginning March 14, and continuing on the 17th and 18th. He indicated that it was important that the State prepare persuasive testimony on the various bills, as this would be the best opportunity for the State to make its position known to Congress. Sandy Sagalkin and Jon Tillinghast will prepare the testimony, circulate it for review on March 12th, and finalize it by March 13th. Commissioner Martin will give the testimony in the Governor's absence. The task force felt that either Bob Weeden or a technical person should accompany Commissioner Martin to the hearings for backup support.

Sandy Sagalkin offered to keep a list of agenda items so that agendas could be prepared in advance of meetings of the task force and members were advised to furnish topics to Sagalkin at least 1 day before a meeting.

AG:jw

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, Governor

POUCH K - STATE CAPITOL

JUNEAU 99801

March 21, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

and the following members of the  
Multi-Department Task Force:

Commissioner Brooks	Dept. of Fish & Game
Commissioner Edmondson	Dept. of Econ. Development
Commissioner Martin	Dept. of Nat. Resources
Commissioner Gallagher	Dept. of Revenue
Commissioner McAnerney	Dept. Comm. & Regional Affairs
Commissioner Mueller	Dept. of Env. Conservation
Commissioner Parker	Dept. of Highways
Mr. William H. Race	Director, Division of Bldgs., Dept. of Public Works
Dr. Robert B. Weeden	Director, Policy Develop- ment & Planning

FROM: Avrum M. Gross  
Attorney General

BY: Frederick Boness  
Assistant Attorney General

RE: Outer Continental Shelf and Gas Pipeline  
Task Force

This is a brief summary of The Arctic Gas alternative fuels for Fairbanks study.

The question of the "feasibility" of building a 16" gas pipeline to Fairbanks needs a context. Apparently, there is no engineering reason why the line could not be built. Economic feasibility is a more involved issue. In simplified terms there are two variables, one is the rate of return on equity and the other is the cost of gas to the consumer. Since capital costs are fixed and operating costs are only marginally variable, the rate of return on equity is directly related to the cost of gas to the consumer. That is, if consumers pay more, income to the gas company will be greater and hence the rate of return on equity will be greater.

In terms of the above framework, the question of economic feasibility becomes: Is there an acceptable price (in the sense that consumers will buy the gas rather than some alternative such as oil) and at the same time generate sufficient income to provide a rate of return on equity adequate to attract the capital needed to build the pipeline?

The Arctic Gas study answers this question affirmatively, but a qualification is necessary. In no case studied is gas transported by a 16" pipeline cheaper per unit of energy (¢/mmbtu) than oil. In fact, gas is more than double the cost of oil if it is not used industrially (471¢/mmbtu for oil versus 1,151¢/mmbtu for gas). If gas is used industrially the cost of gas in Fairbanks drops substantially but it is still more expensive than oil (471¢/mmbtu versus 737¢/mmbtu). Gas is, however, cheaper than electricity. (1,495¢/mmbtu for electricity versus 1,151¢/mmbtu, or 737¢/mmbtu if the gas is used industrially). It is also worthy of note that the price of oil quoted in the study is subject to substantial skepticism since it is a projection of the price of oil which will be sold by the yet-to-be-built Energy Co. of Alaska refinery. Additionally, the estimate of oil price is also subject to variations in the price of crude. The study assumed a crude price of \$5.88 at Prudhoe Bay, which is low when compared to Department of Revenue estimates. These two factors taken together may mean oil prices in Fairbanks would be higher than the study projects, in which case gas becomes relatively more attractive.

Attached are the 3 summary tables from the report: The number pencilled in for the Fairbanks 16" pipeline represents the cost of a million btu's if gas is used industrially.

TABLE I-13A

TOTAL DELIVERED COST OF FUEL PER BTU AT END USE  
1983

(Based on 35¢/mmbtu Wellhead Price of Natural Gas)

Fuel Alternative	Cost of Heat Delivered from Appliance			
	Industrial		Commercial and Domestic	
	Efficiency (%)	Cost (¢/mmbtu)	Efficiency (%)	Cost (¢/mmbtu)
Coal	80	161	50	330
Light Distillate Oil Energy Co. of Alaska	75	360	70	471
Heavy Heating Oil Energy Co. of Alaska	75	113	-	-
Liquefied Petroleum Gas Energy Co. of Alaska	-	-	-	-
Natural Gas				
1. 16" Prudhoe Bay to Fairbanks pipe- line	-	-	75	1,151 (737)
2. Trans-Alaskan Alyeska Route	-	-	75	446
3. Trans-Alaskan Western Route	-	-	75	576
Steam	-	-	100	585
Electricity	-	-	100	1,495

TABLE I-13B

TOTAL DELIVERED COST OF FUEL PER BTU AT END USE  
1983

(Based on 60¢/mmbtu Wellhead Price of Natural Gas)

Fuel Alternative	Cost of Heat Delivered from Appliance			
	Industrial		Commercial & Domestic	
	Efficiency (%)	Cost (¢/mmbtu)	Efficiency (%)	Cost (¢/mmbtu)
Coal	80	161	50	330
Light Distillate Oil Energy Co. of Alaska	75	360	70	471
Heavy Heating Oil Energy Co. of Alaska	75	113	-	-
Liquefied Petroleum Gas Energy Co. of Alaska	-	-	75	440
Natural Gas				
1. 16" Prudhoe Bay to Fairbanks pipeline	-	-	75	1,185 (771)
2. Trans-Alaskan	-	-	75	480
3. Alyeska Route	-	-	75	610
4. Trans-Alaskan Western Route	-	-	75	610
Steam	-	-	100	585
Electricity	-	-	100	1,495

TABLE I-13C

## TOTAL DELIVERED COST OF FUEL PER BTU AT END USE

1983

(Based on 98¢/mmbtu Wellhead Price of Natural Gas)

Fuel Alternative	Cost of Heat Delivered from Appliance			
	Industrial		Commercial & Domestic	
	Efficiency (%)	Cost (¢/mmbtu)	Efficiency (%)	Cost (¢/mmbtu)
Coal	80	161	50	330
Light Distillate Oil Energy Co. of Alaska	75	360	70	471
Heavy Heating Oil Energy Co. of Alaska	75	113	-	-
Liquefied Petroleum Gas Energy Co. of Alaska	-	-	75	440
Natural Gas				
1. 16" Prudhoe Bay to Fairbanks pipeline	-	-	75	1,235 (82)
2. Trans-Alaskan Alyeska Route	-	-	75	530
3. Trans-Alaskan Western Route	-	-	75	660
Steam	-	-	100	585
Electricity	-	-	100	1,495

# STATE OF ALASKA

JAY S. HAMMOND, Governor

## DEPARTMENT OF LAW


OFFICE OF THE ATTORNEY GENERAL

POUCH K— STATE CAPITOL  
JUNEAU 99801

April 2, 1975

### MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

FROM: Avrum M. Gross   
Attorney General

RE: Recommendation of Gas Pipeline  
Task Force

On December 2, immediately after assuming office, you appointed me to chair a task force to review the State's posture concerning alternative transportation systems for North Slope gas. The task force was composed of the Commissioners of Environmental Conservation, Fish and Game, Revenue, Economic Development, Community and Regional Affairs, Commerce, Natural Resources and Highways, as well as the Director of the Division of Policy Development and Planning. At times Lieutenant Governor Thomas has participated with us in our deliberations and, of course, you have from time to time sat in on the sessions as we evaluated information made available to us.

The problem as you stated it was to make an unbiased, comparative evaluation of the TransAlaskan and Canadian routes for transportation of North Slope gas so as to determine what route would best serve the interests of the State of Alaska. Prior to the formation of the task force, you had publicly stated

that you favored a Trans-Alaskan route on the basis of information available to you. Upon assuming office, a great deal more information became available, as well as the machinery to do a comprehensive review of the competing projects. You asked that we consider whether or not your support of a Trans-Alaskan pipeline was justified in light of detailed information developed by the task force.

Your prior support of the Trans-Alaskan pipeline was consistent with the position of the previous administration. Upon undertaking a review of the competing projects, we found that a substantial amount of work remained to be done in evaluating the two proposals. The State had intervened in the legal proceedings before the Federal Power Commission and retained counsel in Washington, D.C. to present the State's position, but until this task force embarked upon its efforts the State's position consisted more of enthusiastic support for an Alaskan route for a pipeline than of careful analysis. You advised the task force that whatever position was ultimately adopted by the State, you wanted to be able to rationally support it and defend it before the Federal Power Commission or Congress should that body ultimately take jurisdiction over the matter. Faced with that mandate, the task force has met regularly since December and has increased its work substantially in the last two months so as to be able to make a recommendation to you prior to initiation of the FPC hearings. The prehearing conference for that proceeding will be April 7, so we are pleased to have met the deadline.

Our efforts have been directed to a comprehensive review of material developed in connection with both projects.

That material was made available primarily from the participants, Alaskan Arctic Gas and El Paso Alaska, who were required to develop the data for submission to the FPC. Representatives of both Arctic Gas and El Paso have appeared before the task force and made extensive presentations concerning their plans. The task force has also utilized consultant studies as a source of knowledge.

As a result of our review, it is the recommendation of the task force that you reaffirm support of a Trans-Alaskan transportation system for natural gas from the North Slope. We will in this report outline the basis for our conclusions. We will not include here the backup data on which our conclusions are based, but we have that data compiled for your review when you wish to make such a review.

A. The Nature of the Projects.

There are basically two competing systems for the transportation of North Slope gas to the continental United States. The first is the so-called Canadian route. Under this proposal, which has been made by the Arctic Gas consortium, gas from Prudhoe Bay would be transported by means of a large-diameter pipeline from Prudhoe Bay east across the Canadian border to a point somewhat south of the Mackenzie River Delta. At that point the pipeline carrying Alaskan gas would join with a lateral from the Mackenzie Delta region which would carry Canadian gas. The main line formed by the convergence of these two laterals follows the Mackenzie River Valley south through the Northwest Territories. After leaving the river valley,

this line continues south to Caroline Junction, Alberta. At Caroline Junction, the main 48-inch pipeline diverges into two pipelines; one heads southwest to the Canadian-Idaho border and the other heads southeast to the Canadian-Montana border. New pipelines which are proposed for construction in the Lower 48 would receive the gas at these border points and transport it to markets in Washington, Oregon and California in the case of the western pipeline and to markets in the midwest and east in the case of the eastern lateral. Theoretically, any surplus Canadian gas from the Mackenzie Delta would also be available for distribution in the United States, though the existence of that surplus is somewhat speculative.

The estimated cost of this transportation system is estimated by the consortium to be 8.3 billion dollars, not all of which is allocable to the Alaskan transportation network. The portion of the price which is allocable to the Canadian lateral should not affect the price of the American gas transported by the line.

The alternative to the Trans-Canadian system is a Trans-Alaskan route which handles the gas in a more complicated manner. This proposal, presently advanced by El Paso Alaska, would take the gas by means of a large-diameter 42-inch pipeline from Prudhoe Bay down the existing corridor of the Alyeska Pipeline. On approaching the southern terminus, the line would leave the pipeline corridor and go to Gravina Point on Prince William Sound. The applicant for the Trans-Alaska line intends to build

at Gravina Point an LNG plant which would reduce the gas to liquefied form. El Paso also proposes to construct a fleet of cryogenic tankers which would then take the liquefied gas to California, where the LNG would be reconverted to its gaseous state. At least initially, all of the North Slope gas delivered to California would be physically consumed on the west coast. This in turn would free gas presently being transported from Texas and New Mexico to the west coast, which could then be made available to markets in the midwest and east via existing distribution systems. If gas deliveries from Alaska increase to the extent that not all of the gas can be consumed in the west, it will be possible to reverse the direction of existing lines. These lines can then be used to transport gas from California eastward to Texas and Louisiana where the gas could be flowed into existing transportation systems and moved to the east and midwest. Although this transportation system is complex, a review of the system by Arctic Gas concludes (somewhat reluctantly) that this system is feasible and, of course, El Paso always has maintained the workability of this approach. This transportation system, including the pipeline, the cryogenic tankers, the LNG plant, the regasification plant, and facilities needed to effectuate displacement is estimated by El Paso in 1973 dollars to be 6.7 billion dollars. An analysis prepared by Arctic Gas critiquing the El Paso project indicates the more realistic figure on the basis of today's dollars would be 8.3 billion dollars, and while that figure may be inaccurate, there is no question but that

the cost of the El Paso proposal is substantially higher than set out in its application. Assuming the El Paso project costs approximately the same as the Arctic Gas project, it will nonetheless be more expensive for the delivery of American gas alone, as the Arctic Gas project will cover transportation of both American and Canadian gas.

Both projects involve the loss of some of the gas in the transportation system itself. The best estimate we have is that the Arctic Gas proposal will involve utilization of approximately nine to ten per cent of the gas for energy in transit. The El Paso loss will be considerably higher--approximately 16 per cent.

B. Criteria for Assessment.

The basic standard we have used in evaluating these two projects is what is best for the interests of the State of Alaska. We have sought to evaluate which route would produce the greatest benefits for the State in the long run. In evaluating those benefits, we have attempted to categorize them in two basic groups, which incidentally is the same basic grouping the FPC will make in its hearing procedure. The first is environmental. We have tried to evaluate the environmental effects of each line so as to consider the impact each will have on the State. Second, we have tried to consider the long-term economic impact of the line. That investigation has involved a study of the alternative effects of the two lines upon such things as royalty payments which would be made to the State, severance taxes, and property taxes. We will outline our general findings in these two areas.

I. ENVIRONMENTAL IMPACT. Unlike the quantitative measurements which can be applied to revenue comparisons, evaluation of environmental impact is a highly subjective process. There was no clear sentiment in the task force that one route or the other was better from an environmental standpoint. Rather, the conclusion was that each proposal had both benefits and detriments. It was the feeling of the group that, while the choice was not clearcut on the basis of a purely environmental comparison, it should be the State's obligation in the forthcoming FPC proceedings to insure that the detriments we have identified be minimized insofar as possible. We will outline the primary benefits and detriments of each route here, though as I have noted, they were not in themselves the basis for the group's recommendation.

(a) Trans-Alaskan Route.

Advantages

1. Without doubt, the most important environmental asset of a Trans-Alaska route is the fact that the gas pipeline could be constructed in an existing transportation corridor, a corridor which has been studied intensively and about which a tremendous amount of environmental information has been gathered. As construction of the Trans-Alaska oil pipeline proceeds, more information regarding construction practices, revegetation, protection of stream crossings, and other important techniques will be developed.
2. Existing facilities, such as the TAPS haul road, construction camps, access roads, existing highway system, spoil disposal sites, material sites and other critically important ancillary needs could be made available for use to

construct the gas pipeline.

3. A Trans-Alaska gas pipeline would parallel many streams along the corridor in the Arctic, instead of transecting them, which means that the total number of stream crossings on the ecologically sensitive North Slope is reduced along this route.

4. There is a dearth of knowledge about the fishery resources of the Arctic, particularly the offshore fisheries. However, the Alaska gas pipeline route parallels the Sagavanirktok River; our knowledge of its fishery resources is much more detailed than any other river on the North Slope. This greater base of knowledge can be drawn on to minimize the adverse impact on the North Slope fishery, if a Trans-Alaska gas pipeline is built.

5. Natural gas is the cleanest available fossil fuel. For this reason, it is in great demand in those areas of the nation which suffer from air pollution problems. An Alaskan route would insure that some day, if the need should arise, Alaskans could use their royalty gas as a low pollution source of energy. An Alaskan route would preserve that option; a Canadian route would not.

#### Disadvantages

1. An Alaskan route will mean substantial additional development in the State, particularly along an already heavily impacted pipeline route. With this development will

come the accompanying stresses of "boom growth", inflation, more people and possibly a large tidewater development to liquefy the gas for shipment to the Lower 48 states. This latter development could be sizable and may lead to extensive development in an area which is presently pristine.

2. There may be physical, biological and chemical effects from construction and operation of an LNG plant at tidewater. Excess heat from this process would be discharged from the plant and could have an adverse environmental impact. However, we estimate that this impact may be minimal.

3. Secondary development, spurred by the existence of an LNG facility and the availability of natural gas for industrial uses may cause greater environmental problems than the LNG development itself. An associated large petrochemical industry at tidewater would create its own environmental and socio-economic problems.

4. Any new development inevitably means more people and a new LNG facility built in a presently undeveloped area will mean that a new community may have to be constructed, or that existing communities will have to wrestle with significant new growth. Providing the basic services, such as water, sewer, health facilities, schools, etc., may place a severe burden on both State and affected community resources.

5. The environmental hazards of shipping LNG in cryogenic tankers are probably not of sufficient magnitude to be worrisome (especially when compared to shipping crude

oil by tanker), but the safety hazards to the ships and personnel may be substantial.

6. The energy loss, in the liquefaction process, is an environmental liability, especially in an era when energy conservation is needed.

(b) Trans-Canada Route

Advantages

1. Development within Alaska would be minimal if an Alaska-Canada gas pipeline were constructed. The tidewater development of LNG facilities, and tanker movement of the LNG would be eliminated by an overland route from Prudhoe Bay to the midwest. Also, development activity along the Trans-Alaska pipeline corridor would be eliminated.

2. The Alaska-Canada route will cause less problems in Alaska because of the relatively short distance that the pipeline would be within Alaska's borders (from Prudhoe Bay east to the Canadian border). In this sense, however, we are "trading off" Alaskan environmental problems to Canada.

Disadvantages

1. Any viable Alaska-Canada route will undoubtedly breach the ecologically fragile Arctic National Wildlife Range. This range, which is under consideration as a wilderness area, is the last remaining area of the Arctic Coastal Plain in Alaska and perhaps in the North American Continent which is not presently committed to development. An Alaska-Canada pipeline through this area would undoubtedly be the first in a long line of petroleum-related developments in the Range.

Therefore, a decision to route the gas pipeline through the Range may, in effect, be a decision to commit the last untouched wilderness area on Alaska's North Slope to full-scale oil and gas development.

2. A gas pipeline running east to the Canadian border from Prudhoe Bay transects many north-south Arctic streams and may have a serious environmental impact on the North Slope's fish resources. As the pipeline is refrigerated below the freezing point of water, its presence under streams and rivers may impact on natural freezing and thawing processes. Winter survival of fish populations, which in the Arctic is directly tied to adequate supplies of water, may be jeopardized by localized and downstream effects that would be created by a pipeline buried under streams and rivers. In addition, siltation caused by the construction process and stream bed disturbances could have major impact on aquatic habitat.

3. Advocates of an Alaska-Canada pipeline state that snow and ice roads would be used to support construction activities, which would avoid the need to build a permanent access-haul road network. However, there are substantial environmental problems associated with ice road construction. Heavy construction vehicles, rumbling over ice and snow roads, can cause damage to the tundra which may lead to serious subsidence, solifluction and erosion problems. As mute testimony to this fact, swaths of dead vegetation remain today in Naval Petroleum Reserve Number 4 more than 20 years after exploration crews

traveled on ice roads searching for oil and gas. Also, there appears to be a very real question regarding the availability of sufficient snow and water to construct snow and ice roads. Precipitation on the Arctic Slope is light, averaging four to eight inches annually. Therefore, snow availability--coupled with the lack of adequate sources of water for artificial snow manufacture--could be a serious factor in limiting construction of snow and ice roads along an Alaska-Canada pipeline route. In any event, maintenance of the line would utilize all-terrain vehicles at any time of year, with subsequent permafrost and tundra degradation.

4. Wildlife along an Alaska-Canada route will undoubtedly be adversely impacted by construction of the gas pipeline. A route which knifes through the coastal plain of the Arctic National Wildlife Range would breach untouched caribou calving grounds, would traverse and possibly interfere with the denning area and normal movements of a distinct polar bear population, and encroach upon significant resting and feeding grounds utilized by snow geese in preparation for their nonstop migratory flight to the contiguous United States.

5. The Canadian segment of an Alaska-Canada gas pipeline route would carry a very high environmental price tag, as it would traverse a very fragile area which has been touched only lightly by the machines and hands of man. Environmental impact of an Alaska-Canada gas pipeline does not end at the Yukon border; we Alaskans cannot close our eyes to the very

real environmental problems that would be associated with the Canadian leg of the pipeline route. The route traverses some of the most severe permafrost problem areas on the North American continent. Therefore, when writing the equation for determining the true environmental costs of an Alaska-Canada route, the serious problems in Canada must also be considered.

II. ECONOMIC IMPACT. One factor which has substantially affected our analysis in the economic sphere is concern for the possibility that neither the El Paso nor the Arctic Gas proposals may be completely economically viable. Of course, neither the Arctic Gas consortium nor El Paso have indicated in their applications to the Federal Power Commission that there is any real economic risk in the project. Both applicants have submitted cost data which, on the surface, seems to show that gas can be delivered to United States markets at competitive prices. The difficulty is that we find it hard to accept these estimates as completely reliable in light of both general and Alaskan experience with major construction projects of this magnitude. More than two years before the Trans-Alaska oil pipeline is expected to go on stream, its final system cost is now estimated at more than five times the initially announced figure. Overruns of 50 to 400 per cent are the rule, rather than the exception, in large custom designed and built engineering projects such as electrical generating plants, manufacturing plants pioneering new technology (G. M.-Lordsville), sports stadiums and coliseums (New Orleans, Seattle), airports,

urban transit systems (BART, Washington Metro), etc. Accordingly it is reasonable to regard the applicants' pro forma cost figures as establishing only an order of magnitude and a base for escalation far in excess of the rate of general inflation.

Our review of the information available indicates to us that both projects can be projected at an initial cost of 8-8.5 billion dollars, and taking into account the certainty of continual inflation, the near certainty of delays and other difficulties that will occur before either project can be completed, a more realistic estimate for either project would be at least 10 billion dollars. This last figure might well be qualified by the expression "plus 50 per cent or minus 20 per cent".

The significance of this initial cost is that it will necessarily require that tariffs for the transportation of this gas be high--so high in fact as to make the gas possibly noncompetitive with alternate fuel sources. A detailed accounting analysis of the necessary cash flows would be as futile and misleading as detailed cost estimates in judging the overall project viability. Because of engineering, cost and timing uncertainties, a very general procedure is probably as adequate for our purpose as an intensive critique of the applicants' pro forma income statements. Supposing the \$10 billion investment were to be depreciated at five per cent per year and that the entire investment had to produce a rate of return of 10 per cent, the initial annualized capital costs would be 1.5 billion dollars. Assuming further

that either system would be capable of delivering into the existing natural gas distribution system of the Lower 48 states one quadrillion BTU (quad) per year, the average capital costs at this level of throughput would be \$1.50 per million BTU delivered. Assuming operating costs other than fuel to amount to 20 per cent of the capital costs, a wellhead price of only 25 cents per million BTU would bring the delivered costs at the U.S.-Canadian border or out of a regasification plant on the west coast of the United States, to \$1.90 per million BTU.

The assumptions going into this order of magnitude estimate are, we believe, conservative to moderate, so that \$1.90 probably represents the minimum price at which Alaskan natural gas could conceivably be delivered into the gas distribution system of the Lower 48 states. An informal survey of the opinions of energy specialists not affiliated with the applicants produced a range of cost estimates for transportation alone running from \$1.75 to \$2.50 for gas transported by an overland pipeline through Canada and \$2.00 to \$3.00 for a system that combined a pipeline across Alaska with LNG tankers to the west coast. The implications of these possible economic forecasts are enormous for the State. If the market price of the gas delivered in United States markets is nearly equivalent to the transportation cost alone, the State's royalty and share from severance taxes will be minimal. This is because both royalty and severance tax are based on a percentage of wellhead value, and wellhead value will roughly equal the difference between the market value of the gas and its transportation

cost. If gas is "deregulated", the equality will be precise. If wellhead price is set by the FPC (as is the current practice), the difference will be minimal since we cannot conceive of the FPC setting a wellhead price that would require the gas to be sold at a loss. If the gas can only be sold at a price of, say, \$2.50/Mcf, and it costs \$2.50/Mcf to get that gas to the market, there is simply going to be no wellhead value left upon which to assess royalties and taxes.

I am sure that our conclusions concerning possible lack of wellhead value must seem confusing, in light of the publicly expressed concerns of a national gas shortage, but if an evaluation is done of the nature of that "shortage", the problem becomes fairly clear. Gas has two basic markets in the United States, a "premium" market and a "nonpremium" market. The premium use of gas is for residential, commercial, and special industrial uses. While the price of premium gas is presently low because it is regulated by the FPC, there is no question but that on a free market the gas could be sold for high prices, perhaps in the neighborhood of \$3.00 per Mcf. The nonpremium use of gas is industrial and as boiler fuel. In this market, the maximum price which is paid for gas is about \$2.00 per Mcf. The significance of these two markets is that there are different competing products in each. In the premium market, gas competes with middle-distillate fuel oil. In the nonpremium market, gas competes with heavy fuel oil or coal.

The regulatory practices of the U. S. Government have created an unusual situation in regard to the prices at which

"premium" and "nonpremium" gas are sold. Interstate sales of gas are regulated by the FPC, while intrastate sales are not. Since interstate regulation has been on the basis of artificially low wellhead prices, much gas in the United States is used in the same state in which it is produced. There is a shortage in the "premium" market because companies cannot sell gas there advantageously--they can derive higher prices for nonpremium industrial use in the state of production.

If transportation costs for Alaskan gas are excessive, that gas is not going to be able to compete adequately with alternative sources of industrial fuel. The gas could compete on the premium market if conditions stay as they are today, since there is a real shortage in the premium market, and customers will buy the gas at even a high market price. The shortage in the premium market, however, is limited, and in and by itself could not justify the construction of a transportation system of the magnitude proposed. Moreover, if gas is deregulated or if end-use restrictions are placed on the use of natural gas, we can expect to see gas supplies quickly reallocated, with the result that the "shortage" in the premium market will rapidly dissipate. Companies will then direct their gas supplies to those markets where gas could be sold for higher rates than in nonpremium sales, leaving the nonpremium market to use heavy oil and coal. We have some doubts that Alaskan gas would be able to compete against gas from other sources in the premium

market if such a reallocation occurs. The primary competitor in the nonpremium market is oil and coal and the indications to the task force are that in the future Alaska gas will not be able to be delivered to the continental United States for prices competitive with those fuel options.

This issue is, of course, more complex than I have set out here, but suffice it to say that the task force has some concerns about the ability of either project to deliver gas competitively without government subsidy and with the result of a positive wellhead value. If the wellhead value is zero or very small, our royalties from the gas will be very slight and our severance taxes, which are based on wellhead value, will also be minimized. We find this to be a significant feature in our analysis since it has led us to conclude that if we are to derive any significant economic benefit from this developed Alaskan resource, it may well have to be through direct use of the gas ourselves.

That direct use can come in several ways. First, the gas may be made available in Alaska for the "premium" uses I previously discussed, though such a use will only involve a small percentage of the State's royalty share. For instance, the State's royalty share will be approximately 280 MMcf/d from production of 2.25 bcf/d. Even if we developed a natural gas market in the state equal to that which presently exists in Anchorage, it would only use approximately an additional 55.7 MMcf/d.

The real possible benefits for Alaska's gas seem to lie in the development of cheap sources of fuel for possible

industrial use in the state. That industrial use can occur either in the interior or along the coast, where the gas is delivered. The cost of the transportation of such gas in Alaska will be substantially less than the cost of delivering the gas to the continental United States, meaning that we will have a source of cheap fuel here for industries that seek to use it. There are several possibilities which need not be discussed in detail here. Petrochemicals is one form of industrial use which has been discussed previously, and other possibilities exist, such as the Klukwan Iron Ore project in Southeastern Alaska.

Unless we have a Trans-Alaska line, there is no satisfactory way to transport Alaskan gas for Alaskan use. We have considered the possibility of constructing pipelines from Prudhoe Bay to points in Alaska, assuming that a Trans-Canadian route were used to transport most of the gas to continental United States markets. Our conclusion has been that a transportation system just for Alaska's royalty share is not economically feasible. The cost of construction of such a system simply cannot be amortized without resulting in an extremely high cost of gas. Accordingly, it is clearly in the State's best interest in obtaining a maximum return from its North Slope gas to keep that gas in the state for use here, and since we can only do that with a Trans-Alaskan line, it is in the State's interest to support such a route.

To this point our analysis has been based on economic projections which indicate a minimal wellhead value for Alaskan

gas from Prudhoe Bay. It is, of course, entirely possible that our predictions are overly pessimistic and that in the end we will see a reasonable or even substantial wellhead value for the gas. If that is the case, the direct use of Alaska's royalty gas in the state will not be the only benefit derived from the resource, but it will still be a prime benefit. If the wellhead price turns out to be more than we have anticipated, the State will derive royalty and severance taxes based on the wellhead price from both the Arctic Gas and the El Paso proposed systems. The task force does not anticipate that, if the project turns out to be successful, there would be a substantial difference in wellhead price between the Arctic Gas and the El Paso proposals, though there is some indication that a higher wellhead price might be derived under the Arctic Gas proposal. That possibility derives from the fact that the Arctic Gas and El Paso proposals are about the same cost, but the Arctic Gas system would carry a somewhat greater volume of gas, reducing unit transportation cost. However, as we note below, other direct taxes imposed by the State of Alaska on a Trans-Alaskan project would more than compensate for the difference between the two proposals. Moreover, the benefits which would accrue from Alaskan use of Prudhoe Bay gas are sufficiently substantial in and by themselves to outweigh what we anticipate to be a small difference in possible wellhead value, and local use has the added benefit of providing real value to the gas in the event that the economic model we have described is proven correct.

A Trans-Alaska line will also result in revenue from a number of other sources than the gas itself. The property

tax on the Trans-Alaska project would, in the view of the Department of Revenue, produce \$68 million more per year than a route through Canada. Under our current gas severance tax law, the wellhead price with a Trans-Canada pipeline would have to be 58.21 cents higher than the Trans-Alaska project to offset in royalty and severance tax payments this substantial difference in property tax. As previously noted, we have concern about the existence of any significant wellhead value after deduction of transportation costs and, accordingly, this comparison is important in evaluating the projects. If the current proposed law was passed providing for a 10 per cent severance tax on wellhead value, then the wellhead differential necessary to make the total revenues from both projects equal is 43.8 cents.

Adding to the direct revenue benefits of a Trans-Alaska line would be the corporate and personal income tax revenues that would accrue to the State. Although difficult to estimate, approximately \$42 million more tax revenue is expected during construction of the Trans-Alaska line.

These tax revenues are not, of course, without corresponding burden. Both projects will create substantial demands on State services. It is going to be crucial that we insure a source of revenue to meet those burdens. Property and income taxes provide such a source, even if the economic concerns expressed earlier are valid.

C. A Recommended State Position.

The task force believes that the State in its own best interest should advocate the construction of a Trans-Alaskan

route for the transportation of North Slope gas. This support, however, should be given in full recognition of the fact that it is the State's interest which is being promoted rather than that of a particular company or consortium building a route. We do not recommend that the State necessarily support El Paso Alaska in the construction of a Trans-Alaskan route. To do that would be to wed ourselves to the El Paso proposal and it is not necessarily to our benefit to do so.

We believe it is in the State's interest to support the Trans-Alaskan route but to insist that if that route is approved by the FPC stipulations be contained to insure the promotion of Alaska's interest. First, we must work to insure that the pipeline is certified as a common carrier. Without a detailed discussion of this point, legal doctrines require that common carrier status be obtained in order to insure that Alaska's gas be available at the terminus of the pipeline for Alaskan use. There is some authority that suggests that once gas is commingled in an interstate pipeline it may not be removed without FPC consent. We should make it a prime point in our position to insure that that consent is obtained.

El Paso has not spent the time or the money to evaluate the environmental impact of its line in the same manner as has been forthcoming from Arctic Gas. Relying primarily on the pipeline corridor studies already completed, El Paso suggests that in essence the problem has already been resolved by those studies. That, unfortunately, is an oversimplification. First,

it is unclear whether or not the gas and oil pipelines can in all instances be laid side by side within the same corridor, and it is possible that in certain instances the pipeline will have to be laid outside the existing corridor, creating environmental problems which have not been studied by El Paso. The State should be in a position to press for a route which most efficiently establishes a system compatible with the surrounding environment. Very little review has been done by El Paso of the environmental problems created when its proposed pipeline route leaves the corridor and goes to the Alaskan coast. Again, the State should not feel itself wedded to any position or presentation made by El Paso but should be in a position in the FPC proceedings to vigorously criticize and, if necessary, advocate alternatives. Finally, the financial capacity of El Paso to construct the proposed project is limited. El Paso frankly concedes that if it is granted a certificate, it expects to be joined by other companies and what we may well see is a new consortium created, composed of many of the same parties that presently are in the Arctic Gas consortium. The State should do everything to insure that adequate financial backing is obtained for this project and that the project is, insofar as it can be made so, economically feasible. It is in the State's interests to do so because if the project ultimately becomes subsidized we can reasonably expect that the State will be forced to bear a portion of that subsidy, either through pre-emption of its taxing power or through imposition of other federal controls.

While we have recommended to you that the State support a Trans-Alaskan route, we believe that we must also advise you that there is a great deal of impetus and political pressure tending toward an adoption of the Canadian route by either the FPC or the Congress. Midwestern and eastern states see it in their interest to have North Slope gas come directly to their markets through a pipeline, and when the decision is made we can expect that this large segment of the United States populace will not be ignored. Moreover, there is evidence that the Arctic Gas proposal will use less of the gas itself in the transportation system, which will recommend the system to a national constituency. Finally, as we have noted earlier, the Arctic Gas proposal appears to be cheaper in terms of the construction necessary for the transportation of Alaskan gas. Faced with two marginal economic proposals, the FPC or the Congress may well opt for the one which at least is cheaper on its face, since that would reduce costs to consumers.

We mention these factors because we believe that, while Alaska should promote a Trans-Alaskan route, it should never lose sight of the fact that the Arctic Gas proposal has a substantial chance of ultimately prevailing. Accordingly we believe our position should be not only to promote the Trans-Alaskan route, but actively to criticize the Arctic Gas proposal in an effort to insure that if it is ultimately adopted it will be the best route possible for Alaska. For instance, the Arctic Gas proposal right now is for a line through the Arctic Wildlife

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Range. It is the feeling of the task force that it is not in the State's interest to promote intrusion and development of that Range and that the State should attempt to insure that routes are developed for the Arctic Gas proposal (if it is accepted) which will avoid incursions into the Range. Arctic Gas has indicated that if they obtain the certificate which, in their view, will give them eminent domain powers for a pipeline across State lands, they will nonetheless negotiate with the State for such a route. We would expect to do so, but at the same time we should make every effort before the FPC or the Congress to insure that the basic corridor for the route is sound.

We will be meeting with our attorneys in Washington, D.C. over the weekend to discuss how we best can present Alaska's case before the FPC. On April 7 I will participate in the prehearing conference, at which point we will indicate to the hearing officer what basic alignment we will take in the proceeding. I will, of course, await your instruction before advising Washington counsel of that course of action.

AMG:as

GAS PIPELINE IMPACT COMMITTEE

Meeting of July 21, 1975, 9:30 a.m.  
Kenai Room, Anchorage Westward Hotel

Meeting came to order about 10:20 a.m.  
A motion was made by Sen. Terry Miller to make Willard Bowman permanent chairman.

Sen. John Huber seconded the motion.

Roll Call was taken: 10 present, 6 absent

Present: Senators Poland, Miller, Rader, Huber  
Representatives Bowman, Bradner, Kelley, Hackney,  
Cowper, Anderson

Absent: Senators Ferguson, Rodey, Tillion, Croft  
Representatives Gruening, Specking

BOWMAN: To set tone of this committee, President Croft and Speaker Bradner are going to lay out what purposes we should be addressing ourselves to.

BRADNER: I think the Gas Committee was an outgrowth, to a certain extent, out of our experience with the General Petroleum Impact Committee that we had in '71 and '72 which got us in our proper share of trouble. At the same time, I think most of us feel good from it being a very positive thing.

In general, a function of the committee is to try in some way to equate the problem of the richest energy producing energy state in the nation, yet we have the highest energy costs in the nation and some how in dealing with the energy resource closing that gap so that either to financial remuneration or to other types of remuneration to the citizens--the fact that we are the prime energy producer--becomes meaningful.

A little more precisely, I think the purposes of the committee is to develop an informational and legal framework from which we can deal with that resource which as yet we haven't really dealt with which is natural gas.

The problem most of us feel with the gas pipeline development will probably be the oil pipeline. With that action, we'll probably be plunged into somewhat of a policy battle between the State and Federal Government...not only in terms of regulating and managing private gas but even our own royalty share which we may have to fight to defend for that regulatory agency. I think that simple legal base of knowing where we are and where we have to fight--that's the most important kind of framework that this committee should deal with.

I think that our action, if we get into this, will create a wide awareness within the administration--they'll begin much of their own work on an independent basis. At a certain point we'll find the two functions of the legislative effort and administrative effort hopefully working somewhat in concert.

I think we can think of many goals that the committee might meet. I think the obvious one is somehow reducing the cost of

energy for Alaskans in terms of electrical energy and home heating energy. Some of our cities like Anchorage have been aird of the benefit of those things to a certain degree.

I think we also have to meet the question of insuring the security of our gas so that it's available to critical areas, not just now, but perhaps in 10, 15 and 25 years. I think there are various ways in which that can be accomplished.

The really difficult thing the committee will have to deal with is the balance of insuring we get the greatest financial remunerations out of the resource and at the same time balancing out with how Alaskans across the board get the best use out of it: either through domestic use or secondarily through trans-lation of the petrochemical therefore reinforcing the economic structure and having the use of biproducts in Alaska or for resale out of Alaska, but after the primary process. That area is going to be very difficult to analyze. It will require a lot of judgement, perhaps, the judgement we start and the administration is going to have to complete.

I think on a more immediate basis, the committee will have to look at new tax legislation on gas; look to local needs; restrictions being placed on certain kinds of gas development.

It's entirely possible, we can lease a set of leases for oil and gas development but restrict the production of those leases if they should strike pure gas fields as a matter of contract with the owners, therefore, avoiding the FPC question by simply saying, "Fine, if you have an oil and gas in solution, we have a hard time, but if we happen by happenstance to strike a pure gas field, then as a matter of contract you'd have to meet state restrictions in producing it...because it was an ownership commitment in the first place.

I think we're going to have to do a study of potential uses of gas, within the state, what the needs and utilities are, what the needs of the domestic market is; the possible potentials of petrochemical use. We'll also be needing to review a possible state-owned gas authority possibly dealing in the petrochemical area and perhaps also a state-owned authority dealing in the area of the pipeline transportation, for no other reason than to maintain control over the gas. These are just a few of the things the committee can look at.

I think the primary ones we started dealing with in oil in 1972 which perhaps will be more successful in the gas area, is the use of contract stipulation initialing the leases in the first place, as a matter of maintaining a policy hold on the gas. I'm sure Willard and perhaps others have an expanded reference of what they think this committee should do. These were things which many of us discussed during the session as the committee was formed which probably represents a scope of more than the committee can do in the immediate future. I think that leads to somewhat of a mandate that the committee is going to have to divide it's work into two parts: those things they think they can produce as a matter of policy study and as a matter of legislation for the next session. Those things which are more important with a longer range program, they'll have to leave as a legacy, to begin work for a new committee in the next legislature or through another organization to take it up after this one. I think that division of work is something that's going to have to be considered by this committee in the next couple of months.

BOWMAN: Thank you, Mike. Any member of the committee wish to expand on that?

MILLER: I think that Mike has done an excellent job in capitalizing the total scope of the statutory mandate for the committee. He also said we'll have to set up a categorization of priorities--particularly those things which are immediately conceivable. The first thing we have to recognize, Mr. Chairman, before we have some of the goals the Speaker mentioned, we first have to have a gas line. It seems to me from what I read and from what I'm told by those who should know, the question of whether or not there will be an Alaskan gas pipeline, is still very much in doubt. Unless we have an Alaskan gas line, some of these problems that the Speaker mentioned may be more theoretical than real or the opportunities may be more theoretical than real.

Now we have a legislative statement passed by joint resolution to the FPC favoring an Alaska gas line. We have a statement by the Administration favoring an Alaska gas line. I think we have a clear mandate there. Maybe, one of the first things, if not the highest priorities, is to do what we can do to work with other, within and without the government, entities who are working for a gas line to make a concerted effort to get a favorable decision from the Federal government. I would hope that we would do that first, at least talk about it first in support of an Alaska gas pipeline utilizing some of our resources, certainly not all of them but some of them in that endeavor and perhaps working with the administration and private groups to stretch those dollars...I would hope that at this meeting that would be one of the most important things we can do.

BOWMAN: Thank you, Senator Miller. Others have comments?

HUBER: Mr. Chairman, I would hope that even though we don't have a gas pipeline as yet, that we don't fail to look into the possibility of conversion of north coast methane,  $CH_4$  into methynol  $CH_3OH$  for shipment by the current pipeline. It has the advantage of being removed at any point along the pipeline because it boils off at 160 or 165°F. When you blend it with gasoline, it has a blending octane number of 131 and when you burn it alone, as gasoline, it has an octane number of 107. The chemistry is quite simple. As I understand it, it takes a catalytic plant to do it, and could be put on the North Slope. Everything it does to the oil pipeline is beneficial, because it thins the fluid that is going through the line. I think we should be looking into that end, too...We may not have to ship gas as gas; gas may be shipped as methynol from the North Slope as liquid. The normal amount, as I understand, is an indication... is enough to make it so that the pipeline could be operated at 0°, meaning you don't have to have a second line. These are some of the things we ought to look at.

BOWMAN: In other words, Senator, you're saying I ought to go in my chemistry set to find out what you're talking about.

HUBER: Well, it's simple. All the items are there. You notice that  $CH_4$  is the methane, that's what the gas is.  $CH_3OH$ , if you remember your highschool chemistry, adds one atom of oxygen.

BOWMAN: Are there others?

ANDERSON: Mr. Chairman, my concern is, as always has been, the development area of natural resources is going around the ears of residential people and the oil pipeline is a classic example to the resident Alaskans involved in the development of a mineral resource, a non-renewable resource. One of the subsections by page two are in active legislation.

In which case,  
We do things considered advisable from that light in developing Alaska's natural gas consistent in the public's interest and adherent to Alaska's resident hiring laws. I think, you and I put in that amendment to make absolutely sure there would be no question, that we would not just popularize resident hiring but do something about it. If we're going to talk about owning or partial ownership of the natural gas pipeline system, that we should not allow outsiders or non-residents to be the majority in the development of that system. I want it to be put on record that I'm not very happy with what's going on, on the North Slope, and I think we should have done something about it before now. I think the pattern has been established long before we even became a state. I think we've got enough money employed for resident people--to put to work and train and get them going in this area.

BOWMAN: Thank you, Rep. Anderson. Are there others?

HUBER: In regard to what Rep. Anderson was just talking about, the communications sent to both of us and this committee which you have so thoughtfully supplied, from Prof. Witherspoon along with a copy of the Texas law that was recently passed which has also been supplied to the committee on Taxation and Revenue. It might be helpful that that particular route that Texas took and Witherspoon mentioned using the contractual powers the state had. It's the strongest single thing we have working for us when it comes to such items as mandatory residential hire. You might keep that in mind. Certainly from the items that Rep. Anderson mentioned. It might be the best tool to accomplish that.

BOWMAN: Thank you, Sen. Huber.

BRADNER: I'd like to add one thing. Our job is perhaps made more complex because of the precarious question of the initial gas line which could be trans-Canada or trans-Alaska. I would simply like to point out that should that decision go against the majority wishes of Alaskans to go trans-Canada, it would perhaps make the function of what we do even more important..as that would be a clear indication that our gas would be locked away in the transportation system very remote from the rest of the state. I think it would make the function of state policy even more critical for what gas remains elsewhere. Gas discovered elsewhere, perhaps closer to the urban areas, would even be more super critical than otherwise would be the case. Regardless of how that decision goes, the function of this committee perhaps is even more enhanced should it go against it.

BOWMAN: Senator Miller

MILLER: Mr. Chairman, I think the Speaker has hit it right on the head again. Development has to continue to be planned. I think that it may well be, that whatever we do, that the configuration of our laws with respect to oil and gas, would be considerably different if there's a Canadian line and an Alaskan line. Obviously, the best route of the committee is to do whatever it can to insure first and Alaskan line--since that decision is still pending. I think that makes a lot of things much easier-- alot better if you will in terms of state opportunities if there is an Alaska line. It seems to me logic would dictate that that is where we would put our first push.

BOWMAN: Thank you, Senator Miller. It seems to me that one of the things we have to establish is the fact that the committee and the legislature itself has stated in unequivocal terms that we wanted the line to go through Alaska. But, it also seems to me that unlike the oil pipeline, when we had everyone and his brother and sister pushing nationwide, where Alaskans were concerned for that oil pipeline. There's quite a bit of apathy amongst our citizenry as to the gas pipeline. Maybe it's because we are all busy, but I think the Legislature has to take the lead in trying to assure in whatever manner we can that our

full input as to our desires should be made in Congress or FPC and others who have the ability to make those decisions. I would think this would be one of first priorities of this committee--that is to push in every way we know how and I hope that we will develop the means to bring forth this policy by this committee. Are there other statements you want to make before we go on to the Public Hearing? I thought it would be proper to have those who would like to testify before the committee before we get into the mundane facts of how we're going to organize.

BEV ISENSON, EXEC. DIRECTOR OF OMAR

Mr. Chairman, ladies and gentlemen, I appreciate the opportunity to talk to you all on behalf of OMAR. Our organization represents hundreds of Alaskans who joined together to pursue every avenue possible for a trans-Alaska gas line. We share with some of you on the committee the feeling that many of the other things you are going to look into will be shortened if there is no Alaska gas line. We've monitored very closely the political situation in Washington and we are, every day, developing better sources of contacts... in the political situation in Ottawa and other parts of Canada. We feel the gas line route would be critical to the whole economic future of our state in terms of jobs and general economic prosperity. We would be glad to share with you and your staff the information we've compiled in the last few months. I should say that OMAR stands for Organization for the Management of Alaska's Resources. While this project is a dedication to all Alaskans for the gas line. We anticipate every citizen's group will be able to reflect the thought and widespread feeling for other natural resources. Although we back the concept of the trans-Alaska line...we are striving as much as possible as a citizen's group. Our funding comes from private citizens, from GAAB, from the city of Anchorage, and a lot of one dollar contributions. Because we take the priority of pursuing the trans-Alaska natural gas line. I'd like to suggest a number of areas we would explore: Some of them seem like extreme measures and we hope we'll never come to any.

One area in which we would like some work on is contacting members of other state legislatures around the country. You will discover that many have never heard of a trans-Alaska gas pipeline. So with the thought that there is a way for Alaska gas to be routed other than through Canada has never been thought of til now. And once we contact people and hear the various alternatives

Another area we want to see, is possible legislation of primary processing of gas, so it doesn't just run out of here regardless of the route.

A third area we understand some ground work has been done is in Texas. This has been on strict control of export of gas from the state. I would be willing to explore any possibilities of strict control of gas that will be coming from Prudhoe.

Some other possibly significant points regarding the control of a gas route would be things sounding relatively petty: control of the road along the pipeline (state control); disposition of royalty gas --maximizing the return to Alaskans. We also want to review an area that most Alaskans have regarded with dismay over the past few years. We think there may be a precedent for action and that is having to consider research of past environmental suits which have blocked development here or there. through wildlife ranges. It seems now that our primary proposal in our gas consortium is to lay the gas line right through the range.

Environmental suits, which we have also researched, which have blocked far more development through wildlife ranges.

I will be glad to share our information. As a start, I would like to leave with you an article from the Sat. (July 19, 1975) Anchorage Daily News. It's a graph showing Alaska's jobless rate - which has dropped to the lowest degree ever in the last five years. It has one critical paragraph in it. The figures feature unemployment, vary depending on the proposed natural gas pipeline is routed through Alaska or Canada --and we think that is awfully important.

The other piece of information I'd like to show you is a chart which has been prepared using figures from Alyeska and the State Department of Labor study of the Natural Resources Planning Institute and El Paso Natural Gas Co. It deals with employment in construction only.... So what we're looking at is continued employment for many of our people as well as people who come from outside. Although many of us are chagrined at the large influx of visitors from outside, one of the ways in which we can best improve this state, is to provide opportunities to those who want to work permanently--so that two or three years from now we don't have neighborhoods that have become ghost towns. At any rate, we'll leave this information with you and will be glad to share our initial information with the committee on events in other parts of the U.S. and Canada. We hope we will be able to work with you and make contacts around the country.

By working with you, we cannot overlook the fact that we are in need of money. Because an organization supported by Alaskans, notwithstanding the fact of receiving one dollar contributions. It doesn't go very far when we talk about sending people around the country. Some of the speakers for this group in other parts of the state and nation, we anticipate people that are prominent in the Labor movement will be speaking where labor is concerned...We hope that if we combine our efforts, we can awaken the rest of the nation as to the potential of a trans-Alaska gas line.

BOWMAN: Thank you, Bev. Are there questions from the committee?

RADER: How big is your staff?

BEV: Two.

RADER: Have you hired any Washington counsel or any other counsel to advise you?

BEV: Well, our counsel is one of our Board of Directors, Bob Hart. We have applied also to the FPC to be allowed to intervene. ...Right now, hearings have been adjourned til September 30 and we want to take this period of limbo of the FPC and turn it toward our advantage...

RADER: What are your budget projections, how much money have you taken in and how do you intend to spend it?

BEV: Right now most of our activities have been devoted to gathering information and making contacts around the country, and giving those Alaskans going outside our literature and asking them to take every opportunity to present it. When people go to conventions, we give them our literature. In the past, we've found that ordinary Alaskans talking to other citizens around the country are very persuasive: they listen to us. We also find when this route is taken that Labor people talking to Labor people, and businessmen talking to businessmen generates alot of very professional insight.

Over the next year, we hope to acquire enough money to pursue a budget of \$ 245,000.00. The bulk of this would go toward printing literature and airplane tickets. We feel that sending qualified speakers around the

country is far more effective and economical than hiring an ad agency...

RADAR: There are possibly three or four more positions that could be taken before the FPC or taken by the Canadians and EL Paso. Perhaps that taken by our own State Administration should be combined. Are you satisfied with the position taken by the State Administration? Is there a need for independent counsel which this committee might choose to carve out it's own position?

BEV: I think it deserves consideration.

Miller: In the days ahead, our staff should have the opportunity to get together with Bev and others to explore possible areas of assistance--one of which might parallel that of the oil pipeline--that being a grant or something on a controlled basis. The other would be similarities between the gas and oil pipeline. John touched on one: of specific quasi-proceedings going on right now.

If there are any holes in terms of the story we want to tell, that need to be developed that have to go before the FPC, we ought to develop that rather quickly. Maybe the best thing, would be doing that independent of any public relations effort. Because they're the first line of the decision-making process and perhaps the most important one as they may set the precedent from now on especially once Congress gets involved later on.

It seems we ought to be working on the technical information that needs to be developed. If we find there are areas that we think the Administration position needs to be briefed on, we should first try to work through them rather than coming with fragments of the legislative position, state position, OMAR position or whatever. I think the more unified we are, the better.

BEV: I'd like to add one more thing. We want to pursue the gas line and we feel more should be done on it than has been...We recognize that no matter what the FPC does, Congress will get involved... Oil legislation in 1973 had made the provision in that legislation that before the Secretary of Interior can grant a permit for construction the pipe cannot be more than 24" in diameter, he has to give notice of his intention to Congress...

We feel this to be a great opportunity for ordinary citizens to make their voices heard and talk about what the long range interests of the nation are. We've got to make our voices heard.

RADER: Has your committee gone into the possibilities mentioned by Senator Huber?

BEV: No, we haven't, though we've talked about them.

RADER: Have you settled then, on the standard garden variety gas pipeline?

BEV: Technically, the changing of gas techniques is something we really haven't gone into, as we're not equipped to handle it. We have all types of people of different backgrounds in our membership: from fishermen, marine biologists to economists. I don't think we have any Chemists. We would be glad if this committee can develop the information needed, to incorporate those kinds of people.

RADAR: Have you approached the State Division of Economic Development?

BEV: No, we have not.

RADAR: Have you made any direct political contacts? Have you started any contacts with any congressmen?

BEV: No, we have not. Frankly, we're not set up that way. We felt that before we started any contact with congressmen themselves, we would have to be talking with people in the various districts--as many of

them have only heard of a Canadian gas line and know nothing of an Alaskan gas line. And, we find from experience with the oil pipeline, that constituents are more responsive.

RADAR: What is your understanding on when the FPC will make a decision?  
(end of tape)

BEV: ...on the other hand, the Gas Arctic Consortium is working very, very hard. They were working through their individual members holding seminars and parties for Congressmen and Senators and doing this for quite a while.

RADAR: Thank you, Mr. Chairman.

HUBER: I think there's more to it than that. I'm <sup>not</sup> trying to get all of our gas changed into methynol. There also could be a method used to present before the FPC. Because if we have a method of bringing our gas to market, and enact a law like that mentioned in Witherspoon's letter in Alaska for export and getting the maximum use out of it. If we changed the gas into a liquid before it left the North Slope, I believe we would get out from under the FPC. In other words we would use this as a legal tool in fighting it, using it as a lever to get the gas pipeline through Alaska. We could convert into other petroleum products other than gas and ship it through an oil pipeline which will already go through Alaska.

BEV: The FPC made a decision a couple of weeks ago on their jurisdiction regarding liquifying natural gas from Kenai. They're proposing to build a liquefaction plant in Kenai to Oregon. The FPC ruled that if that gas is shipped through international waters, it would no longer be under FPC jurisdiction. I have a very brief article on it which I will copy and make available to you.

HUBER: It's my belief that if we can work the gas into methynol, it would become a part of the liquid petroleum rather than a part of the gas. In this way it would be readily available as gasoline. This is the product of petroleum we're interested in than anything else...converting our gas to gasoline and making it readily salable and of course gets us from under the FPC and makes use of other authorities we already have-- then we may have a leverage there. I don't care how we use the leverage as long as we get the maximum use for Alaskans.

HACKNEY: Just to clarify the position of OMAR as far as running the line through Alaska...Are you saying running the line entirely through Alaska or perhaps to the Canadian border paralleling the Alaska highway? Has that presented as a possibility?

BEV: We are aware of that <sup>possibility</sup> possibility...We have not designated whether or not the line should go through Prince William Sound, although it is our feeling that certain money should be realized in using this corridor. We're aware of the other project.

BOWMAN: Would you clarify the point that you made, "all through Alaska" Do you mean all the way through to Southeastern including the Haines pipeline already there?

BEV: We would rather see it go entirely through Alaska. Basically the same as the oil pipeline although it could conceivably branch off to Canada. Our reservations about it going through Canada would be the same as the Gas Consortium route...

RADER: Do you assume the cost and delivery of gas to the market, whether to the West coast or the Mid-west, be approximately the same no matter which route the gas line follows or do you assume that one route is cheaper than the other or do you assume the cost of transportation is unimportant?

BEV: We realize the cost of transportation is important and what it finally costs in the Mid-west or West coast is important--as it is important to the entire economy. We are affected by what happens to the rest of the country. We have relied to a considerable extent on the Governor's Special Gas Policy Committee...The information revealed indicated that either project through Alaska or Canada...the projections could

be considerable smaller than the cost of either project. Attn. Gen. Gross' report indicated the magnitude of the cost of either line traditionally runs between 50% and 400% over the projected cost. So we should not talk of one line being cheaper than the other.

RADER: FPC is charged with a different responsibility just as much as we are. We have the responsibility to develop a governmental policy that appears to be advantageous to Alaska. We hope that that policy will be advantageous to the national interests. There could be a difference between Alaskan and national interests. For example: if it costs twice as much to get the gas from Alaska to market by going one route or the other. Those appear in question in the national interests are not going to take the cheaper route. The last time I had dealings in this subject, I was unable to get a handle on the costs. FPC has to get a handle on the costs...won't that be part of the decision and if it is, should we not perhaps develop our position dependent upon the economics of it?

BEV: Judging from what Mr. Gross' report turned out, it's pretty difficult to get an accurate handle on the cost, because the problem of inflation for one thing. They concluded that the cost might be so great that the well head costs might be zero so that the only benefit Alaska could get from the line would be whatever Alaskans could get working on the line...

They pretty well established that it's possible to get a handle on the costs. One of the problems, we feel, is that some of the figures presented to the FPC look like figures that were developed several years ago. At any rate, we should develop a firm set of figures.

RADER: Thank you, Mr. Chairman

ANDERSON: Bev, you're obviously a strong advocate of the trans-Alaska gas pipeline...I'd like to know what OMAR's position is on resident hire. The reason I ask is that you advocate strongly the trans-Alaska pipeline and you're going to have to have to get the support of non-resident people. It is inconsistent with being a strong advocate of resident hire...in other words, you're inviting people into our state to develop a non-renewable resource.

BEV: I share your feelings about this. Our feelings have not specifically started out in support of resident hire. However, I think I can safely speak for every member of our committee that we would like to see Alaskans hired first...I'm sure we can come up with some legal way to insure the line to Alaska and that Alaskans have the first chance at jobs.

...One of the potential areas of industry that we haven't touched upon is the maritime industry. Here, we're talking about liquified gas shipped to other parts of the U.S...so it would bring jobs. So while we're concerned about local hire as it affects our whole economy, we don't feel unsympathetic toward citizens wanting jobs.

ANDERSON: To proceed a little further...Why doesn't OMAR get into the job situation?

BEV: We'll look into it.

ANDERSON: ...You won't get any support from me unless we establish resident hire.

BEV: We'll pursue it.

BOWMAN: Thank you, Bev. Are there other questions for Mrs. Isenson? We'll be in touch with you and let you know how we will dovetail our interests...Would Pat O'Malley come before the committee?

O'MALLEY: My name is Pat O'Malley and I'm president of the Human Resources Institute of Manpower under AFL-CIO.

I'm not authorized to speak for Western Alaska Building Construction Trades of Alaska though I was rather closely associated with them.

I'd like to report on a meeting of last Tuesday morning about a resolution unanimously passed concerning the trans-Alaska gas pipeline. I'm amazed at the apathy concerned with a gas line...

One important factor brought out that there was quite a difference of opinion as to where the line should go... Those favoring the line, should be united in a firm front when the real battle develops with Congress and the United States...

BOWMAN: Mr. O'Malley did you say that was the Anchorage Central Council or State?

O'Malley: Western Alaska...Council...

BOWMAN: Does any member of the committee have questions?

RADER: Where is the 63rd parallel?

O'MALLEY: About where McGrath is located, about a hundred miles south of Fairbanks.

COWPER: Have the internationals taken any position on that or do they plan to?

O'MALLEY: I would hope that they would. I'm sure the Building Trades Department technically of AFL-CIO will take a position.

COWPER: Do you think the position will be favorable to an Alaskan line?

O'MALLEY: I would hope they would.

COWPER: What about the mid-western? Do you think there will be pressure from the mid-western people to build the line through Canada?

O'MALLEY: Yes, I think that is a foregone conclusion. They will press for a Canadian line.

I don't know whether it would be cheaper, for instance, to take the gas through California, reverse the flow of gas there and get it back to the mid-west or go the Canadian route. I really don't know.

Certainly if the line goes across Canada, there aren't going to be many Alaskans employed.

COWPER: I would like to know if we can expect support for an Alaskan line at the top levels of the AFL-CIO.

HUBER: One small remark in that regard. I think the blue print of that exists because of the experience with the Haines pipeline which was built a number of years ago. Most of that line, as you know, lays in Canada. The biggest share of the expenditures were in Canada. The Canadians had such stringent rules on the Canadian people working on the Canadian section that we had such poor rules on the Alaska section that we used Canadians in Alaska. For instance the communications on that line was handled by Canadian technicians--and it wasn't allowable for Americans to work in Canada, though. So that's the experience we had on the Haines pipeline.

BOWMAN: Further questions? Thank you, Pat.  
Mr. Homer Burrell.

BURRELL: My name is Homer Burrell and I represent myself. I was Director of Oil and Gas for six years. I'm glad to see the Legislature take a look into a gas line as I'm quite experienced with the Administration's rather soft approach to favor, at least I think they

favor a gas line. At times, I'm not sure. The Administration can't do it, and I'd like to see the Legislature do it. That's one phase I wanted to talk about.

Another thing I wanted to mention, is that I'm rather annoyed at some of these oil companies who preach in these big adds about how they are dedicated to Alaska--these are the ones making up the Canadian gas line group. If that be true, then why do they want to run the line 197 mi. out Prudhoe Bay to the point demarcation and out of Alaska depriving us of (1) tax base, (2) employment, (3) access to the gas, (4) depriving the U.S. of the balance of payments, and (5) an all Alaska line and on and on as I'm sure there are other things.

What do we do about that? Of course, we could take our royalty gas in time. We could commit ourselves to El Paso or whoever, I'm not sure, I haven't worked for El Paso and never expect to. We can commit it to anyone who wants to build an all Alaska line and maybe we should, maybe we ought to just put it up for grabs to anybody who commits to move to Alaska and make any access available to Alaska.

Another thing, the last shot we have in our leases provides we can take the royalty share in time. The last shot we have to amend those leases is the agreement from the Prudhoe Bay fields. That is a legal contractual modification of the oil and gas leases.

I've already notified the oil companies and I would insist on some kind of an underwrite or banking clause in the agreement. Call it what you will. But what it would amount to is this: Is that if the state wasn't ready to take it's royalty gas at this time, it could defer taking it til' a later date. It would have to be a reasonable period of time--for the next twenty years or something. It would have to be a reasonable date so that the oil companies could have time to advertize their investment and transportation facilities and yet it would have to protect the state. Now that should be explored.

Next point: Our future oil and gas leases should perhaps be modified to provide an option in the lease to take some additional portion of the gas or oil assuming we pay for the market value. This would be up to an additional amount equal to 50%--if we have this in our leases today, we could tell them where the damn line could go. If we had control over 50% of it, they wouldn't go anywhere except where we told them. These are things to think about. I'm just throwing them out for your consideration.

MILLER: Assuming the Canadian line does not go through the Arctic Wildlife Range, would it cross any state land on it's way to unleased state land on its' way to the border?

HOMER: I would believe it would stop at Prudhoe Bay--land which is currently in the process or has been in the state southeast of the Prudhoe Bay fields.

MILLER: My question then is, you recommended a couple of possible measures the state might want to look at in terms of an Alaskan line. What about the state taking a position on--We're not going to lease any lands for a Canadian line to trespass on.

HOMER: In response to Senator Miller, the natural gas act of 1935 which controls a provision granting interstate transporters of natural gas around the nation.

MILLER: Even over state property?

HOMER: That is the intent. It's been exercised over private property...  
...No one has ever had a stake in it as Alaska has...

MILLER: It's conceivable then, that they do not have the power?

HOMER: It's conceivable they do not; it's conceivable that they do.

MILLER: Do you think that ought to be explored?

HOMER: Definitely.

HUBER: Somewhat along the same lines that Terry brought out. Homer, are you aware of what Terry talked about on something we tried to do on the oil pipeline...We were trying to bring about the use of a common' corridor at least as far south as the Yukon river based on the statement refusing to grant right of way over state lands, and keeping in mind the same route of Prudhoe Bay at considerable state lands involved. This was because of the fact that all lakes...belong to the state. So there is a considerable portion of the present pipeline corridor we own by virtue of that particular requirement in the statehood act that gives us these lands. So regardless of what route they're taking, we do have some control whether it will stick in court or not.

HOMER: I agree what you said first, however, the problem is of what was talked about of the oil pipeline roughly paralleling the Alaska highway and putting the gas line there.

RADER: What consideration, if any, this committee should give to the relative costs of the pipeline as it affects well head costs and state interests and to what extent those costs are ascertainable; to what extent those costs will be considered by the FPC..

HOMER: This is one of main issues...under current laws, the 1954 Phillips decision stating that the FPC has the right to set the well-head guide of gas where the state collects royalties and severance tax. Now there is a great deal of pressure, in fact, a bill actually passed Congress on this in 1952 or 53 to take that authority away from the FPC.

There is pressure, again, to enact a bill which would de-control the well-head price of gas--at least take it away from the FPC. Gas-oil works exactly opposite--the FPC sets the well-head value... and then they add on transportation costs and that is what it costs the distributor and then what the additional costs to the consumer. Oil works backwards starting from the refinery then backing out transportation costs. So let's assume Scenario 1, which would be if the law stays as it is and the FPC will set the well-head value...then you have to add on to that transportation. So you have to add on the transportation of the two routes--technically you need an economic analysis...What Arctic Gas does is, one guy takes the other fellows distribution costs...with each coming out with different numbers...for primary distribution...even the splits are forgotten--the three way split they've got above the Canadian border when they come up with these numbers. El Paso doesn't claim a replacement, that is, the reversing of the gas lines--to move some of the gas to the mid-west. Arctic Gas claims El Paso doesn't have this. This will need analysis to see which numbers are open and which ones aren't.

RADER: Do you think we can make the assumption that the costs will be the same...or do you think the FPC will ever make a decision til they have some decision on the analysis of the costs.

HOMER: I think the FPC will have a far better deterrent... I'm more concerned with the decision of the committee(?)....

MILLER: Have you followed fairly closely the proceedings today for the FPC? You mentioned earlier that the State position needs to be better represented. I'm curious on how that ought to be. Do you think there ought to be another state position in the form of perhaps a position by this committee or through private organizations or what. How serious do you think those are?

HOMER: My impression, is that the FPC or the State Administration may not even want the line to go through Alaska... This is my impression. I would like to see a firm position taken.

either by this committee or some private organization. The first action would be to get a hold of this Oil and Gas Royalty Development Board and tell them to shape up and commit their gas to anybody who will use it in Alaska or who will transport it to Alaska and export the excess or use the excess in Alaska. This is the only way Alaska is going to deal with the gas--it's got to go through Alaska and be available here.

MILLER: You're not in a position, for example, to know if the State needs to supply perhaps an addition to a stronger policy position behind the line, a particular technical information or something. Perhaps, the one carrier who has the application for an Alaskan line...

HOMER: I think they have adequate access to technical information...We need an economical analysis and an engineering analysis of the data on both sides.

COWPER: I have a question. Do you have a car?

RADER: Your suggestion to commit the gas to someone who will use it in Alaska, I've been involved in a conversation that ran something like this: Nobody can really firmly commit that they will buy our royalty interest gas unless they know where the pipeline is going to go. Also if we did have this condition commitment to use in Alaska and the FPC looks at that condition commitment, they've committed the gas if the pipeline goes that way, but if it doesn't go that way, it's uncommitted and therefore, it ought to go through Canada.

HOMER: This goes back to other remarks referring to a banking clause the State ought to look into...to insure the gas in the ground for a reasonable period of time...The only way you're going to get a gas line built is money and the only way you're going to get money is having the gas available for the gas line.

RADER: Do you think we could have the FPC record of the gas line going through Canada--on the basis of the presently known reserves, adding a second line from Prudhoe to Fairbanks or some place...do you think the royalty interests would be feasible?

HOMER: Not in the least at present.

RADER: ...you're saying that we're fortunate that in finding the gas, this would become so.

HOMER: Right.

RADER: If someone were to bid on it today, they'd have to take offers depending on what they know.

HOMER: That is correct. Any bids made available need at least two conditions: one is if there is a line through Alaska and secondly we'll pay the top price...

RADER: Let me ask you about your banking agreement. I understood that the unit agreement is basically one of a conservation matter and also an economic way of assuring the economic use of drilling a number of wells...Do we have the right to alter the royalty gas situation under the guise of a conservation or economical agreement.

HOMER: No sir, we don't. What we have is a little leverage ...I have done this with the largest producing oil field in Alaska...Some three or four years ago, I had been working for the state...in an agreement which provided that a portion of the oil is taken from all the leases which simplifies the handling...I wrote the agreement for the oil companies when I worked for the oil companies for that. They had to send a clause between themselves...as they were unable to sell their oil in the early days. They literally "underwrit" many, many hundreds of thousands of barrels of oil and later they gave(?)

them up after they had a market for them. This is not a unique scheme at all....

RADER: Then this is not a legal position at all, but a bargaining position, where we bargain certain conservation things away in terms of a banking agreement comes in.

HOMER: You don't have to bargain anything away..

RADER: ...What do we give them in return for their agreement.

HOMER: We give them state approval of the unit agreement which cuts down the number of ...reporting(?) they have to make in the individual production...

RADER: But that's based on environmental concerns, conservation concerns and economic development concerns. That approval would have to be given or withheld in an arbitrary matter, then if you're going to bring in extraneous matters.

HOMER: They want the unit agreement so that they can cut down on their operation costs.

RADER: Bargaining, too, in which we give them nothing for their agreement with the bank(?)

HOMER: That's correct.

RADER: That's not much of a bargain.

BOWMAN: It depends on which side of the table you're on.

HUBER: I understand that earlier this year, the Arctic Gas Consortium was making a presentation before the FPC... They indicated that off of Prudhoe Bay, 113-118 trillion cubic feet of gas rather than the original figures.. Can you make any comments as the size has a lot to do with it.

HOMER: Yes, reserves proven amount to 26 trillion...

HUBER: I understood that during that presentation, a little stronger language was used. Do you know anything about this?

HOMER: I'm familiar with their reports...Reserves are a strange word. Instead of proven, it may mean likely to be proven or nearly to be proven. They have not been "discovered" yet.

HUBER: I would question the 113 or 118, the size in which we're dealing with here..is it possible that more could be there than indicated?

HOMER: No. (end of tape)  
If Exxon owned 20% of the gas in Prudhoe Bay and a whole bunch across the border--where would you want the gas line to go? through your oil fields, of course.

BOWMAN: Homer would you be able to come back after lunch?  
I have a couple of questions. Homer, what is your response... I noticed there has been in the last few months in the paper about oil companies selling their gas. What do you feel is happening there? Is this normal?

HOMER: The oil companies are trying to raise the capital to develop the gas, separate it from the oil, and transport it out and also to finance exploration projects--these are also involved. What they're doing, these distribution companies, if they can get their local public utilities commission to agree to let them pass along to the consumer that advance given to the

oil companies at Prudhoe Bay for exploration, development, or transport of gas, then they'll advance the money. But only if their local community will pass that cost along. Now California says will let you make a loan out of it, but you've got to pay it back...we can't give it to them. Atlantic Richfield Co. said in that case, the heck with you. You're not interested in a loan, we're interested in taking your money to develop the gas at Prudhoe Bay in exchange for a commitment of gas to you. Forget this loan, we don't want to pay you back.

BOWMAN: What is your response to the question that may come up in this committee is partial or full ownership by the state of Alaska? in the gas line.

HOMER: Philosophically, I can't think of better disaster than to get the state of Alaska in the oil and gas business. in any way as a regulatory agency. We lack both the expertise and other qualifications.

BOWMAN: You don't even think that partial ownership would be be a way in which the state could get a firm handle on a regulatory and well head costs.

HOMER: No sir. Because there is a conflict between the regulatory owner and the proprietary owner. You would have one agency fighting another.

BOWMAN: Thank you, are there other questions by the committee.

BOWMAN: The meeting is recessed until 1 p.m.

BOWMAN: The meeting will come back to order.

Anyone else wishing to testify before the committee? If not, the Public Hearing is closed. We'll go to the staff. Cathy Barrett has been hired on a temporary basis to get Committee letters out, etc. I have also been in touch with Greg Erikson who is at present working for one of Senator Jackson's committees in Washington. Some of you know that Greg Erikson was staff person for the '71, '72 Oil Pipeline Impact Committee and I thought he did a very commendable job for that committee. It is up to the committee to get into what we feel the staff requirements are on a contractual basis, on a temporary basis or whatever. I think we should hire Greg who has a wealth of background knowledge.

HUBER: What can we get him for?

BOWMAN: He is presently making I think, \$35 or 36,000/ yr. Anything above that, he probably would consider. He did state to me that he would come back. Senator Croft also spoke to him about the possibility of strongly wanting him, in the restructuring of Legislative Affairs, in one of the research slots. What we could possibly do, and he was thinking seriously of it, is pick him up with our committee and if he went with the Legislative Affairs in January, we could still avail ourselves to his services.

HUBER; I entertain a motion to retain Greg Erikson for the Committee at a salary of up to \$40,000/yr. for the amount of time needed at the discretion of the chair.

RADER: I second the motion.

BOWMAN: It has been moved and seconded that the Chair contact Greg Erikson for the Committee with a salary of up to \$40,000. Any discussion?

HACKNEY; How soon might he be available?

BOWMAN; He'd have to give a couple of weeks notice or more to the present committee. So he'd be available within the month.

I don't like to take any action, any unilateral action without the authority of the committee.

HUBER: Further discussion on the motion. Does the motion have the right figure in it?

BOWMAN; I don't know, I think we can use the figure as a ballpark figure. I would like to get the concurrence of our President and Speaker before I make a final decision. I think within that framework, we could certainly get him.

HUBER: I've talked to the President along this line, and I've had considerable discussion with him regarding to the possibility of Greg coming to work for the Legislative Affairs Agency and that may be something that when this committee is finished with its task force duties we can get him for a more permanent staff.

BOWMAN: Greg Erikson has unanimously been elected for this Committee.

As far as other staff, I thought as soon as Greg came aboard, we would get other staff as dictated by the needs of the Committee and the work load.

HUBER: Might I make a suggestion, if you have not recently reviewed the large number of applications from the various fields of expertise by people who are graduate students who want to become legislative interns for the Legislative Affairs Agency. If you haven't, I would suggest you contact either...or Stu Hall. I found for my committee, some of the most highly qualified, from a paper work viewpoint, and most highly screened people. I might suggest to you that if you have certain requirements of staff that have certain abilities and be available a very reasonable cost--that you go through their list--people in and outside Alaska. They are taken from all over.

I tried to hire for my committee people from entirely within Alaska, if I could.

MILLER; I move that the Chairman be authorized to hire a secretary with a salary commensurate with the position.

KELLEY: I second it.

BOWMAN: It has been moved and seconded that the Chairman be authorized to hire a secretary with a salary commensurate to the position. Is there discussion? If not, all those in favor raise your right hand. The motion has been carried unanimous. That takes care of the temporary help.

MILLER: I would think that once Greg gets on, we will have an opportunity to assess what our mission is--we may even need another staff member or we may need some work done on a contractual basis. I think the committee is going to have to decide what we're going to do and what our main orientation is going to be before we decide what areas of expertise will be needed.

HUBER: I have a suggestion that you go through that list while it's hot, you may find someone in there who may be a bargain and a big help. I know we did.

BOWMAN: If there are no other comments on the staff requirements, I'd like to go on to office space..of course, we're going to have office space. The Legislative Affairs Office or Information Office is what we're working out of... with the number of interim committees working out there, it is overloaded as of now. We cannot operate out of there, so we'll have to look for a place of our own. I have contacted

John Schwamm and there's a letter in your folders from him, in regards to that space. They do have a 944 sq. ft. space on the fourth floor at a dollar per sq. ft. This committee in my opinion does not need this kind of space. However, I would take this up with Legislative Council at their next meeting...One of the things they may look at because of the interim committees working out of the Legislative Info. Office, is the fact of renting space for hearings which takes out a big chunk in any interim committee's budget. This office space may serve for a meeting place for all of the committees --if funded can share the cost. Now that might be one of the possibilities. Legislative Council would have to decide, but I would hate to spend that kind of money for this committee.

HUBER: Would you consider authorizing such office space as you deem as necessary for this committee?

BOWMAN: With the reservation that at the next Legislative Council Meeting, that this would be brought up on their agenda that the Council would look at a common meeting place for all of the committees here in Anchorage anyway. I feel this would be advantageous for us.

HUBER: I wonder about being on several interim committees, I have some idea of the expense we have and I think that the Council may very well have expense problems in hiring any more space at this time. For instance, my committees' major work isn't here and what is here is adequate... This committee is big and I don't know the answers. I would like to see that you authorize to go ahead. I would move that the Chairman be authorized to obtain such space that would be adequate for the committee or enter into such agreement with Legislative Council and the remainder of the committees.

MILLER: I'll second the motion.

BOWMAN: The motion carries unanimously. Between now and the next Legislative Council meeting, we will discuss with them office space.

HUBER: I hear on the next Legislative Council meeting that it is a bit crowded and may be two days.

BOWMAN: What does the committee wish in wanting a next meeting. I would hope that we keep our committee meetings to a minimum and let staff do the work because this is a large committee and any general meetings will cause us to spend a lot of money out of the budget.

So we should consider this before we go into where and how often we should meet whether we should have public hearings through out the state or on a scheduled basis or whatever you want. Discussion?

MILLER: When do you think Greg will be on board again?

BOWMAN: I would hope by mid-August. I wanted to wait until after this meeting to see what the committee decides what to do before I make him a final offer.

MILLER: One of the areas we want to move into immediately is participation in the Gas Pipeline Hearings in Washington. I would like to have staff develop recommended approaches on it, perhaps, meet with representatives of OMAR to discuss possible areas; meet with the state administration and find out what they're doing and develop an overall comprehensive approach especially in terms of those hearings that will resume in September. I think that is the most important thing, in my view, that we need to do right now.

HUBER: I, too, am interested in not holding a lot of meetings.

unless we find we need to hold meetings in order to get publicity for the work of the committee or something like that. I'm not against that. I think basically in the beginning you have a lot of staff work. I would concur with you in not having a heavy meeting schedule, but I consider this committee one of the most important things going in the state right now and I'll make my schedule fit with whatever you want to do.

BOWMAN: I appreciate your comments, but I have a living to make as I don't intend to be meeting even on a monthly basis as I feel there is enough staff work to be done by the staff and keep our meetings to a minimum regardless of what the papers say about well-paid legislators. I'm starving to death if I don't work.

Do you have any idea on when you want to meet bearing in mind that it would be after August 15 when we could meet and have Greg aboard.

HACKNEY: Middle of September.

BOWMAN: I'm going to contact Greg with the thought of developing things now while he's still in Washington as to background work. How about around the first of September or the middle. Could we leave it at the point as soon as things develop to the extent that a committee meeting seems logical that we could call one with a weeks' notice?

ANDERSON: Maybe we could set an approximate date as I am on several other committees.

BOWMAN: Is there a convention here? ...The date is end of August and the first part of September. Anyone have a firm date that they would like to set?

HUBER: I'd like to see the latter part of September.

MILLER: It's my understanding that those FPC hearings on the Gas line case in early September. If we're going to have an input in that, it may not be enough time. I concur with your view that we ought not meet too frequently. With those hearings, I would consider an earlier meeting date, if that is the kind of thing we want to get involved with.

RADER: Seeing that this is going to have to depend on staff, I think we're going to have to leave this to your discretion.

ANDERSON; I move that we leave the next meeting at the discretion of the Chair, reluctantly.

BOWMAN: Further discussion? Any opposition. Unanimous consent has been asked for...so ordered.

Any further items to be brought up at this time?

HACKNEY: I thought we had a very good presentation from the OMAR people and I think we all received information from OMAR. I would suggest that this committee work fairly closely with OMAR in effort not to duplicate each others work. It seems we're all heading in the same direction.

BOWMAN: There may be some other areas that have not been explored as Sen. Rader pointed out. We need to look at all of the possibilities of a Canadian or Alaskan gas line and explore them for the committee. We'll try to get all the input we can. There were representatives here from Arctic Gas and assume they came here just to observe.

We want to contact people and at our next meeting we want to look at whether we want to have a public meeting and whether we want to schedule them through out the state...If we were to schedule say three days of hearings, we would want to have specific invitations going out to specific groups.

We would want to invite the State Administration--environmental conservation or natural resources. I believe they should be invited specifically by the next meeting, to come up with what their proposals are. At least I'll let the committee know what has been proposed along these lines so we will have input before the next meeting. We will have a credit card by then.

Any other comments?

MILLER: I move that we adjourn to the call of the Chair.

BOWMAN: No opposition, so ordered.

The meeting was adjourned at 1:40 p.m.

NOT FOR QUOTATION

MAP POLICY APPLICATIONS

[Man in the Arctic Program]

Institute of Social, Economic and Government Research  
University of Alaska  
Fairbanks, Alaska

July 1975

## INTRODUCTION

The initial set of projections carried out using the MAP models concentrated on analysis of alternative petroleum development scenarios. There are, of course, a variety of other types of policy actions which can be analyzed through use of the MAP models. The projections presented here provide four illustrative examples of policy applications using the MAP models.

The first policy application considers the implication of placing varying proportions of the state petroleum revenues into an investment trust fund for use in the future. The second application projects the impact of using petroleum revenues to eliminate personal income taxes in Alaska. The third application estimates the economic impact of a proposed state lease sale in the Beaufort Sea. This is an example of how the MAP models can be used to evaluate a very specific policy action or project. The fourth and final policy application is also a type of project analysis. It analyzes the economic impacts of the alternative proposed gas pipelines bringing natural gas from the North Slope. The gas pipeline analysis is carried out using the regional economic models rather than the statewide model which was used in the first three policy applications.

## MAP POLICY APPLICATION: ALTERNATIVE FISCAL SAVING POLICIES

It is apparent that the growth of the Alaska economy will be influenced significantly by the fiscal policies of the state government. A key policy decision that must be made concerns the amount of money, if any, that is to be saved out of the massive petroleum revenues accruing to the state. In the projections used to analyze the alternative petroleum development scenarios, it was assumed that the fiscal saving rate was a fixed proportion of petroleum revenues. In particular, it was assumed that 25 percent of recurrent revenues were saved and 50 percent of petroleum bonuses were saved. The saving took the form of deposits into an investment trust fund, the interest from which was then used to finance current expenditures.

The projection presented here will examine the implications of alternative fiscal saving rates. A high saving rate case is considered in which 75 percent of recurrent revenues are saved and 100 percent of bonus are saved; the low (or zero) saving rate case assumes that none of the petroleum revenues are saved; and the medium saving rate case uses the same rate as in the previous projections, namely 25 percent of recurrent revenues and 50 percent of bonuses.

In all, five separate projections are made. All of them assume a well-head price for oil of \$5 a barrel. Three of the projections are based on the accelerated petroleum development scenario used in conjunction with the three alternative fiscal saving rates. The other two projections are extreme cases: the first uses the maximum development scenario in conjunction with the zero fiscal saving rate and the second uses the limited development scenario in conjunction with the high fiscal saving rate.

As would be expected, the high saving rate produces a slower growth in the Alaska economy, and the zero saving produces more rapid growth. Some selected summary measures for the five different projections are shown in the attached table and the population projections are shown in the attached figure. In 1990 under the accelerated development scenario, the high fiscal saving rate produces a projected population which is 64 thousand persons lower than under the medium fiscal saving rate. The zero fiscal saving rate produces a projected population which is 33 thousand persons larger in 1990.

Most measures of aggregate economic activity display very similar patterns of change in response to changes in the fiscal saving policy. Under the accelerated petroleum development scenario, the zero fiscal saving rate produces 1990 increases of 4.6 percent in population, 4.1 percent in employment, 4.0 in personal income, and 3.7 percent in disposable personal income. Since the policy change being studied is centered on the government sector, the impact there is somewhat larger; expenditures of state and local government increase by 7.6 percent in 1990. On the other hand, the increase in real gross state product was relatively modest, only 2.0 percent. This was because the economic expansion induced by the additional state spending tended to be concentrated in those sectors with relatively low labor productivity, namely in trade, finance, services, and state and local government. The induced expansion in total employment in 1990 was 14.7 thousand persons, of this trade, finance, and services accounted for 47 percent and state and local government accounted for another 37 percent.

When one moves from aggregate measures to per capita measures, the impact of the zero fiscal saving appears in a very different light. Real disposable personal income per capita is actually lower with zero fiscal saving than it was with medium fiscal saving. However, public sector expenditures per capita are higher under the zero saving rate. On balance, these two changes very nearly cancel out. As shown in the attached table, real disposable personal income plus real state and local government expenditures per capita are just slightly higher, about 0.7 percent, under the zero fiscal saving than under the medium saving. Thus, for the typical individual living in Alaska, the use of all petroleum revenues for current expenditures produces an insignificant increase in real economic benefits.

A further point which should be stressed is that by the end of the period, the projected rate of growth is actually slower under the assumption of zero fiscal saving than under the medium fiscal saving. This is attributable to the difference in the accumulated general fund balance and in the interest accruing on that balance. As shown in the table, by 1990 the medium fiscal saving produces a general fund balance of \$6.8 billion while the zero fiscal saving case produces a general fund balance of only \$1.1 billion. (The accumulated general fund balance in the zero fiscal saving case is viewed as a general contingency reserve and is accumulated out of non petroleum revenues. This type of fiscal saving is held at the same level in all the cases considered.) Because of the larger general fund balance, the state interest income in 1990 is nearly \$360 million larger under medium fiscal saving than under zero fiscal saving. Furthermore, the difference in interest income is tending to

widen over time. As a result, state government expenditures, though at a lower level, are growing more rapidly in the medium saving case. This, in turn, induces a more rapid growth in general economic activities. Thus, a key impact of fiscal saving is to shift some of Alaska's rapid economic growth from the early years of the period to the later years of the period. Selection of the appropriate set of fiscal saving policies is one way of smoothing out Alaska's petroleum induced "boom-bust" cycle.

The impact of implementing a high fiscal saving policy is roughly the mirror image of the impact of the zero fiscal saving policy. That is, under high fiscal saving the magnitude of the expansion in the Alaska economy is smaller, but in the later years of the period, the growth rate is substantially higher. By 1990, the high fiscal saving policies produce a general fund balance in excess of \$18 billion and an annual interest income for the state of \$1.1 billion.

The two extreme cases included in the projections serve to illustrate the degree to which fiscal policies and petroleum policies are interactive. The impacts of the two types of policies are not additive. For example, under the maximum petroleum development scenario, the zero fiscal saving case produces a 1990 population projection of 957 thousand persons. That is 49 thousand persons more than the comparable projections under the medium fiscal saving case. In contrast, under the accelerated petroleum development scenario, shifting from medium to zero fiscal saving produced an increase in projected population of only 33 thousand persons. The change in fiscal policy has a larger impact under the maximum petroleum development scenario because the change is applied to a larger amount of petroleum revenue. Conversely, a given change in the fiscal saving rate has a smaller impact under the limited petroleum development scenario.

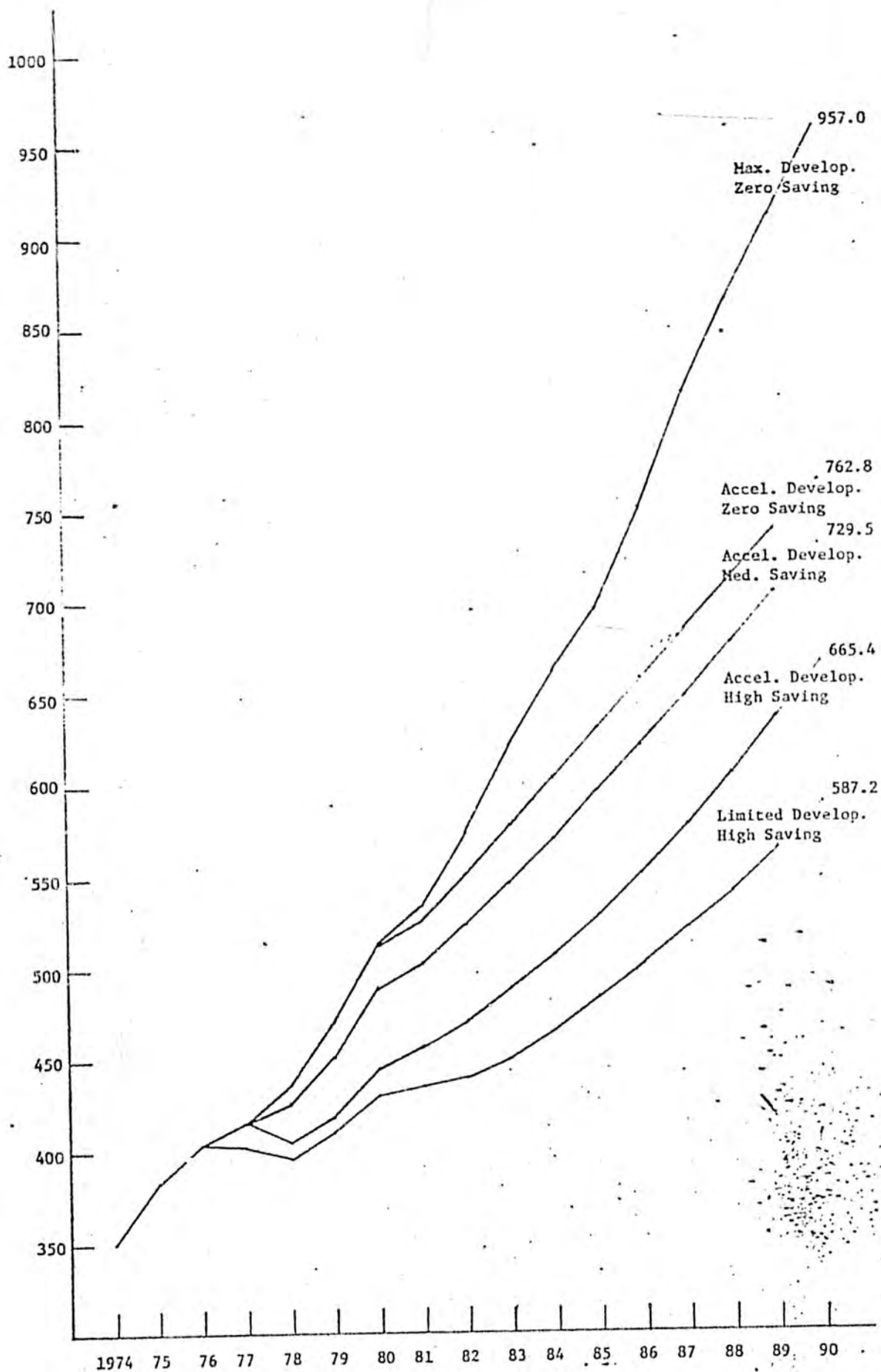
ALTERNATIVE FISCAL SAVING POLICIES  
PROJECTED 1990 VALUES FOR SELECTED VARIABLES

	<u>UNITS</u>	<u>Accelerated Development Med. Saving</u>	<u>Accelerated Development High Saving</u>	<u>Accelerated Development Zero Saving</u>	<u>Maximum Development Zero Saving</u>	<u>Limited Development High Saving</u>
X	Total Output (Millions of 1958 \$)	5728.2	5510.8	5843.3	10253.0	4015.2
E	Total Employment (Thousands of Persons)	356.7	328.7	371.4	490.9	286.7
POP	Total Population (Thousands of Persons)	729.5	665.4	762.8	577.0	587.2
PI	Personal Income (Millions of \$)	12390.0	11442.4	12887.2	16988.1	9972.4
PIPC	Personal Income Per Capita (\$)	16983.3	17195.1	16895.7	17751.0	16983.9
DIRPA	Real Disposable Personal Income Per Capita (1967 \$)	3296.1	3355.5	3270.3	3371.5	3345.6
RP9S	State Government Total Petroleum Sector Revenue (Millions of \$)	2339.0	2339.0	2339.0	2940.0	1685.0
SLGEXP	State-Local Government Expenditures (Millions of \$)	6190.3	5280.9	6662.0	9074.3	4361.4
GFBAL	State Government General Fund Balance (Millions of \$)	6807.5	18136.0	1093.3	1693.3	14896.3
SLGEXP/POP	State-Local Government Expenditures Per Capita (\$)	8485.7	7936.4	8733.6	9482.0	7427.4
DIRPA + SLGEXP/POP RPI	Real Disposable Personal Income plus Real State- Local Government Expendi- tures Per Capita (1967 \$)	5603.9	5513.9	5645.5	5950.2	5365.6

ALTERNATIVE FISCAL SAVING POLICIES

PROJECTED POPULATION

(Thousands of Persons)



MAP POLICY APPLICATION: IMPACT OF A REDUCTION IN STATE PERSONAL INCOME TAXES

A reduction in state personal income taxes is frequently suggested as an appropriate use of the petroleum revenues that will be accruing to the state of Alaska. In the projection presented here, it is assumed that state personal income taxes are reduced by 25 percent in 1978, by 50 percent in 1979, and are eliminated completely from 1980 on. It is further assumed that this tax cut is financed through a reduction in state fiscal saving rather than through a reduction in state expenditure. Except for these policy changes, the assumptions are the same as those used in the accelerated petroleum development scenario with the price of oil at \$5 a barrel. The attached figures and table show the differences between that scenario and the projection made after implementing the cut in state personal income taxes.

As shown in Figure 1, the 1990 increase in projected employment is 40.4 thousand and the increase in population is 86.7 thousand persons. As would be expected, the increase in personal income has produced an increase in job opportunities in Alaska and has induced a substantial increase in migration into the state. From 1980 on, net migration into the state is from three to eight thousand persons more per year than was the case in the absence of the tax cut.

It is particularly noteworthy that with an increase in total employment of over 40 thousand in 1990, less than 2,800 of this is in state and local government. Thus, the use of petroleum revenues to cut personal income

taxes serves to focus more of Alaska's growth on the private sector rather than on the public sector. Much of the growth induced by the tax cut is concentrated in the support sector and particularly in the trade, finance, and service industries. The projected gain in employment in those three industries in 1990 is over 29 thousand persons or about 72 percent of the total increase in employment. As before, the increase referred to is relative to the employment projected in the absence of the tax cut.

As shown in the attached table, the general fund balance in 1990 is \$3.7 billion lower with the tax cut. The lower general fund balance reflects the fact that the tax cut is assumed to be financed out of reduced fiscal saving. The lower general fund balance in turn results in a state interest income which is nearly \$220 million lower in 1990. However, because of the induced increase in general economic activity, most other sources of state revenue are higher. This combined with the fact that the cut in personal income taxes is financed through a reduction in fiscal saving means that state expenditures are almost the same as in the absence of a tax cut; state expenditures are less than \$20 million lower in 1990. With state expenditures remaining almost the same and with a general expansion in economic activity, local government revenues, and therefore expenditures, are higher with the tax cut. The net effect is to increase state and local government expenditures by \$240 million in 1990.

The cut in state personal income taxes naturally has the effect of increasing disposable personal income much more than personal income. Thus, in 1990 real personal income increases by 9.6 percent while real dis-

posable personal income increases by 15.4 percent. On a per capita basis, the contrast between the two measures is even sharper. With the tax cut, real personal income per capita is actually lower in 1990 by 2.1 percent, while real disposable personal income per capita is higher by 3.2 percent (see Figure 2.)

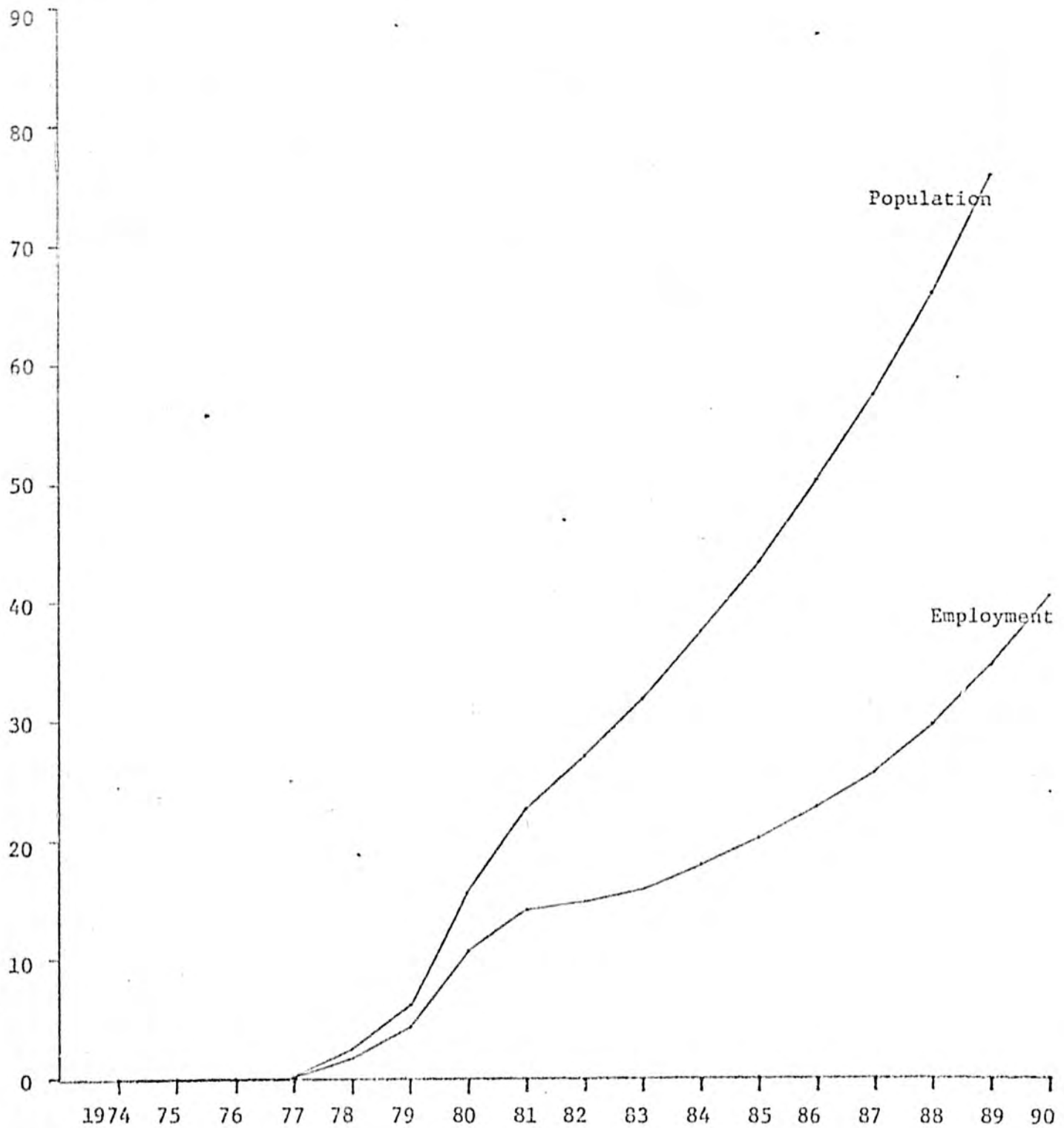
The increase in population induced by the gain in disposable personal income is so large that state and local government expenditures per capita declined substantially; they are over 7 percent lower in 1990. Thus, the increase in population more than offsets the increase in total state and local government spending. Furthermore, real disposable personal income plus real state and local government expenditures per capita are lower by 1.1 percent in 1990. This implies that for the typical individual in Alaska, real personal income plus real public services are, on balance, lower after the tax cut than they were before the tax cut. While the analysis is by no means conclusive at this point, it does raise some questions concerning the efficacy of across-the-board tax cuts as a means of distributing the benefits of Alaska's economic growth.

Figure 1

POPULATION AND EMPLOYMENT IMPACT OF A REDUCTION

IN STATE PERSONAL INCOME TAXES\*

(Thousands  
of Persons)

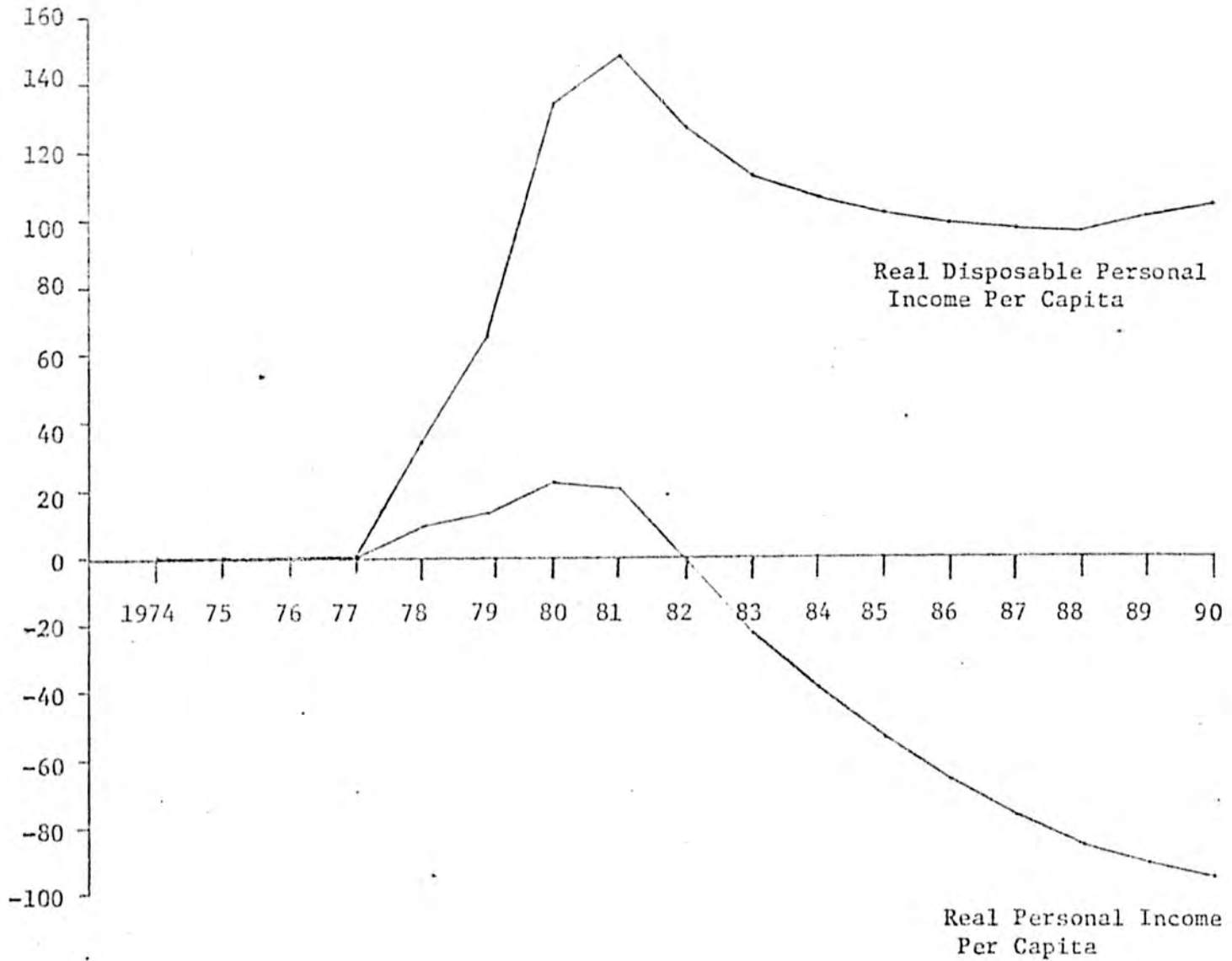


\*The impact is measured as the change from the results obtained in the absence of the tax reduction.

Figure 2

PERSONAL INCOME IMPACT OF A REDUCTION IN  
STATE PERSONAL INCOME TAXES\*

(1967 Dollars)



\*The impact is measured as the change from the results obtained in the absence of the tax reduction.

ARITHMETIC DIFFERENCES FROM BASE CASE  
 MIX7 COMPARED TO A5

FISCAL SUMMARY

	F99S	R99S	RTIS	CF	RP9S	DCLLARS	RINS	GFBDAL	F99L	R99L	RSIL	ΔLGE\$P
74	-0.001	-0.001	-0.001	0.0	0.0	0.0	0.0	0.0	-0.000	-0.000	-0.000	-0.000
75	-0.004	-0.001	-0.001	0.0	0.0	0.0	0.0	0.0	-0.000	-0.000	-0.000	-0.002
76	-0.002	-0.002	-0.002	0.0	0.0	0.0	0.0	0.0	-0.001	-0.001	-0.000	-0.003
77	-0.003	-0.003	-0.002	0.0	0.0	0.0	0.0	0.0	-0.001	-0.002	-0.001	-0.004
78	-0.003	-28.968	-28.967	0.0	0.0	-20.965	0.0	-20.965	-0.001	-0.002	-0.001	-0.004
79	2.245	-62.677	-63.592	0.0	0.0	-53.687	-2.028	-53.687	4.856	0.379	6.787	6.787
80	4.457	-153.548	-154.585	0.0	0.0	-251.892	-6.572	-251.892	12.565	0.718	16.304	16.304
81	11.926	-184.051	-186.505	0.0	0.0	-447.909	-17.632	-447.909	34.666	1.881	44.711	44.711
82	10.162	-196.656	-194.038	0.0	0.0	-654.727	-31.354	-654.727	48.717	1.549	56.499	56.499
83	1.235	-227.907	-214.704	0.0	0.0	-883.868	-45.831	-883.868	53.574	0.184	54.624	54.624
84	-6.885	-269.869	-266.204	0.0	0.0	-1146.853	-61.871	-1146.853	62.756	-1.001	56.872	56.872
85	-13.249	-312.292	-278.653	0.0	0.0	-1445.896	-80.280	-1445.896	77.410	-1.890	66.050	66.050
86	-19.694	-361.735	-317.442	0.0	0.0	-1787.936	-101.213	-1787.936	98.833	-2.755	78.793	78.793
87	-24.057	-414.053	-359.710	0.0	0.0	-2177.971	-125.155	-2177.971	121.328	-3.313	100.586	100.586
88	-27.404	-472.203	-407.513	0.0	0.0	-2622.772	-192.458	-2622.772	153.594	-3.719	129.914	129.914
89	-26.783	-535.107	-461.922	0.0	0.0	-3131.100	-183.594	-3131.100	197.603	-3.582	174.480	174.480
90	-19.906	-558.986	-520.546	0.0	0.0	-3710.191	-219.177	-3710.191	258.135	-2.626	240.855	240.855

AGGREGATE STATISTICS

X	F	FC	PI	PIBAR	PIPC	DPI	DPIR	DIRPA	WS	WR	POP	POPM	POPC	POPN
74	-0.003	-0.000	-0.002	-0.001	-0.004	-0.003	-0.005	-0.002	-0.007	-0.004	0.008	0.0	0.0	0.0
75	-0.004	-0.000	-0.006	-0.003	-0.008	-0.005	-0.008	-0.006	-0.006	-0.005	0.0	0.0	-0.000	0.0
76	-0.004	-0.000	-0.009	-0.004	-0.012	-0.005	-0.009	-0.006	-0.006	-0.007	0.0	0.0	-0.000	0.0
77	-0.005	-0.001	-0.010	-0.004	-0.008	-0.005	-0.012	-0.007	-0.007	-0.008	0.0	0.0	-0.001	0.0
78	20.106	1.505	30.862	13.310	21.596	5.466	51.171	22.069	34.927	26.776	-16.609	0.0	2.354	0.0
79	45.861	4.443	75.871	31.493	31.434	13.047	118.977	49.386	65.302	65.968	-37.340	0.0	6.212	0.0
80	112.178	10.815	192.855	77.051	56.785	22.603	293.972	117.426	134.528	168.183	-96.309	0.0	15.511	0.0
81	143.408	14.156	267.664	102.869	52.223	20.072	384.251	147.694	148.403	233.691	-131.445	0.0	22.681	0.0
82	149.474	14.841	255.383	102.255	-4.563	-1.687	413.426	152.916	127.410	258.293	-146.020	0.0	27.084	0.0
83	162.680	15.587	332.621	110.374	-67.297	-23.945	460.113	163.732	112.296	291.355	-169.051	0.0	31.818	0.0
84	184.566	17.908	391.820	134.215	-115.488	-39.563	533.258	182.663	107.403	343.770	-200.156	0.0	37.484	0.0
85	206.887	20.125	459.452	151.454	-166.090	-54.746	613.793	202.313	101.672	403.828	-233.191	0.0	43.360	0.0
86	236.508	22.957	549.855	174.420	-209.555	-66.465	716.180	227.166	99.560	484.078	-274.082	0.0	50.156	0.0
87	280.258	26.059	656.054	200.234	-253.547	-77.379	833.434	254.357	97.502	578.516	-318.730	0.0	57.427	0.0
88	308.137	29.958	792.926	232.894	-293.555	-86.223	977.027	286.968	97.867	700.328	-373.445	0.0	65.841	0.0
89	358.055	34.892	972.027	274.705	-323.961	-91.551	1156.477	326.832	100.603	859.883	-437.070	0.0	75.755	0.0
90	412.848	40.613	1187.219	322.077	-349.934	-95.168	1365.620	371.450	104.863	1051.852	-505.449	0.0	86.724	0.0

MAP POLICY APPLICATION: IMPACT OF BEAUFORT SEA LEASE SALE

The state of Alaska has recently proposed making a petroleum lease sale in the Beaufort Sea just north of Prudhoe Bay. Although not required by law to do so, the state has, in preparation for such a sale, prepared a draft environmental assessment of the impacts of the sale. As part of this environmental assessment (EA) the state estimated the economic impact that would be caused by the exploration, development and production in the Beaufort field. In the projection presented here, the MAP models are used to carry out somewhat more comprehensive analysis of the impact of the Beaufort lease sale.

The economic impact of the Beaufort Lease sale can be attributed to three different types of direct effects: (1) the bonus from the lease sale, (2) the recurrent state revenues due to production in the Beaufort field, and (3) the direct employment required to develop and operate the Beaufort field. The method of analysis used here is to make a projection based on a petroleum development scenario which excludes the Beaufort Lease sale. The petroleum development scenario is then expanded to include the Beaufort Lease sale, a second projection is made, and the results of the two projections are compared. Since the only difference in the input data for the two projections is the direct effect of the Beaufort Lease sale, the differences in the results are measures of the total impact of the lease sale.

The base from which the impacts are measured consist of a set of projections derived from the limited petroleum development scenario with two modifications: (1) the Beaufort Lease sale has been excluded from the

scenario and (2) petroleum revenues other than bonuses have been increased by an amount equal to the lease sale. The second modification is designed to reflect the existing situation in Alaska. Until the North Slope oil starts to flow, the state is confronted with a "fiscal gap"; that is state revenues are not sufficient to support current expenditure levels. Since it is unlikely that the state will cut back on spending, additional sources of revenues will have to be found to close the fiscal gap. The Beaufort Lease sale is one possible source of additional revenue. However, if the Beaufort Lease sale is not made, some alternative source of revenue will be necessary. In practice, the recently enacted tax on petroleum reserves is likely to provide the necessary gap-closing revenue. The assumption made here is that if the Beaufort Lease sale is not made, some alternative means of raising an equivalent amount of revenue will be found so that the net revenue impact of the bonus from the lease sale will be negligible.

In adding the Beaufort Lease sale to the petroleum development scenario, two different sets of estimates of employment and revenue impacts are used. The first set is the one that has been included in the MAP scenario and the second set is derived from the state EA. Both sets of estimates are shown in the attached table. In general, the direct impact as estimated by the EA is substantially larger than the direct impact included in the MAP scenario.

The Beaufort Lease sale impacts on employment and population as projected by the MAP model are shown in the attached figures. The figures also show estimates of the total impacts which were included in the EA itself.

The total impact of the Beaufort Lease sale as estimated by the EA is very low despite the fact that the EA includes high estimates of direct employment and revenue. There are two reasons underlying the seemingly contradictory results. First, the analysis in the EA looks only at short-run impacts, it does not take into account the cumulative long-run growth effects of the Beaufort Lease sale. Second, the EA ignores the effects of the revenues generated by production in the Beaufort area. The MAP models do, of course, take into account the long-run growth effects and the effects of the additional revenues.

When the MAP models are used in conjunction with the state's estimates of direct employment and revenue, the Beaufort Lease sale is projected to increase Alaska's 1990 employment by 14 thousand persons and population by 30 thousand persons. In contrast the MAP estimates of direct employment and revenues produce projected impacts of just 8.2 thousand and 16.5 thousand respectively. However, even the lower impacts are several times as large as the total impacts shown in the EA.

BEAUFORT LEASE SALE:

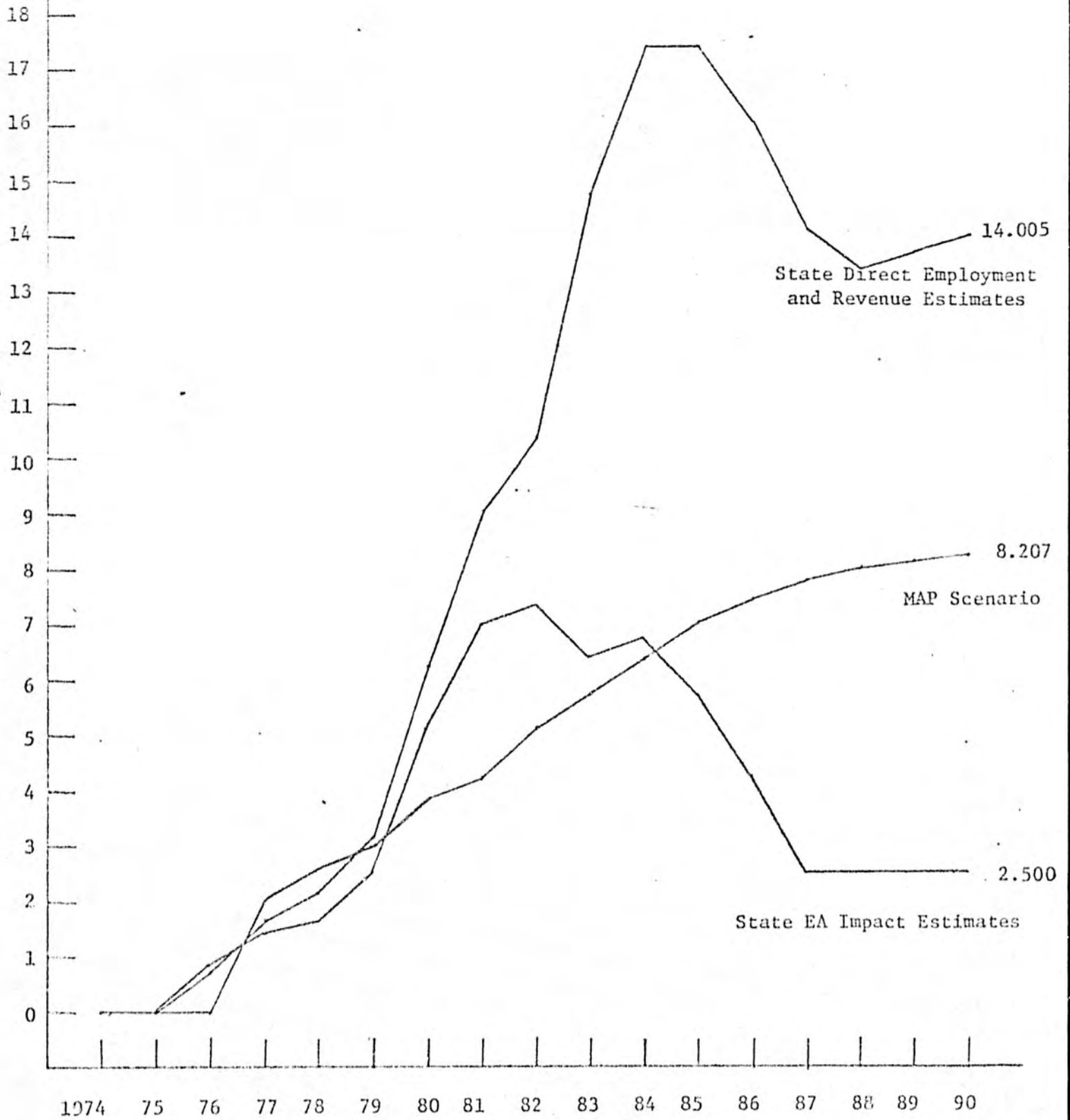
DIRECT EMPLOYMENT AND REVENUE IMPACTS

	<u>Petroleum Construction and Mining Employment</u>		<u>Recurrent Revenues</u>	
	<u>EA</u>	<u>MAP</u>	<u>EA</u>	<u>MAP</u>
1976	0.3	0	----	----
1977	0.6	0.8	----	----
1978	0.7	0.8	----	----
1979	1.0	0.9	----	----
1980	2.1	0.9	1.4	13.0
1981	2.8	0.7	1.6	40.0
1982	3.0	0.6	166.2	77.1
1983	2.6	0.4	175.8	107.9
1984	2.8	0.4	185.0	123.4
1985	2.3	0.4	195.0	138.8
1986	1.7	0.3	205.0	154.2
1987	1.0	0.3	205.0	154.2
1988	1.0	0.3	205.0	154.2
1989	1.0	0.3	205.0	154.2
1990	1.0	0.3	205.0	154.2

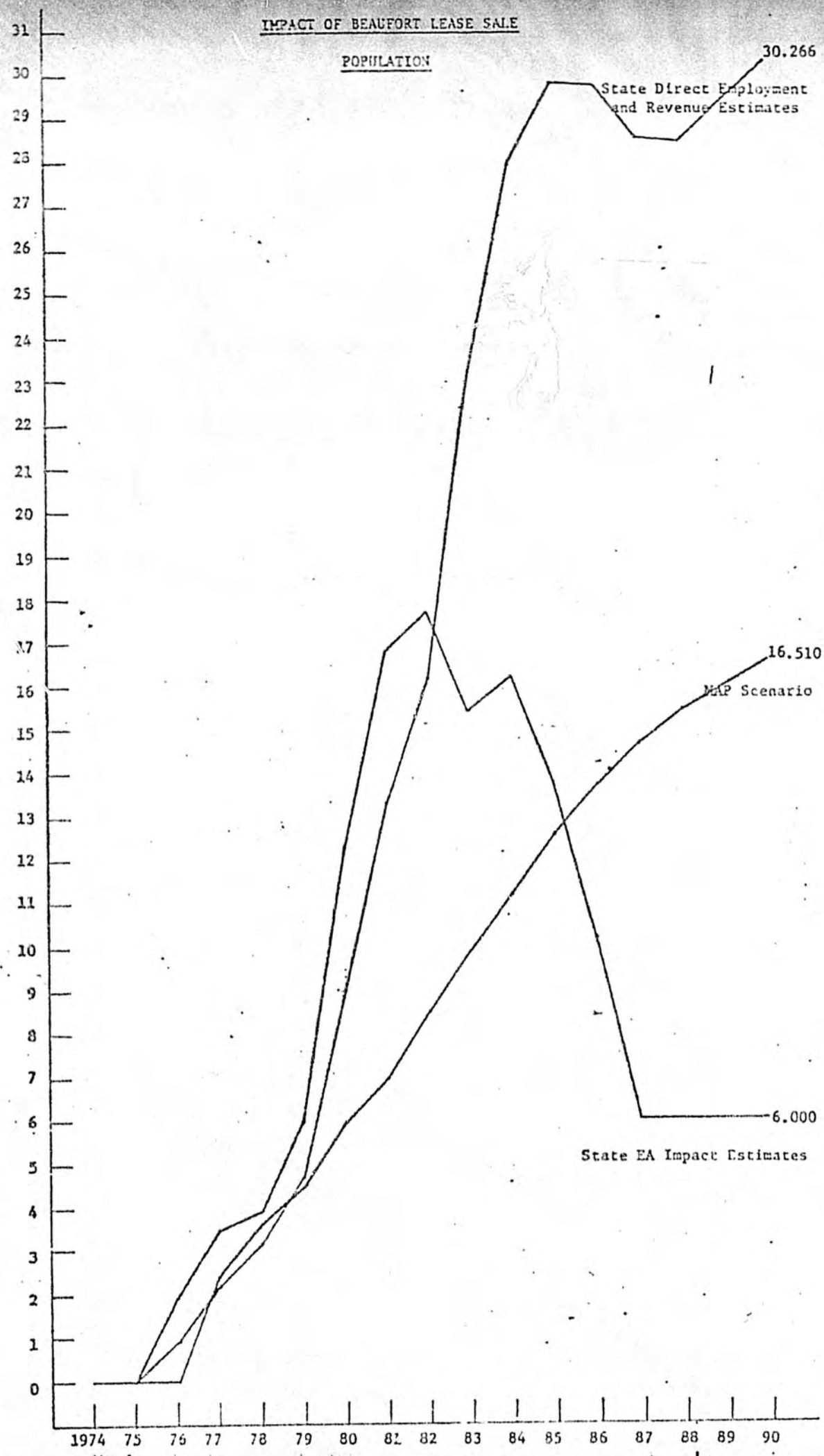
IMPACT OF BEAUFORT LEASE SALE

EMPLOYMENT

Thousands of Persons)



IMPACT OF BEAUFORT LEASE SALE



MAP POLICY APPLICATION: IMPACTS OF ALTERNATIVE GAS PIPELINE ROUTES  
ON THE ALASKAN ECONOMY

There are at present two principal proposed systems for transporting natural gas from Alaska's North Slope to the continental United States. The first system, proposed by the Arctic Gas consortium, would be an all-land pipeline leading from Prudhoe Bay through Canada to the midwestern United States. The second system, proposed by the El Paso Alaska Company, would consist of a trans-Alaska pipeline and then shipment by LNG tanker to the U.S. West Coast.

Clearly, the alternative proposed gas transportation systems would have significantly different impacts on the Alaskan economy. The MAP regional economic-demographic model makes it possible to evaluate the economic impact on Alaska in terms of the induced change in total employment, industrial production, population, wages, personal income, and government revenues for each region and the state as a whole. The estimates of the differing impacts can be made in the context of the overall growth and development of the Alaska economy.

Figures 1 and 2, and Table 1 show the differing regional and state impacts of the El Paso and Arctic pipelines for population, employment, and wages and salaries. Because of its much larger magnitude, the impact of the El Paso project is much greater in all regions than is the impact of the Arctic Gas project. Perhaps the most notable feature of the regional projections is that the bulk of the impact occurs in Anchorage, even though neither project passes through Anchorage itself. This emphasizes just how important Anchorage is as the commercial center of Alaska.

Except during the peak of the El Paso boom, well over half of the total impact is concentrated in the Anchorage region. In terms of population, the El Paso proposal would increase Anchorage's 1990 population by almost 17 thousand persons, and the Arctic Gas proposal would increase the population by 7 thousand persons. As shown in Figure 4-1, the El Paso Anchorage employment impact peaks at 7 thousand persons in 1981, declines to 5 thousand persons in 1984, and then rise gradually as the Alaskan economy grows. Although these changes are not insignificant, they should be measured against projections of Anchorage's early 1980's population of 250,000, and a labor force above 100,000.

Both the absolute and relative magnitudes of the differences between the two gas pipeline proposals are much more significant in the Southcentral region. The construction of the El Paso facilities creates a boom-bust cycle in the Southcentral region, while the Arctic Gas project has almost no effect. During the peak construction year of 1980, the Southcentral employment impact of the El Paso project would be 10 thousand persons. This represents an increase of more than one-third in the regional labor force. This impact fall rapidly to just 1.6 thousand persons by 1983.

The projections and analysis presented here are just a few of the results reported in "Impact on the Alaska Economy of Alternative Gas Pipelines" by ISEGR. They demonstrate the applicability and utility of the MAP regional economic-demographic model.

Figure 1

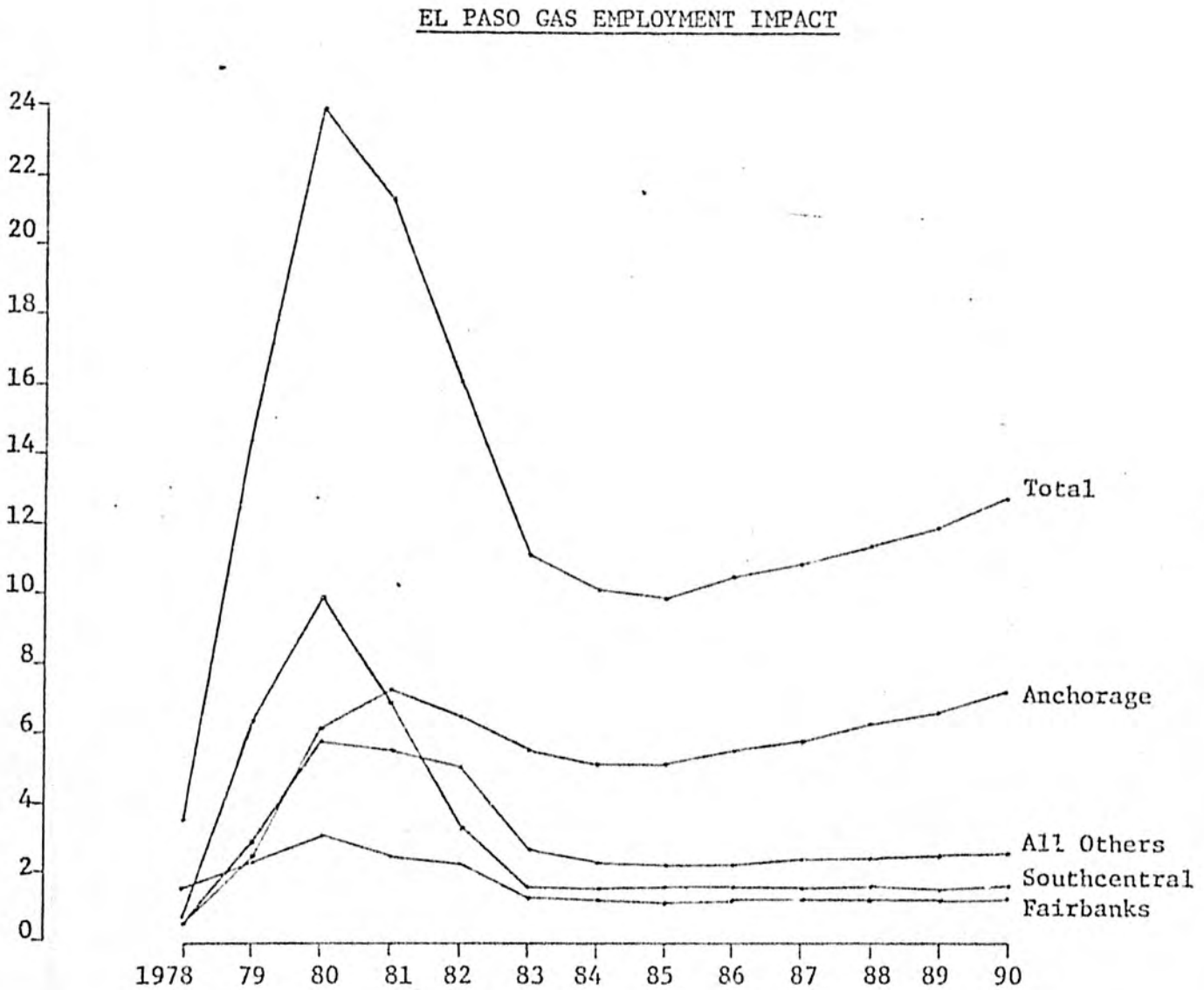
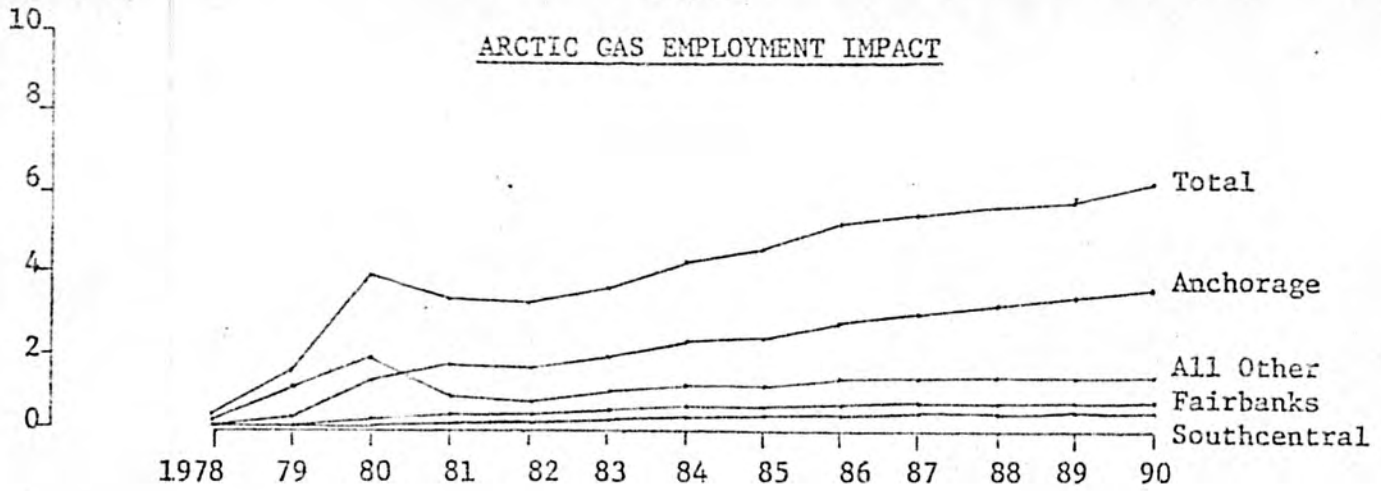
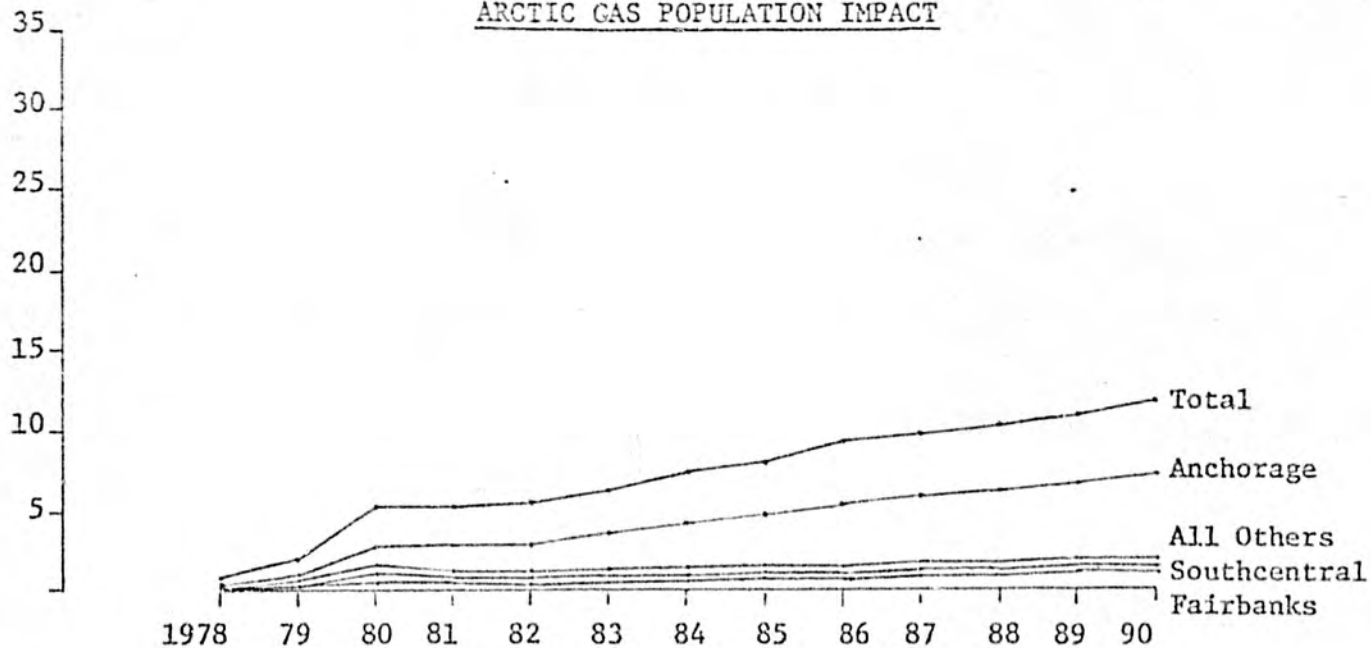


Figure 2

ARCTIC GAS POPULATION IMPACT



EL PASO GAS POPULATION IMPACT

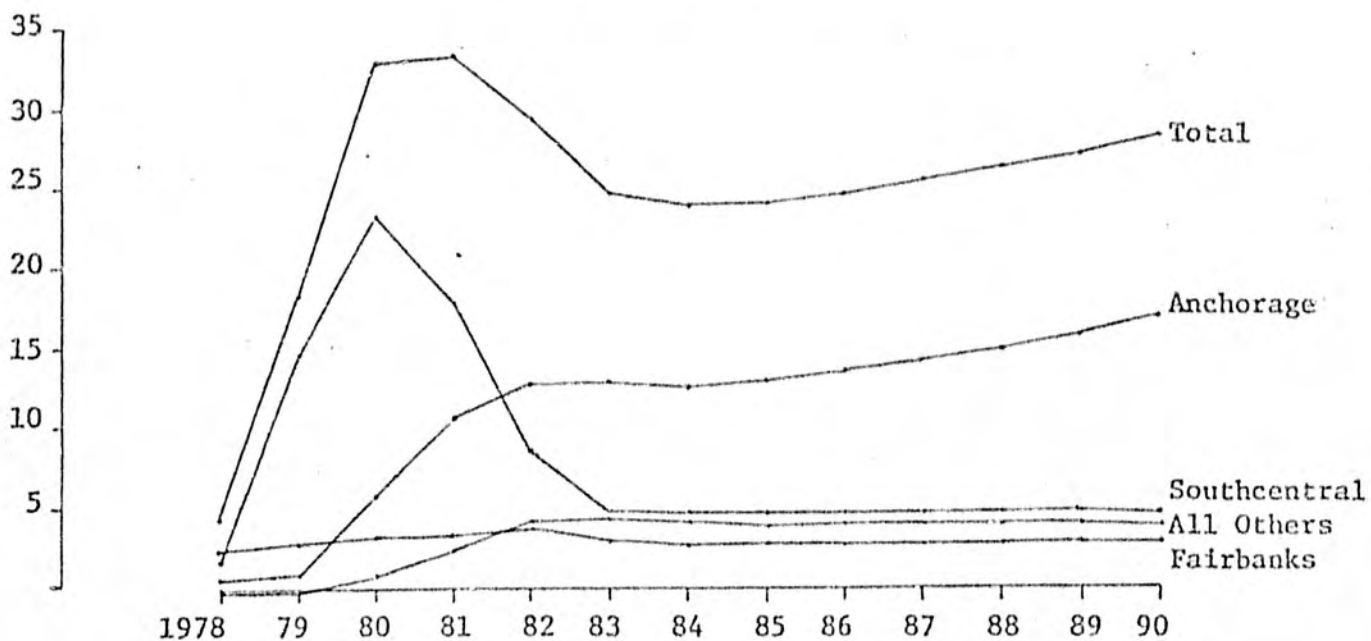


Table 1

REAL WAGES AND SALARIES  
(Millions of 1958 Dollars)

	<u>Total</u>	<u>Anchorage</u>	<u>Southcentral</u>	<u>Fairbanks</u>	<u>All Other</u>
<u>A R C T I C   G A S</u>					
1978	3.7	0.7	0.1	0.1	2.8
1979	14.2	2.1	0.3	0.3	11.5
1980	32.0	9.6	1.8	2.2	18.4
1981	23.4	11.3	2.4	3.0	6.7
1982	23.1	11.2	2.4	2.9	6.6
1983	26.9	13.4	2.7	3.4	7.4
1984	31.8	16.1	3.2	3.9	8.6
1985	34.3	17.5	3.4	4.2	9.2
1986	32.9	20.6	3.8	4.7	10.1
1987	41.9	22.2	4.0	5.0	10.8
1988	44.2	23.7	4.2	5.2	11.1
1989	46.6	25.4	4.3	5.4	11.5
1990	49.7	27.6	4.5	5.7	11.9
<u>E L   P A S O</u>					
1978	29.6	4.0	6.5	13.2	5.9
1979	118.5	16.6	53.1	21.0	27.9
1980	194.0	41.7	83.5	26.0	42.8
1981	166.5	51.2	57.9	20.3	37.2
1982	124.2	45.9	26.7	18.8	32.8
1983	83.7	39.7	12.8	11.2	20.0
1984	76.7	36.7	12.1	10.1	17.8
1985	76.7	37.0	12.1	10.1	15.5
1986	82.7	40.9	12.6	10.7	18.5
1987	87.2	43.7	13.0	11.1	19.4
1988	92.1	47.1	13.4	11.5	20.1
1989	98.2	51.1	13.9	12.0	21.2
1990	105.5	56.2	14.4	12.7	22.2

M E M O R A N D U M

TO: Members of the Joint Gas Pipeline Impact Committee

FROM: Gregg Erickson, Special Consultant

SUBJ: Analysis and recommendations resulting from work conducted 18 August through 3 September.

SUMMARY

I review the present status of Alaska Natural Gas Transportation issues and suggest that it is not yet certain that construction on any transportation system to remove natural gas from Alaska will be initiated within the next five years. If such a system is built, the choice of route could be influenced at the margin by the actions of the Alaska Legislature. Judging strictly on the basis of economics, the C.A.A.G.S. Trans-Canada Proposal is probably most cost effective, but the certainty of delay and environmental problems on this route means that a decision to go ahead as soon as possible with construction of a system will favor the Alaska route.

There are a number of circumstances under which Alaska could conceivably benefit from a delay in the production and export of the North Slope natural gas, such as a low price, a route choice that denies the state ancillary economic benefits, and/or collateral loss of oil production. It is important that Alaska establish its natural gas policy in stature at an early date so that that policy can be included in national economic calculations.

The El Paso Proposal lacks credibility but the state might be able to take certain actions to remedy this. The dedication of Alaska's royalty gas is not recommended at this time, however.

A number of recommendations are offered including:

\*A suggestion that the committee take testimony from public and private experts on the Prudhoe Bay gas reservoir to determine how much, if any oil will be lost as a consequence of gas production.

\*A proposal that the committee to retain outside legal consultants for the purpose of determining the state's options with respect to control over natural gas production and export.

\*A suggestion that the committee attend the Congressional Oversight Hearings on Alaska Natural Gas Transportation issues

scheduled for October 9th.

THE FUNDAMENTAL NATIONAL ISSUE:

The appearance within a single month of the Interior Department's Title III Study of Alaskan Natural Gas Transportation Systems (prepared by the Aerospace Corporation), the draft impact statement on the Arctic Gas Project (including an approximately 600 page analysis of alternative Trans-Alaska routes), and the University of Alaska's study of the economic impact of the alternative routes on Alaska, has raised a host of new questions and provided a framework within which these issues can usefully be explored. None of these reports, however, offers any unambiguous indication of which way and/or when the gas will be removed.

The available evidence, however, including representations made by both Arctic Gas and El Paso, strongly support the proposition that a decision to build a system to transport Alaska gas to the south 48 constitutes an implicit decision to substitute relatively high cost Alaska natural gas for relatively less expensive imported oil in the period during which the pipeline is in operation. Delivered costs of Alaska gas to the burner tip in the North Central U.S. are likely to exceed \$3.00/MMBTU (approximately equal to one Mcf).

The only plausible rationale for such a decision is the Project Independence rationale. The question of whether or not to build a system to bring Alaska gas to the south 48 States thus becomes a question of (1) how much capital the nation is willing

to commit to attain a given degree of independence, and (2) whether or not this project is the most cost-effective approach to that goal.

Even if these questions are answered positively, the method by which the massive investment will be subsidized raises important issues of equity and public policy that have not yet been, but must eventually be, addressed at the national level. The Arctic Gas people have told us that in order to obtain financing for their project they will require guarantees from the FPC that the interstate pipeline companies contracting to take gas from the system will be allowed to pass on to their rate payers the costs of the project according to a schedule that commences with the start of construction and continues even if the systems completion should be delayed, and without regard to the actual quantities of natural gas transported or the eventual cost of the project.

The effect of such a guarantee will be to remove the project risk from the investors and place it squarely on the shoulders of the residential and small commercial ratepayers. Moreover, it insures that those same ratepayers will bear the extra costs of providing secure domestic energy for industrial users of gas who would -- absent the Alaska system -- be required to shift to more expensive (and less secure) imported fuel oil.

I don't raise these points for the purpose of arguing that the Arctic gas resource should not be developed expeditiously, but simply to emphasize the stark reality of the situation we face: OUR NATURAL GAS SIMPLY DOESN'T HAVE A VERY SUBSTANTIAL ECONOMIC VALUE AT THE PRESENT TIME. The nation does, however, seem willing

to pay a price for the political benefits of energy independence. If Alaska begins to receive within the next five years substantial direct income from gas exports to the rest of the U.S., that income will almost represent a payment for that non-economic benefit.

Maximizing the state's benefits under these circumstances will require a different sort of strategy than was appropriate in the case of our oil development. Legal and political factors must be given much greater weight in the present circumstances, and our ability to obtain substantial benefits for Alaska will depend even more importantly on the perception by others such as the FPC and Congress of Alaska's strength in these areas, the extent of our resolve in making use of those strengths, and our willingness to risk substantial loss in order to obtain a "better deal".

THE WELL HEAD PRICE:

According to the Aerospace Corporation's cost-benefit analysis of alternative routes, the oil companies owning the North Slope natural gas will not find it economically feasible to sell their gas unless they themselves can receive a net revenue of 47¢ per Mcf. Considering royalties and present tax rates, the well head price would need to be in the neighborhood of 57¢ per Mcf in order to make production for export economically feasible, if the Aerospace Study is to be believed. (The engineering-economic analysis of the Prudhoe Bay Field from which these figures were derived was done by H.J. Gruy and Associates, Inc. of Dallas, Texas, and has not yet been made available for review.)

This figure is far more than most observers had previously suspected, and if accepted, casts further doubt on the economic (but not political) viability of either project. These doubts are emphasized by the fact that sponsors of both projects have admitted that they cannot hope to obtain private financing in the absence of some sort of government guarantee or subsidy. Such a guarantee would most likely take the form of an undertaking by the FPC insuring that the prospective consumers of Alaskan gas would service the debt incurred to finance the project, regardless of the eventual cost of the facilities or any delay in completion.

Since there is an upper limit to what even residential and high value consumers would be willing to pay for gas, the FPC could conceivably find it difficult to fulfill that guarantee. If the difference between the well head price and the maximum the final consumption markets will bear is not sufficient to cover the debt service, or even if the FPC simply perceives that there is a risk of such a shortfall, the commission would have a stronger than usual incentive to reduce the price of Alaska gas.

Since the commission has regulatory authority over the well head price of interstate natural gas, they might be able to reduce that price, down to the point at which the producers no longer find it profitable to produce the gas. After the investment in field development for natural gas production has been made by the producers, the minimum price at which they would be substantially lower than the price they would have to expect in order to initiate that investment.

The net result of this would be that the oil production would end up subsidizing the gas production, and that the state's revenue from gas royalties and severance taxes would be very low indeed.

Even if the authority of the FPC would have to be stretched pretty far or legislatively expanded to accomplish such price adjustments, it is clear that the push, from a national point of view, will be for a low well head price for Natural gas, even to the extent that this forces the producers to subsidize the gas production.

Clearly the state has an interest in preventing events from unfolding in this manner. If the state were to legislatively establish a minimum well head price, or a cents-per-Mcf tax on natural gas, it could certainly guarantee its revenue.

Unfortunately, these seemingly simple solutions are fraught with problems and uncertainties. Would a cents-per-Mcf tax have to be applied statewide, and if so, how would it affect the production of gas for consumption in Alaska? Does the state have any legal authority to say to the people of the United States and the FPC "we won't allow this gas to be provided unless it's value on production exceeds a certain level?"

What ever course of action Alaska decides to take it is probably important that it move fairly quickly. For example, if the natural gas severance tax is allowed to remain at its present level the FPC and Congress may be expected to make their calculations of the economic and political feasibility of Alaska gas transportation systems based on that rate of taxation. Obviously there is a strong imperative to make a prophesy self-fulfilling

once a policy has been based on it.

The Aerospace Report also states that removal of gas from the North Slope fields will result in a 400 million barrel loss of recoverable oil over the life of the field. At present prices, tax and royalty rates, the income to the state on this production would amount to about \$800 million over the life of the field. The compensating direct revenue from the gas (at 16 1/2% of 50¢/Mcf) would be only about \$2 billion through 1990, according to the University of Alaska Study on the alternative gas pipeline impacts.

It is not clear from any of the studies now available, whether the postponement of gas production would allow the projected oil loss to be decreased or eliminated, but this is clearly an option that should not be discarded out of hand. If the transportation system most likely to be approved by Federal authorities is not viewed as most beneficial by the state, and if the value of the gas at the well head is expected to rise as time passes, then there may be very strong arguments in favor of reserving the gas, or at least the state's share of it for export at a later date, when economic conditions will presumably be more favorable.

#### ALASKA VS. CANADA:

In speaking of the implications of the Aerospace Study, Assistant secretary of Interior Carlson indicated that he believed any substantial (1 year or more) increase in the projected time to completion of either project would substantially reduce the "net economic benefits" assigned to that project, and would pro-

portionately increase the relative attractiveness of the other. The economic reasoning behind such a statement is faulty, but it points up the significance assigned, at least in the Interior Department, to the consequences of delay.

The Aerospace Study does indicate the various construction risks inherent in the trans-Canada project are slightly higher than those involved in the trans-Alaska gas system. The study does not assess, however, the political and legal factors that would increase the risk of non-completion or delay. These--it is almost certain--must be greater for the trans-Canada route. Furthermore, the actions of the state, were it so inclined, could easily increase the number of potential political and legal road blocks, though not without risk to the state. The possibility of the state simply re-injecting its royalty share of the gas has already been raised. This, of course, would reduce the attractiveness of either project.

Many of the arguments advanced in favor of an all Alaska gas pipeline, however, are extremely weak and simply don't substantially advance the project by being pushed so hard. Among these are those that focus on the alledged unreliability of Canada as a trans-shipper of American gas. Even without a treaty, the Canadians will be far more dependent on energy crossing U.S. territory than the U.S. will ever be on fuels transiting Canada. The much discussed curtailment of Canadian gas flowing to the Pacific Northwest from British Columbia is certainly not an analogous situation and cannot be compared with the situation that would pertain if the Arctic Gas proposal were to be implemented. Neither does the prospect of possible provincial taxation of the pipeline

or the product itself seem to present much of an argument against the project since the preponderance of informed legal opinion on this complex issue favors the view that any such taxation must be non-discriminatory.

By far the strongest arguments against the trans-Canadian line relate ( in no particular order) to the environmental impact on the Arctic National Wildlife Refuge, the potential for delay inherent in the need to settle the Canadian Native Land Claims, the potential for obstructive legal or political action by elements in Canada opposed to the line for economic, environmental or nationalistic reasons and the potentially obstructive legal action that an opposed Alaska State Government might be able to mount. It would seem to me that any attempt to promote the Alaska route should focus on these issues.

One concrete action, that the state could take in this direction would be to push for the inclusion of the Arctic Wildlife Refuge in the national wilderness system, though this would naturally have implications far beyond the pipeline question.

The ability of the state to influence the choice of a gas pipeline route will probably always be marginal. Never the less the decision at the national level may arise out of an interplay of relatively well balanced forces, in a situation where the interjection of Alaska's relatively modest influence or effort could be decisive.

Naturally there are significant hazards in taking an activist role for the state, in that certain types of pressure on national decision-makers could be counter productive. Alaska and

its prospective great wealth have been given prominent play of late in the national media.

As a conservative, it will be very difficult of generate sympathy for the hardship a trans-Canada routing may impose on the state with respect to unemployment or state revenue. By the same token, heavy handed action by the state could produce a significant backlash, especially in Congress.

#### THE EL PASO PROPOSALS:

The recent statements by the El Paso group with respect to their need for a committment of Alaska's royalty share of the gas (worth billions) are somewhat incredible coming from a Firm that is unwilling to commit the few million dollars necessary to have the Interior Department prepare a draft environmental impact statement. This emphasizes the fact that as yet at least, El Paso has not clearly demonstrated that it is a serious and credible applicant for the right to develop an Alaska gas transportation system. The fact that El Paso has not undertaken to sell its position to national leaders and the public with anywhere near the vigor that has marked the CAAGS efforts contributes to this impression.

In the absence of this kind of committment, and perhaps even if it should be forthcoming, Alaska would certainly, in my view, be taking a great risk to make the kind of dedication of reserves that has been urged upon it by El Paso.

If the state is anxious to see that the all Alaska route is considered on an equal basis with the other proposal, it would

certainly seem worth a relatively small investment to assure that the Interior Department moves forward as fast as possible on the draft environmental impact statement precedent to issuance of right of way permit. Now the state might accomplish this may be a subject that the committee will want to explore in some detail. Without necessarily recommending any specific course of action, some of the options that might be considered are the actual contribution by the state of the funds necessary to prepare the impact statement, with some sort of quid-pro-quo on the part of El Paso, an attempt by the state to acquire the right-of-way in its own name, or simply trying to persuade El Paso to make the commitment of funds necessary.

RECOMMENDATIONS:

1. Since it is clear that there may be significant differences of opinion among experts and interested parties with respect to the amount of oil (in any) that will be sacrificed to enable gas to be produced for export, and since this will certainly be an important factor in determining the minimum well head gas price acceptable to the state, I would recommend that the Committee call and question witnesses who may be able to lend some light on this matter. Such witnesses should probably include:

- (1) State Oil and Gas Division officials
- (2) The specific persons responsible for preparing the reservoir analysis for each of the oil companies owning major shares of the Prudhoe reserves.
- (3) The State's outside consultants in Reservoir analysis; and
- (4) The Aerospace Subcontractor on gas supply, H.R. Gruy and Associates, Inc. of Dallas, Texas

In the case of the various consultants, I would expect that it would be appropriate for the Committee to cover the usual fees and expenses. If the Committee chooses to do this we would probably want to prepare an issue paper, both for the use of the Committee, and to give the prospective witnesses a clear understanding of the scope of the Committee's interest.

2. The State's authority to use its proprietary interests in the land needed for pipeline rights of way, and/or its police power with respect to oil and gas conservation, in ways that might directly or indirectly influence the choice of a pipeline route, or the conditions under which gas is removed, are legal questions which should almost certainly be explored. No realistic listing of options is possible without an investigation of these issues. I would strongly recommend that the Committee consider retaining two separate legal consultants to obtain opinions on these matters. I would expect on the basis of the cost of the Consultants' legal services to the Joint Pipeline Impact Committee in 1972, that we might be thinking of an appropriation of between \$15,000 and \$30,000 for each.

The reason I recommend two independent opinions is simply that in situations where your entire legislative effort is likely to stand or fall on the basis of some unknown Judge's opinion issued at some future date, and where the legal issues are complex, it is false economy to skimp on legal expertise. Also, the knowledge that your statutes are based on sound legal reasoning is likely to stiffen the resolve of a possibly reluctant Administration when the time comes to defend the Legislation in Court.

With respect to the choice of consultants, should the Committee choose to go this route, I have no specific names to put forward. I would note, however, that there are several lawyers in Alaska with specialized knowledge in the area of oil and gas conservation gained either in state service, private practice or both. In addition, there would appear to be some advantage to having the views of both Alaskan and "outside" consultants.

If the Committee decided to follow through on this proposal, I would suggest that you take the opportunity of this meeting to review your budget, and determine at as early a date as possible whether or not a supplemental appropriation request should be considered.

3. The Senate Interior Committee had planned to hold hearings on Alaska natural gas transportation issues, but as yet these have not been scheduled. However, the Public Lands Subcommittee of the House Interior Committee plans to hold an Oversight Hearing on this same subject on Thursday, October 9. Witnesses are expected to appear representing the Interior Department, the Federal Power Commission, and the State Department. The Hearings will attempt to focus on the procedure issues that surround the current FPC proceedings and the Interior Department's outlook for disposition of the Arctic gas right-of-way application. No attempt will be made to get into the relative merits of the two competing proposals.

A great deal could be gained by the members of the Committee attending this hearing. If some or all of you were able to attend,

I would take the opportunity to arrange briefings with key people at the Interior Department, F.P.C., Congress, possibly the Department of State, the Canadian Embassy, and any other groups you might consider it useful to meet. (We could even try to arrange a meeting with the new Secretary of the Interior designate.)

The advantages of such a visit EN MASS to Washington are not only in terms of the better understanding you will gain of the issues and the climate in which they are being considered; in addition, the presence of a large group of Alaskan Legislators at the Hearing can not help but have some impact on the Congressman, and--perhaps more significantly--on the witnesses.

Should you decide to make this trip I would suggest that as many of you as possible arrive on Tuesday evening (October 7) so that we can meet the prospective witnesses or their staff people and the Congressional delegation on the following day, Friday, the 10th, could be used for other briefings and those who wish to spend some time of their own in D.C. could do so on Saturday and Sunday. Because of the time difference and airline schedule the trip to D.C. usually kills a day, so the trip back could be done in a long evening.

4. I would strongly recommend that the Committee take an indepth look at the economic question raised earlier in this memo. As a full time Consultant to the Committee, I would have hoped to concentrate on these areas and have prepared for you by the middle of December a fairly comprehensive look at the policy issues. With my new responsibilities as Director of Re-

search Services, I naturally won't be able to give the same amount of attention to these issues as I would have otherwise been able. However, there is no other area, in which I would rather wish to remain involved in actual research. I would therefore suggest that for the present I continue to work personally on these matters, but that you not foreclose the possibility of bringing another person on board at some time in the future.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

GAS PIPELINE IMPACT COMMITTEE

Meeting of September 23, 1975, 10:30 a.m.  
425 G Street, Suite 750  
Anchorage, AK 99501

Meeting came to order at 10:30 a.m.

Present: Senators Poland, Huber, Miller, Rodey, Tillion  
Representatives Anderson, Bowman, Gruening,  
Kelley, Specking

Absent: Senators Croft, Ferguson, Rader  
Representatives Bradner, Cowper, Hackney

Roll Call: 10 present, 6 absent

BOWMAN: Copies of the minutes of the previous meeting are in each of your folders. Are there any changes or corrections that you want to note? If not the minutes will stand approved as read. And the second item on your agenda deals with the office space. We have secured this office for the rental fee of four hundred and fifty five dollars (455.00) a month for four months, until January 1, when we will be moving down to Juneau with the Legislature I presume, unless we have a special session, at which time that would not interfere with the committee anyway. We have rented the tables and chairs for three or four months which will save us money, rather than having to rent a place to hold our meetings whenever we meet. It cost us at the last meeting at the Westward, One hundred and some dollars. On the basis of that, we have saved money by renting and we will have a space to meet here rather than renting a space whenever we meet. It also gives our staff a space to work.

TILLION: The staff will occupy this space every day of the week during normal working hours, then?

BOWMAN: Oh, yes.

GRUENING: Can we go back to the minutes of last meeting? I want to show myself as present as I came late.

BOWMAN: Let the minutes of the last meeting of July 21, show Clark Gruening as present.

The office is open every day from 8:30 a.m. to 5:00 p.m. Cathy Barrett is the secretary and will be here and Gregg will be here also every day when he comes on board permanently.

And, up to this point, we are running an account of our budget. We will supply that next time because Legislative Council and Legislative Affairs has been in a change over. At this point we haven't been audited. I'm trying to get Jay Hogan to work on it, but haven't finalized that. I would hope that by the next meeting we will be able to bring you up to date as to every penny spent...Are there any questions regarding budget or office space?

Then we will move on to Gregg's Summary: Memorandum of October 18th or rather September 18th on "Renewed Consideration of Alaska Highway Route" We sent it out, but there is also a copy in your folder with a cover slip on it. At this time, Gregg, you can expand on that.

GREGG: I don't think I need to go over the Memorandum in detail and I'd be happy to answer any questions. There are two things I'd like to emphasize: the central thrust of the Memo: that is the situation that Alaska faces as I see it, in Washington, is very different from the one that we face with respect to our oil and that we still face. The oil that Alaska is going to be producing has a very high economic value. The question, in respect to the oil, is how that pie is going to be shared among the oil companies, the Federal Government, the consumers and the people of Alaska. The fact of the economics of gas is that the economic value of the gas is very low. There will be strong incentive on the part of the National government and other states to see that that gas is removed from Alaska without a substantial or perhaps even any payment to the state of Alaska. This is clearly the scenario that the Committee, I would expect, be anxious to examine and see that it doesn't develop that way. The FPC and Congress are looking at a situation in which energy independence is a policy that is being debated. If it is decided that Alaskan gas is going to be part of that policy, there will be difficulty in bringing it down to the U.S. at prices consumers can pay and the easiest way to make that possible is to cut the state's share of the revenue from that gas. I can't emphasize strongly enough the need to know very carefully what the state can do and cannot do to prevent this from happening. This is regardless of which route the gas goes out.

The other point is one I didn't really cover in the Memo which is really developed in the last couple weeks. That is that there has been renewed consideration or I should say discussion in Washington of the possibility of bringing the gas south toward or to Fairbanks and down the Alaska highway. I think that this is partially, a result of the environmentalists increasing concern over penetration of the Arctic Wildlife Refuge and I think it is also recognition of the great problems that are likely to be encountered in, with respect to Canadian and Native land claims, environmental problems in northern Canada; problems which would be greatly mitigated if the pipeline were to follow the Alaska highway route.

This discussion has been very informal and I am not completely clear as to how far it has gone, but I do know that the people in F.E.A. have discussed it and the Canadians themselves, at the embassy, have been discussing it with increasing frequency. Those are the two points that I really like to make I guess and the first point, I think is the most important. I would be happy to answer any questions you might have on the Memo. I have some specific recommendations and we can cover those at the Chairman's pleasure as we go along on the agenda.

HUBER: Just one small question. The changes in the Memo, I wonder if you would highlight those because I notice that the one that I read didn't have the material on it?

GREGG: The only changes I made were filistic or typographic, I don't think I made any other changes.

HUBER: There isn't any content changes then? So if we read the draft copy we've got the gist of this one?

GREGG: Yes.

HUBER: Thank you.

BOWMAN: Are there any questions of Gregg to this point on the two points?

GRUENING: A question on the Memo. There may be a situation with the F.P.C. controls price because there will be a point at which they no longer can pass the cost off to the consumer and there will be a set price which will have a definite impact on the revenue to the state. Isn't that true?

GREGG: Well, whether or not we have the regulation of natural gas in the United States, there is a maximum price at which you can sell natural gas to any given consumer and that price is established by that consumers alternatives. In the short run those alternatives may be very restricted and in the longer run the consumer has more choices that he can make, to shift to oil, coal, electricity or what have you. Oil is being imported to the U.S. at twelve (12.00) dollars a barrel, that is about equivalent to two dollars an Mcf natural gas. Presumably over the long run the consumer will not pay more than two dollars an Mcf for natural gas because he will have twelve dollar oil available. Other things being equal there's certain form value in gas which may make the consumer willing to pay 2.50 for gas, but at some point he's going to say "No" "Its better for me to switch" That puts an upper limit on the price that the F.P.C. can sell that gas for, the companies that are regulated by the F.P.C. Thus the cost of bringing the gas to market are going to have to be met within that level of revenue.

GRUENING: What deals with that projection, has there been any indepth analysis of whether costs do exceed that?

GREGG: There have been a couple of analyses and there are a couple on their way right now. The title three study contains one such analysis. The analysis that Dr. Tussing did for the state of Alaska contains another such analysis. The F.P.C. is conducting in its investigation of the El Paso and Arctic Gas proposals another such investigation and presumably theirs would be the most complete. There is pretty much agreement, I think, that these upper limits on what you can sell that gas for.....its very ironic that if natural gas is deregulated in the U.S. the price at which consumers will be willing to pay will actually decline because they will then be allowed to bid away the supplies of natural gas that are now being diverted to industrial uses or power generation and being sold at relatively artificially low prices to these other low value uses. Another thing that I think is important to understand is that deregulation is going to make the Alaska gas transportation system less economically attractive. As it stands right now, even given the numbers in the Title III study, it's clear that if deregulation goes through, and if the price of oil doesn't climb substantially above what it is at right now, it doesn't seem possible that you could build the system and have it pay for itself and have anything left over for Alaska. It doesn't look like you'd have anything left over for the oil companies either. In such a situation, the oil companies would end up subsidizing the gas production out of their oil production--which means we'd get hit both ways. The oil pie, in effect, would become smaller....not that there isn't any gas pie for us to share.

I don't want to be excessively grim. I think there are other factors on the other side which may make the State come out of this pretty well. I don't think there has been enough emphasis in the press at least, in public discussion of the real problems that we have. Perhaps it is good that these things have not been widely circulated. In a way, it may help our position in being better off, if people aren't aware publicly of how weak our position is economically. This is sort of a rambling answer to your question, Clark.

GRUENING: At what point do we know whether we're actually taking the right course by backing any pipeline? We may be in a position where we can't hold back our gas.

GREGG: The gas doesn't do anybody any good if it stays in the ground forever, obviously. So the question, then, becomes when, and other things being equal, if it's going to produce benefits and if there aren't going to change substantially over a time, you're better off to pro-

duce it sooner rather than later. There's no great crystal ball that will tell us whether we're doing the right thing or not.

SPECKING: It appears to me, that the gas is inexorably tied to the price of oil, an alternate energy source and I think that this is one of the most important things we're going to have to examine in this Committee. It does sound grim. It appears that when faced with the tremendous increase in the price of energy--with people driving their cars with 75¢ gas. It appears that in an energy short nation, these values can change. For example, I know absolutely nothing about the relationship of the small consumer verses the industrial consumer. This might be where the answer lays, I don't know. This sort of data is the thing we're going to have to have in order to understand whether we want to pursue a pipeline. And, of course, we do and want Alaska to come out as a winner.

GREGG: I don't think there is any doubt that Alaska's gas is going to increase in the future. The question is how much are we going to get for it if it goes out, and under what conditions is it going to go out and if we know the conditions and what is its value to us under those conditions given all employment impact, the direct revenue impact and so on. Is it better to take that value now or wait under those circumstances to some future date when we're fairly confident that it will be higher. I think you're right, things will change...no doubt that Alaska's gas will be utilized eventually in my mind. That's why I specifically say in the Memo the question of whether it's going to go out right now, not eventually.

TILLION: I don't think this group prognosis is new, we knew this quite awhile back...that our gas was going to be almost worthless and that we had to make a decision...you have to move the gas that comes up with the oil that's not needed to pressurize the field. What we have to do is to make decisions or do we want to see areas of high gas potential and low oil potential even leased. Things will change, it will be worth more. If it's worthless now, it's bound to be worth more in the future, it can't be worth less.

GRUENING: We don't know that as a fact yet. If it's pretty much what you said, there's strong indications that it may not be all that much benefit, but no one has come to that conclusion. At least the FPC has another year to work on it.

GREGG: I don't think the FPC is going to make the decision for you as to whether it's going to be beneficial for the state of Alaska. The parameters you work with will be dependent on what the FPC decides. Also the gas that comes up with the oil can and is planned to be reinjected.

SPECKING: Right along with this, I think you touched on the thing. You're facing the dual problem of natural gas that will flow through the gas line and the gas that's going to flow through the oil pipeline. Some where or another the legal determinations of who really has the responsibility for setting the price on the wet gas...and the ownership and the whole gambit of problems relating to those two have to be separated, too. In other words, you're going to have a certain amount of gas flowing through the oil pipeline.

GREGG: I think these are natural gas liquids that are going to be stripped from the gas.

SPECKING: At what point do they lose their identity as gas? I'm not sure yet who has control--whether it's FPC problems.

GREGG: No, they're not.

BOWMAN: If they're in the oil line, that's all part of the oil, isn't it? until they strip it?

GREGG: The FPC doesn't or hasn't asserted regulatory jurisdiction over gas that is not in interstate commerce. In almost all cases they strip those liquids out of the gas before it goes in interstate commerce. I don't know at least in the states, that this has become a problem of defining jurisdiction. Maybe there are circumstances that are different in Alaska.

HUBER: We kind of getting back into the area of my favorite of research. It's obvious to me, if we should convert the natural gas to a product on the North Slope, it would no longer be in interstate commerce by the FPC or the ICC either one as a product as I understand it.

GREGG: Well, that's an option that we could very well explore.

HUBER: There's several questions connected with that. When natural gas is used as a feed stock for fertilizer. Is the fertilizer realized as a by-product of that or is it actually a conversion of a chemical conversion of the natural gas components to fertilizer.

GREGG: It's a chemical conversion of the carbon in fixing the nitrogen in the air, using the energy that is available in the natural gas. So you're using both the molecules and also the energy.

HUBER: So you're using the energy, too, then. That takes care of that one. Now, has anything more been

done on figuring...I noticed you mentioned that the gas is \$2.00 Mcf. That's about all it's worth at the market. Therefore the costs of transporting it take away from that to the point where we may not have a very valuable item. How does it stand... what is it's value as feed stock for methynol conversion--considering we're going to use methynol as a gasoline substitute or gasoline additive. I think you and I are both aware of some of the things that can be done in that way. I'd like you to expound a little, maybe where we can get more information. Maybe it's worth more as a feed stock to make gasoline substitute methynol out of then it is any other way--in which case we'd be fools to let it go in to interstate commerce when we can convert it to a product and sell it and ship it as methynol. Some of those various things/

GREGG: I don't know the answer to your question in respect to what the value is, I think we're facing similar economic problems with respect to the utilization for fields that aren't regulated by the government. The economic problem is really independent of government regulation in a sense. The government regulation may actually make it possible for us to circumvent the economic problem in certain ways. How much the gas is worth, as used as a feed stock or as used to produce another product is a very uncertain area, because, (1) we don't know what the competition of that will be, because we don't know what the situation on deregulation is going to be in the states, (2) We don't know whether we'll be able to export it from this country which is a very important factor.

HUBER: We don't know whether we'll be able to export it do to what?

GREGG: The President has authority to stop exports of just about anything you want at any time.

HUBER: You mean to a foreign country?

GREGG: ...to a foreign country, yes.

HUBER: We're assuming there is <sup>no</sup> market for it in the U.S.?

GREGG: No, you're talking about an awful lot of material and it may very well be locations specific, in the sense that it's very costly to transport it by land. I don't know the answer to your question, John... I don't think there is an immediate opportunity to seize on here. I do agree with you that it something that needs to be examined. Frankly, I don't...part of the problem is that there is so much gas there, that if we do try to do that in any given area, like fertilizer or methynol, we almost

immediately saturate the market and drive the price way down again. I don't think there is any way that we could try to maintain...we could try to sell a little bit of that gas for fertilizer--and maybe get 75¢ Mcf for it. If we try to sell it all as fertilizer, and if there is any way we could prevent the oil companies from marketing their share in that market if that is the most profitable thing to do with it, the price is going to go down to zero just the way it was in the case of gas.

HUBER: But methynol as a gasoline additive...there's practically an unlimited market there, isn't there?

GREGG: You've got the same problem there with a net back situation, you lose a substantial part of the gas energy when you revert to conversion.

HUBER: Do you know where we can get the information on that? I understood that it was a very simple chemical conversion as far as energy is concerned, because it's a change from  $\text{CH}_4$  to  $\text{CH}_3\text{OH}$  which is the addition of an oxygen molecule.

GREGG: I seem to recall sending you a copy of a report.

HUBER: The report was practically worthless for the direction I wanted to go into. Because the report was made by gas companies, apparently, who had a great interest in putting the methynol back into natural gas and putting it into distribution lines and making sure it became a home heating and industrial natural gas product. I'm interested in removing it entirely from the field that natural gas is normally used for. Converting it to a product that has a ready sale or should have a ready sale, gasoline or gasoline substitute.

BOWMAN: Are you speaking about, John, if I may ask, just our portion of it or the entire field?

HUBER: Well, if we should be able with our portion of it, uncommitted, to attract the necessary industry to build the methynol conversion plant on the North Slope. It's a cinch--look at the costs of energy as quoted here--that if we can get into that 75 to dollar region, which it looks like we can, considering what gasoline sells for, that we can probably attract it so that the company can get all that they want by buying from the oil companies in addition to our 12 1/2%, because it will probably be worth, judging from Gregg's economic study here, many times as much in making it into methynol as it will be to putting it into that pipeline.

GREGG: I don't know the answer to your question. I'll be glad to look and see if I can find some source

material for you.

HUBER: While we're at it, do you know if there is any other names of organizations or anything other than the source material that you have presently supplied.

GREGG: I haven't read through the entire draft DIS, and it maybe that there is an alternative there, as they've considered just about everything else.

KAY: Gregg, I don't know anything about petrochemicals, except the little I've read. I do know that this sort of thing (the table) is made out of natural gas, and with the lumber shortages that there are in the world today, would it be possible for the State of Alaska to use some of their gas or any gas in that type of thing and gain economically.

GREGG: It might be, I don't know the answer to that. It's the same sort of question that John was asking. I do know that the oil companies don't seem to be very interested in pursuing that. If there was a profitable outlet for their gas, I would think that it would be-- but that is no reason not to go into it. I think it is worth looking into.

TILLION: ...you're poly-propylene ropes and all that stuff have to be manufactured at a dispersement center to make it work--to make it competitive. Some of our gas --when moved on a trans-Alaska gas line, and move it down liquified, say to southern California and relieve that pressure, releasing other sources that can go to the factory in the Mid-west. It's all tied together this stuff flowing from the Mid-west or from Texas. You just don't send it there. But, as far as the moving up and setting up plants in Alaska, the economics just aren't there, cost of shipping. I'm not saying that they won't be there in twenty years. Right now, there are those who have looked at it and a number have, have just backed off to the freight costs.

GREGG: I could look at this in a preliminary way, and determine if it would be feasible for the Committee to go into a more formal study of this. Obviously, I wouldn't be the person to do it. I think you need to spend quite a bit of money to get a professional analysis of this question, even in a very superficial way. I'd be glad to look into it and see what might be feasible in a way of a study of this sort of thing and what you'd likely to get on a short term basis.

SPECKING: I for one would like to have Gregg to pursue that, at least preliminarily, to see whether or not we want to look further.

HUBER: Another comment, if I could make it in this area,

we're talking about the same products, about converting natural gas to something else, I was pretty well heated up about this methynol--as it appears to be an unusual market for it because of the shortage of gasoline everywhere. I've tried to find out some and Gregg has tried to find out some, too. Now, Judy Whitney visited Stanford REsearch while she was outside on the West coast on the way back from the trip we made East on another committee. Stanford Res·earch had published a paper, and I think Clem saw that.

TILLION: I don't know about that, but I went to Stanford And looked it over and also to the University of Miami and looked at methynol engines and there are some...it's not all as good as they say it is, but...

HUBER: The research we received on the blending quality and so on...

TILLION: You can make it out of pine trees, all sorts of things. It does have some...methynol is more liable to be rather than a certainty.

HUBER: This research that they had done, that they had made the blurb on during the session...That's what I tried to have checked on, and they told her that that was done for a private organization and they could not give her any more data on that. Unfortunately, she didn't get the name of the organization that it was done for because they might be commercially interested in doing.

TILLION: I can get all that for you. The fellow that they did it for serves on the Presidential Commission.

HUBER: I wonder if you can get it for me by the first of the month or so.

TILLION: To Stanford? That will be different. They won't give you much, I could send back for that stuff on methynol...It's like listening to the Trans-Alaska or trans-Canada pipeline stuff. You don't know which to believe--it's so diversified.

GRUENING: I'm kind of interested in proposals that Gregg suggested as to immediate action by the Committee. I'm wondering, aside from the overall problems we have of economics, regardless of which route is taken, what advantages, other than the spin-off construction and so forth, is there at this point in backing a trans-Alaska pipeline? Is there any advantages in that area of economics to the State, that you see, other than the spin-offs? How does that relate to any immediate action of direction that we should be taking?

GREGG: Well, a very good analysis of that question has

been conducted by the University of Alaska--it doesn't answer all the questions, but their input to the Aerospace Study is now available. I have one copy of it and would be glad to let anyone xerox a copy. I think that outlines what is expected to happen in terms of employment, in terms of state revenue, in terms of additional costs of services and so on. Whether these are in a net way beneficial to the State or not, is a decision that has to be made on a political basis--you folks. I'm not certainly prepared to give an opinion on that--at least not at this point.

It's clear that the El Paso route will have much more profound impact on the State. It's also clear, that the big drop off in employment, which will occur as the oil pipeline winds down would be mitigated substantially by the initiation of construction on the Alaska route. It's a pretty important thing, obviously, to a lot of people.

TILLION: How many people will leave Alaska, if we don't have it...that's a plus. That's one of the things seriously, you have to take into consideration. If you produce a massive amount of employment right at the end of the trans-Alaska oil line, you'll have a great deal of people you'll be caught with at the end of the construction of the gas line, that you may not have gotten caught with otherwise. It's going to be impact as the gas line winds down. Then you're going to have another project to face you. Booms have their advantages, people don't stay after them as much.

BOWMAN: The way it looks now, most Alaskans are selling out and moving out..... to cover your point somewhat, Clark, Gregg has certain proposals we can get into that further down. Maybe we ought to start moving in that direction. So if there is no objection. Unless someone has another question on these two proposals that he made in number three, we'll move on to the next one.

The fourth item is proposed attendance at the October 9th hearings at the House Interior Subcommittee on Public Lands, and briefings in Washington D. C. If you'll go to the page on Greggs Memo, Page 17, under number three. It states that the " Public Lands Subcommittee of the House Interior Committee plans to hold an Oversight Hearing on this same subject on Thursday, October 9th. Witnesses are expected to appear representing the Interior Department, FPC, and the State Department. The hearing will attempt to focus on the procedural issues that surround the current FPC proceedings and the Interior Departments outlook for disposition of the Arctic gas right-of-way application. No attempt will be made to get into the relative merits of the two competing proposals.

A great deal could be gained by the members of the

committee attending this hearing. If some or all of you were able to attend, I would take the opportunity to arrange briefings with key people at the Interior Department, FPC, Congress, possibly the Department of State, the Canadian Embassy and any other groups you might consider it useful to meet. We could even try to arrange a meeting with the new Secretary of the Interior designate."

The advantages of such a visit En Masse to Washington are not only in terms of the better understanding you will gain of the issues and the climate in which they are being considered; in addition the presence of a large group of Alaskan Legislators at the hearing cannot help but have some impact on the Congressman and, perhaps more significantly, on the witnesses.

Should you decide to make this trip I would suggest that as many of you as possible arrive on Tuesday evening (October 7) so that we can meet the prospective witnesses or their staff people and the congressional delegation on the following day. Friday, the 10th, could be used for other briefings and those who wish to spend some time of their own in D.C. could do so on Saturday and Sunday. Because of the time difference and airline schedule, the trip to D.C. usually kills a day, so the trip back could be done in a long evening."

Do you want to expand on any of the reasons why you want to go there?

GREGG: I think it's pretty straightforward, that Washington is going to be the arena in which these issues are going to be played out. Like it or not. It may be useful to you to have a first hand perception of what's going on. When I was with the Pipeline Impact Committee in 1972, the committee made a trip to Washington similar to this. At the time, I didn't think it was a useful thing for the committee to do, but Chancy overruled me and I think he was correct. I think it turned out to be a useful thing. I've already talked with Congressman Melcher's staff director and the Congressman would be very glad to have the committee or members of it attend the hearing and would like to meet the committee.

I'm sure we can arrange something also with the Canadian Embassy. They would be happy to talk with you. I'm sure there would be a lot of people who would be quite willing to take the time to brief you as you wish.

BOWMAN: I personally feel that maybe we should, for various reasons, especially Gregg's. A group of legislators from Alaska will certainly have some impact. You'll be meeting people from FPC, Senate and House Interior Committees and others.

GREGG: I talked with the staffs of the delegations and they will do whatever they can to make your trip useful if you choose to come.

BOWMAN: The problem in my opinion is, there should be more than one or two. If the committee, of some consequence, goes there, I think that (1) we can get some input from what is happening there, (2) and give some. Any others?

GRUENING: The input part, at this point, wouldn't the committee be hard put to come up with any one uniform input? It seems that even philosophically, at this point, we're divergent. Maybe the differences aren't so great when the facts are on the table.

GREGG: I don't think it's important that you should take a single position. I don't think it's necessary or desirable that you hammer out a position that you all go there and lay on the table for various people you talk to. A more important point is, the people who are testifying of the people you're going to talk to are going to realize that Alaskans are vitally concerned with these issues. The fact that you don't all come with one single, monolithic, idea is advantageous in showing Alaskans as thoughtful people who are looking at these questions in a rational way. It's surprising how much impact that has.

HUBER: I was partly on the same track that Clark was on about questioning. I like the idea and I think it will have some impact. I wonder if this is the time, how the committee stands now. I wonder if there is another opportunity. I noticed you mentioned that the Senate would be meeting. I wonder if there is another opportunity to be meeting in the near future.

GREGG: I'm sure there will be additional opportunities. How near they will be, I don't know. The Senate Interior Committee has planned to hold hearings, but I've withdrawn from participating in the planning of any of Alaskan activities to avoid a conflict of interest because of the work I'm doing for you folks. Since I've withdrawn, no one has followed up on that. Also, it's perceived among the (Senator) Jackson people to be a politically sensitive issue. They're not sure whether they want to get involved in it right now. I think there's a good possibility that the Senate Interior Committee may indefinitely hold off on these. Obviously, the law says that the committees of Congress must review and approve the right-of-way of any pipeline that is approved above a certain size, so, it will be back in Congress eventually, when that will be--very shortly or a long, long time.

BOWMAN: To carry it a little further, John, I think we have to be somewhat realistic in the sense that if we have a Special Session and it looks as though we may. We also have some heavy work within this Committee to come up with some type of proposals legislatively by January. Along these lines, getting out of Juneau after the session has started and going to Washington D.C. would be almost impossible. So, any input that we intend to get or make has to be down now.

HUBER: I was thinking of another reason in regard to that. Maybe we could spread ourselves at more than one hearing, I don't know. There are members of this committee on Legislative Council also. Within throwing distance of here, during the 7th, 8th, 9th, and 10th of October, many of us will be in Philadelphia. I noticed that this is mentioned for the 9th. I consider that these hearing are taking place on the 9th, that I could pull a day off from this conference in Philadelphia and maybe other members attending the conference as well as dual members and have a fair showing in Washington D.C. Then maybe we could plan another one even later to where the committee could appear En Masse. If this main business is confined to the 9th, I doubt that there is a member of the Legislative Council down there that wouldn't be glad to make it part of their business... to swell the ranks of those going. Either if we go as a group or some of us go now and try to have another one later.

BOWMAN: I think we would all approve and heartily applaud those who are on the council to change their trip to the council and.....

SPECKING: I think it's important for all members to know what others they're going to do. I don't want to go as a two-member delegation... if there is going to be some sort of participation committee-wise, I certainly want to attend.

BOWMAN: How many here could attend? O.K.; that's the majority of us. Clark, you don't know?

GRUENING: I don't know if I can make that date.

BOWMAN: Other than Clark, most of us would be there.

GREGG: The hearing is on the 9th, that's a Thursday at 10:30 a.m.

SPECKING: It appears that a lot of the value there is going to be at the formal hearing, but what about the briefings? What do you think about that Gregg?

GREGG: I think you're correct. I think we could work in a lot of the congressional briefings on the 9th, probably meeting with Melcher and other members of his committee. Some of them could be worked on the 9th, you're correct. The impact of having a large

number is significant.

BOWMAN: That would be the following day, the 10th, a Friday.

HUBER: Those are the days that interfere with the Legislative Conference.

BOWMAN: Could we go into other things you would hope to accomplish at the hearings and briefings? What do you propose for the briefings? I know that you outlined it in your Memo. Between now and then, you will be setting those up...when we get to Washington, where will we meet?

GREGG: You have a large choice of accommodations. Those who want reservations, I'll make them. At the bottom of the hill, they're building a Hiatt House or Quality Inn.

SPECKING: It would be of value to be in a group, even though some of us have friends. I expect to meet with the President informally and personally. In any event, there is a value to being together.

BOWMAN: What we will need is a list of those going to Washington and those wanting reservations.

HUBER: What day for the briefings?

GREGG: Briefings on the day preceding the hearings on the 8th and day following, on the 10th and such briefings on the hill that we could arrange.

HUBER: Those of us attending in Philadelphia could easily come over on the 9th. We would miss part of the program, but what of the importance of the briefings.

TILLION: The Land Use is on the 9th, there would still be five or six of us that would be at the hearings.

Break for lunch.

BOWMAN: We more or less concluded item number four which was proposed attendance at the October 9th hearings in Washington D.C. We'll move on to item number five, proposal to retain legal consultants; a draft "Request for Proposal" is attached.

GREGG: The recommendations, number two, on page 16 of the Memo. It seems to me that one of the most important group of questions is just what the states authority is with respect to its proprietary interests and oil and gas leases; proprietary interest in the lands needed for pipeline right-of-way; powers with respect to oil and gas conservation.

How can the state act to control, how, when, where, under what conditions the gas is produced, sold, or exported or utilized for the state? There are a great many unanswered legal questions about this. It's clear that this is the kind of issue that's going to depend much more so than in the case of the oil or what kind of answers we develop to these questions. I've outlined the rationale that I think argues for retaining at least two separate studies of what these options are. I also suggested it might be advantageous for you to consider getting an opinion from an Alaskan group and an opinion from an outside group.

MILLER: Gregg, hasn't most of this ground already been plowed with the legislation on the right-of-way leasing act and the pipeline commission?

GREGG: I don't think so.

MILLER: Why not?

GREGG: The differences are that the regulatory regime under which we are operating is completely different. ICC is a more mundane agency. There is very little case law existant as to what the powers of the ICC are verses the state.

The second area of difference is, the extent to which our conservation power may be necessary, it's something we didn't consider at all in the Right-of-Way leasing act in 1972 legislation. We really don't know what the limits of state power are, at least I don't. I think that this issue is going to be resolved on the basis of whether or not the state has those powers. I'm not a lawyer, so it's a little difficult for me to explain in detail what the legal aspects of the study are. It's clear that the relationship between the state government and the FPC, and the pre-emption of the FPC is quite different from that we faced with respect to the ICC. There's also the international implications that didn't intrude in the same way with respect to the oil pipeline.

HUBER: I'd like to ask that we have consideration in choosing the people with expertise in the area of whether changing the form or changing it to the product will bring us out from under certain regulations and put us under other ones or what it will do.

BOWMAN: If they have expertise in that, or look at it?

HUBER: If they have expertise at least in the area and also to look at it.

BOWMAN: There's a difference John, when you say have expertise. I'm not an attorney either. I was wondering if you were saying "have" expertise in changing the end product.

HUBER: No, not in changing the end product, as we're talking about legal people here. I'm talking about the people who have expertise in the legal implications of where we stand if we don't take it out as gas, if we take it out as methynol or take it out as fertilizer; or any of the other things we might try to do here. Also where do we stand on the state saying "no, we withhold our gas. We're going to make fertilizer or methynol or something else out of it and you can't take it away from us. Things like that.

GRUENING: I think again, as Gregg mentioned, that area would be encompassed by an attorney who dealt exclusively with the FPC and with the state's positions with the FPC and I think when we go back to Washington, that area is logically where we're going to find more expertise. I would like to see someone from Alaska involved. I don't know who does FPC work here, I think it's a relatively new field up here.

GREGG: We do know of attorneys in Alaska who have a lot of experience in oil and gas conservation and have gained that experience here but elsewhere. People with degrees in reservoir engineering or geology and law. That's one area where our power is uncertain. Can we say we will not allow the gas to be produced if it results in a waste of oil, as apparently the Title 3 study says? What is our power with respect to that? There is a large body of case law in that area that's one sort of separate study. The FPC study is something Alaska attorneys haven't been involved with. I'm not certain as there may be someone here who has had experience elsewhere.

BOWMAN: Our first question is, of course, do we follow with this proposal, to get the in-state and outer-state comments regarding our authority and the legal opinions handed to that, which is what the proposal is, I'm not so sure we do have the information available, even though there are a lot of studies being done. Pulling them together, would be part of the responsibility of these consultants to that point.

ANDERSON: Terry, do you think it has all been gone over already in previous work, or what?

MILLER: I suspect some of it has, but I also suspect that Gregg has raised, particularly the federal interface as it applies to the FPC, rather than the ICC, is probably pretty valid and ought to be looked at.

POLLAND: No matter what opinions we'd get, if we hired fifty lawyers we'd get fifty different opinions. They're not going to mean anything until the thing goes to court.

BOWMAN: Wasn't that the '73 special session?

TILLION: Remember, there were a number of us who spoke to change it. It did come out at that time, the difference between the jurisdictions, FPC, ICC. There's a good body of law on that. You just have to first make the decision, I think before you hire your counsel, on what you're going to do with the information when it comes in. I agree with you, we shouldn't hire two counsels, because we can't stand the confusing information. I think you can get a good deal of this put together. Gregg should write some questions on the difference and hire counsel on the answering of those questions. Just hire to have the questions answered to the best of their ability, and then get rid of them.

GREGG: That was the thrust of the proposal. I assumed, though, that once you had the study in hand, that the program committees in considering legislation, would probably want to call these people back.... as Witherspoon was cacked back.

TILLION: The big problem you're going to find is, there won't be any clear cut answer as to what we ought to do.

GREGG: I think you're right.

TILLION: I remember from past years, just which way to go after you have all the information.

HUBER: I just wanted to express concern.....we mentioned "outside" and "Alaskan" expertise here.... Though I like the general trend of that, I haven't noticed any starving lawyers in Alaska. I would hope that we wouldn't tie ourselves with any particular thing. Say we're going to get some of this from an Alaskan here and some of it from a non-Alaskan, fine, if not, maybe we'll have to look somewhere else. I didn't want you tied with that millstone around your neck.

GREGG: My proposal was to solicit, just a suggestion as I say, from attorneys both in Alaska and outside and look then over and see what you've got and make a decision on that basis.

MILLER: As a matter of form, is this definite enough or do you need to go one step further, as Clem suggested, and actually outline some of the issues and legal questions?

GREGG: I say here, that this information on a possible scope of the study in a form of an issue paper is available from that office. I've been working on one right now in a draft form. I quite agree with you, we need something more concrete.

MILLER: How do you intend to circulate this solicitation?

GREGG: That would be a matter for you to decide. I had thought of publishing in the Anchorage papers to get circulation here in Alaska. Undoubtedly, an informal method would be necessary in the states. It's up to you.

TILLION: I would recommend that we get the questions, say a dozen questions. Then I think you'd be far better off to locate a lawyer, expert in that area, probably in Washington D.C. and just contract him to answer those questions. And then, somebody else can argue over his answers at a later date.

GREGG: That was my proposal; to have it contracted out to have it done.

TILLION: I certainly wouldn't advertise, as that would cause that much dissatisfaction for those who put in a proposal and didn't get the job. I think you should just shop around and find the best you can by asking a few questions and go to that person and say, "Will you do this study?"

MILLER: I think the area of greatest interest to me, is the first question of the FPC jurisdiction. I think you'll have to go to Washington D.C. to find the expertise.

BOWMAN: I know if we spend time advertising for some submittal of proposals, we're going to lose an awful lot of time. I would just as soon have the committee authorize us to move on it as we'll be just dead in the water if we don't.

SPECKING: Last year there was another gas pipeline committee, and they explored this. This came out in a study. I've never seen the final copy of it. Bob Hartig had the control of the preparation of the thing, but they explored the options of getting some people in Washington. There might be some valuable data in that thing. I'm sure a copy of it could be obtained from Hartig.

GREGG: I'll make sure I contact him.

MILLER: I think we may be chasing our tails on this. I agree with Clem, you can't get much further until you have specific questions and issues to find. It would appear to me, however, that what you're shopping around for is expertise in the area, and not expertise as to specific questions. Maybe we ought to authorize the consultant to begin that search. Most probably it will be centered in Washington and when we arrive there, you'll have it narrowed down to two or three firms which you think the majority of the committee would approve and could meet with them there.

TILLION: But, you need a few basic questions to present to the people while you're shopping around.

MILLER: I think we ought to go that far and then interview some of these people when we get to Washington.

BOWMAN: You're not at this time interested in the weighing of whatever we do between having a consultant here in Alaska and Washington. You don't think that is a valid argument? What he says here.....the reason I recommend two independent opinions is simply that in situations where your entire legislative effort is likely to stand or fall on the basis of some unknown judges' opinion issued at some future date. Where the legal issues are complex, it is false economy to skimp on legal expertise. Also, the knowledge that your statutes are based on sound legal reasoning is likely to stiffen the resolve of possible reluctant administration. When the time comes to defend the legislation in court, which we never got to before. Are we throwing that out entirely?

TILLION: I would throw it out, because I think we ought to get the basic questions, pick a counsel, answer them, and it will just be like hiring counsel when you bring the answers to those questions back and people start shooting out....

GREGG: I have no objection to that approach.

GRUENING: I think ultimately, what we want is a yes answer. Whatever we decide to do, we want an attorney to draft something that works. Whoever we pick should be also skilled in drafting legislation or at least can look at legislation and can guide us to the result that we want. It isn't the trouble of having two people; of one saying "No, you can't do it" and the other saying "Yes, you can." We want "Yes, you can." We want to find the limits of state power. Logically, you would take it to this extreme. You want to use what power you have to get the best possible result. By making one attorney responsible, rather than having someone say no, it wouldn't work. The other consultant would then, when trying to produce a piece of legislation, you would have everyone on one side of the fence or the other.

SPECKING: There may be some merit in making that decision now; but keeping open the idea of retaining some local legal counsel that could give us some interpretation or advice on matters that may come down to us from Washington people. We do have some people that are skilled with particular problems in Alaska in that oil and gas thing. I think it's premature to say we'll get one of each.

GRUENING: I think it's true that even in the conservation area, again we go back to the FPC, whether that makes any difference in their rulings. You've got to have an expert in that area, to some degree.

BOWMAN: The chair would entertain a motion to implement that point.

GREGG: The motion then would be for me to make preliminary examinations and narrow down the field of Washington attorneys that may be able to do this kind of work and prepare a set of questions or issue paper that will define the issues more precisely and have these people available for you to review when you get to Washington.

ANDERSON: I ask unanimous consent.

BOWMAN: Unanimous consent has been asked for. Opposed? Hearing none, motion passes.

Let's move to item 6; technical factors involved in gas productions, specifically suggests 400 million barrels less of oil. Authorization to pay witness expense. That is on page 15.

HUBER: Does this mean we'd set this up for the next meeting? We'd need authority to pay the witnesses' expenses.

BOWMAN: No, not for the next meeting. Well, yes, for our next meeting. On page 15, Gregg has outlined some of the arguments or opinions among experts as to what actually is or is not the case. Here again, we're still arguing what the case is.

GREGG: There are some other questions, too. One is, how much gas is there; the other, how fast it can be produced. These are all the same sort of questions. I think that the recommendations are pretty self-explanatory.

BOWMAN: I agree to the one point. The first one being the state and oil and gas division officials. I saw in the paper the day before or so, that the new division is already in operation. I forget the name of the person heading it, now. They're going out by January. We'll be evaluating the taxation on the various fields. However, we need to know how they're going to go about their taxation methods. Also, the oil companies, the state's outside consultants, and reservoir analysis and aerospace subcontracts on gas supply, Mr. Grey.

GREGG: This study says that Alaska is going to lose 400 million barrels of oil to produce the gas.

It also says that the oil companies are going to have to receive the net of all the state's taxes and royalties.....47 cents Mcf, otherwise, they won't find it economically feasible to produce the gas. These are kind of, if not shocking, at least, surprising figures. I think they differ substantially from what other people have been saying up to now. I would expect you might want to look into that.

It was decided that the Department of Interior would be asked to study possible methods of removing gas from Alaska and to report back to congress within two years of the day of the act. That two years expires Nov. 16, 1975. The interior Department decided as a first step in making their report to congress, they would commission a study. This aerospace study is the draft of that study.

MILLER: You're suggesting that we have a public hearing?

GREGG: One could ask for written responses to questions, my suggestion was for a public hearing, yes.

BOWMAN: ...which should be at our next meeting. We haven't set it, yet.

TILLION: We could set it after Washington.

BOWMAN: We have to consider that we may have a Special Session. If we do, we could always hold it in Juneau.

MILLER: How much time do you need?

GREGG: I would think that the oil companies and the consultants would need at least three weeks and possibly a month to get their material together in a way that would be most useful to us.

MILLER: Why don't we schedule a hearing in Juneau--and if there's a Special Session, we'll go around it. If there isn't, we could just meet in Juneau.

BOWMAN: Would most of our people be here?

GREGG: I think the oil company people would more likely be here, than in Juneau...YOU don't have to determine the place right now.

B OWMAN: Is the 10th of November agreeable to everyone?

MILLER: I move we hold the meeting and hearing on Nov. 10th at 10 a.m.

ANDERSON: I object.

BOWMAN: The motion is carried. We didn't cover the authorization to cover witnesses expenses...The state's outside consultants, the Aerospace subcontractor...Are we calling all those people before us?

TILLION: A lot of this will depend...on counsel to get your answers before we haul a bunch of consultants before us--shouldn't we? ...so that you can ask these consultants that you bring, these questions and have some background to be able to do it. I don't think we should have all the consultants in til after we have something prepared--so we know what to ask them.

MILLER: Gregg, is there that much dispute among the experts as to how much oil is going to be used in this process or is it pretty standardized.

GREGG: I don't think it's a matter of how much it's going to be used in terms of consumption. The production of the gas means that that gas is not available for reinjection, which means there's a need for an artificial water drive...and that is less efficient than gas injection and therefore oil would remain in the reservoir that wouldn't otherwise remain in the reservoir. There is definitely a dispute about that. I've discussed this with the BP people and they say the Aerospace consultants are just plain wrong. I have no idea who is right or wrong. I have no idea who is right or whether there is misunderstanding, but it is clearly an issue of importance of public policy.

MILLER: If we can invite, for example, the Division of Oil and Gas people--who should have a handle on that. Maybe someone to represent some outside expertise ...I suspect if we make those producers on the Slope aware of the information we want, I'm sure that they'll pay their own witnesses...

GREGG: Oh, yes. I think there is some misunderstanding. I'm simply suggesting we not retain these other consultants to do a study for us. We simply ask them, as having done the study for the Title III Study and the study for the state to come back up here and explain their study that they've already done.

MILLER: Wouldn't one be enough?

GREGG: Well, I think, definitely, you're going to have to get the Title III people and maybe the state's consultants don't need to come--maybe the state's engineers can answer those questions.

SPECKING: Of the state's consultants, who are we talking about?

GREGG: The reservoir consultants... These are technical consultants answering technical questions.

SPECKING: What sort of retainer are they on?

GREGG: I think we're talking about at most \$100/day and they will be testifying for one day and then their airline ticket. That's the magnitude.

TILLION: The airline ticket is the big cost.

GREGG: ...if they come up from Houston. To tell you the truth, I would suggest asking them to come up and not offer to pay their ticket.

HUBER: Could I make the suggestion that we authorize the Chairman to pay the Consultants and fees--such ones as he deems necessary.

SPECKING: I think that is unfair to the Chair.

GREGG: I think that is a lot of money... If you'd like to restrict it to Gruy and Associates--they are the ones I have the most important questions for. They have come out of the blue stating we're going to lose 400 million barrels of oil.

HUBER: I don't want to restrict it to them. If the Chair feels there is someone...

TILLION: It's so nebulous, because they are guessing as to world factors on price and use.

GREGG: That's a non-economic evaluation. It's a technical engineering constraint only.

MILLER: If it's a state consultant working for the Division of Oil and Gas, I think we ought to invite the Division of Oil and GAS to testify--if they feel it's necessary to bring their consultants, let them do so.

We ought to invite industries who have reserves on the Slope to come. If you feel we need this Dallas firm, let's invite them. Let the State make the decision as they are the Division's consultants.

BOWMAN: The Aerospace people?

MILLER: No, we ought to invite them specifically, if Gregg feels it is necessary.

BOWMAN: If they are of value, do we pay them?

MILLER: I would suspect so, yes, but in terms of the Divisions consultants, let them make the decision as to whether they want to come.

HUBER: Mr. Chairman, I would like the Chair to note the presence of Mr. Shelley from Mobil Oil who has been quite helpful with such thing as this in the past--and maybe he'll take it back to his people--that maybe we want to hear something in this line, too.

BOWMAN: The motion before the Committee is in essence, of what John has stated: Everyone will be invited as our consultant and the Chair feels should be.

And the Aerospace subcontractor will be paid if he asks for Consultants' fees for the hearing. That's the basis of it, the rest of them will be invited on the basis of their being State and Oil Division people and consultants for the State.

GREGG: Do you have supoena power?

BOWMAN: Yes, the Committee has supoena powers.

GRUENING: It may be good to send the Division of Oil and Gas a copy of this report and ask them to come up with a written comment prior to the meeting--so we can ask them questions on the basis of their response to this.

GREGG: That's a good idea.

TILLION: That's good--because if they can punch holes in it, even if they're not successful...

GREGG: What we really need is the report that underlies that, and I will get that.

GRUENING: I imagine they have enough expertise to go ahead and say--well, this couldn't possibly be--based on their conclusion.

TILLION: They can at least explain to us the difference between the way they figured it and the way the others figured it. Right now, we're on the blind on that/

BOWMAN: Are you ready for the question?

HUBER: I think the motion included that ybu weren't tied down to that one. If you found that there was somebody else you wanted to pay for. Unless the Chair is refusing that.

BOWMAN: The Chair would feel that the Committee would be recognized if problems come up in the Interim that somebody else should be invited. We would probable do it.

HUBER: I ask for unanimous consent.

BOWMAN: Unanimous consent has been asked for. Hearing no objection, so ordered. Let's move on to item number seven. Gregg, you want to explain that one?

GREGG: Item number seven is explained in detail and is probably the least firm of these recommendations. It's a suggestion you might want to consider. On page 13 I say, discuss the El Paso proposal. As yet, El Paso has not clearly demonstrated itself as a serious and credible applicant for the right to develop an Alaskan gas transportation system. Largely because of the fact, that they haven't been willing to pay for the necessary draft DIS-- associated with the right-of-way permit. There are some things that the state could do if it wanted to get that right-of-way application underway. I mentioned some of them, but it seems to me, that if the Committee wanted to go that route--the first thing to do would be to talk to El Paso and ask them number (1) why they haven't done it, (2) do they intend to do it in the near future, (3) how much it would cost and so on.

SPECKING: What you're saying now is that this is a cloud on their credibility?

GREGG: They 've requested it, but they refused.

SPECKING: ...I think some of the others have heard John Bennett on this subject. I think, it has been explained and I'm vague on the explanation, I wasn't particularly unhappy with it. I wouldn't mind listening to it again. I think it does wash the thing out publicly if we ask the question.

GREGG: What I'm saying, and this really depends on the direction the Committee wants to go. Sometime in the future, you might want to consider the State getting involved in this.

TILLION: If I might disagree with my older brother, I do object to listening to El Paso again and would prefer to have it in written form in something under 12 pages. I don't want any pictures...I think that would be satisfactory and I wouldn't have to listen to another presentation, I'm all burned out.

HUBER: I disagree, I would like to have them answer as Gregg has suggested. I would also suggest that we

put it on the agenda for the second day of the meeting that we have set for the 10th. Those that don't want to listen can go home. I think Gregg has some viable ideas and we do have to clear the air as far as El Paso is concerned. It's a case of either them eating the roast or pushing the pan around to the next one, if you know what I mean. The state may want to do something.

TILLION: John, I'm not opposed to asking the questions, I think we should. I would just prefer to have it in writing in a short presentation that we could read and crank in without a long drawn out discussion that eats up all the time. If there are other questions, we just might want to call them in at a later date and have those specific questions ready on a person-to-person basis. I don't think we're that far along now.

HUBER: I didn't want to go too deep into that. It's obvious, that my opinion falls in the same place as Jerry's does in this area. I think El Paso, with all the publicity going on, is saying that Alaska is at fault because we haven't committed to them. I think El Paso, is at the present time, trying to get us to commit our gas to them. They haven't done anything to assure us that it is going to go through Alaska, even the first step. It would certainly be a big thing, if they could get it for 10¢ Mcf. Later on, then, they'd say, we just couldn't get a permit, so we'll sell it to Arctic Gas Consortium for a \$1.50 Mcf. Unavoidably we've made \$1.40 profit on something like that. We tried our best shot. We just couldn't get it through Alaska. I have backed them right along. I believe now that their credibility is lacking. I'd like to hear from them--if their credibility isn't lacking, I'd like to apologize to them.

SPECKING: I have all the faith in the world in the Chairman being able to control whether they put on a dog and pony show or whether they answer the question. He's got a large gavel... I think he could be mean about it, if he chose to. I think if the Committee feels like they want to say to the Chairman--we don't want to listen to El Paso all day, we'd like to get this question answered. That's the way it will be.

BOWMAN: Keith, you said you had heard them defend their position as to why they had not applied for the permit?

SPECKING: I'm somewhat vague on that, Mr. Chairman.

TILLION: I think they had a valid reason.

BOWMAN: Does anyone have any idea why they haven't, other than the money?

KAY: I could possibly be confused, but I swear that within the last week, I saw a small article in the paper saying that they were going to apply to make the environmental impact statement.

TILLION: They intend to make another by now anyway. Someone would have requested to make a change.

GREGG: I think there was something on the FPC--their assertion that the FPC EIS would be sufficient. I saw an item of that nature in the last week. They think they can build the pipeline on the basis of their FPC certification and need of right-of-way. They'll have to get a separate EIS for that.

SPECKING: My vague recollection is that there are discussions centered around the idea of the EIS thing would be forth coming after the permit position, if they go it. They couldn't see them spending the money, and others spending the money to plow the same ground. I'm certain that if you went back and researched the Anchorage Times during the period when this oil and gas thing --that you'd find the answer.

HUBER: I also recall some long hearings with EL Paso a year or so ago, along with grants they had. I ran into some photographs of those grants that dealt with the displacement of gas going back East--by displacement through the West coast lines and so forth and I see that Jerry called to our attention, that the same lines are now apparently leased to move oil East. I just think that their credibility is lacking. Now at the last minute, they want to get their hands on the ownership of the state's royalty gas and they say we're so sorry we couldn't build the line, because they're apparently leased or sold the lines that they were going to get this Alaska gas into the East by displacement.

BOWMAN: The question, then, is still whether we want them to appear before us to answer this question--maybe in writing previous to that or any question we might have at that time or however you want to handle it. The Chair is open to a motion to that extent.

SPECKING: I would move and ask unanimous consent that we call on EL Paso to answer to that specific question and not give us a dog and pony show and sort of a controlled answer.

BOWMAN: You've heard the motion, any discussion? Unanimous consent has been asked for, hearing no objections, motion carries unanimously.

Item number eight, is summary of projected committee expen-

ditures. We can give you a rough estimate of what it is.

GREGG: Our total expenditures to date are less than than \$10,000. The obligations we have now, we estimate about \$7000.00 for the Committee's trip to Washington, probably less than that. The consultants you may or may not hire in Washington for the legal questions, I would estimate the cost at \$30-50,000 or so. It could be more or less, depending on what you choose. My payroll will not come out of the Committee's budget, I'll be paid by Legislative Affairs--I think you're budget is in pretty good shape.

BOWMAN: Are there any questions? We will have at the next meeting a print out of our expenses. Other business, Bev would you like to speak. Bev Isenson from OMAR,

BEV: On October 6, here in Anchorage, will be three people from Louisiana who have had experience with problems of their state's control and use of their oil and gas and their problems that we may wind up having and they will have some bearing on some of the things you've discussed today.

The three who are coming are, John Kamp who is a Louisiana Attorney, Ray Sutton who is the Commissioner of Conservation for Louisiana and conservation means something very different there. They're talking about getting every last drop of oil and gas out of the fields. The third person is Harry Borsch, Harry is a Louisiana attorney who now practices in Washington D.C. He's with the firm of Patton and Boggs. Boggs being Hale Boggs, Jr. and also in that firm is Bill Foster who was one of the chief lobbyist on the Alyeska oil line. Some of you may remember Bill from years ago, He worked for the Alaska Legislature Affairs Agency back in the early days. He went to Washington to work for Senator Bartlett and he has never come back.

BOWMAN: Oh, He comes back every year.

BEV: Well, to visit. Alyeska is still a client of that firm. Mr. Borsch has a considerable amount of experience in dealing with the FPC and we thought that it would be useful to bring these gentlemen up here and have a seminar. SO, sometime during the day, October 6th, we hope you will all attend. We'll be sending you the details on that as soon as we get them worked out. We're doing this in concert with the Anchorage Chamber of Commerce. We had originally anticipated coming to this Committee for money, however, we had to make a decision quickly and so we decided to guarantee their funds. These gentlemen are not being paid. We are reimbursing them for their expenses, their ticket and hotel and so on, but they have agreed to come up here at no cost. We hope that this will give us the benefit of the experience Louisiana has had. We hope that you will be able to take the time to come

to come to the meeting. It will be here in Anchorage.

HUBER: Bev, you mentioned conservation; you mean Conservation in the sense of conservation of an oil pool as its used by petroleum geologists?

BEV: That's the way we understand it.

BOWMAN: So, you will be sending out information as to where it will be and all that?

BEV: Right.

TILLION: Is this going to be a Chamber of Commerce Luncheon?

BEV: No, it's going to be more than a luncheon.

TILLION: Well, it's going to be the whole ballroom.

BEV: Right, but it will go on, either, start in the morning and continue through lunch or start with lunch and continue through the afternoon.

HUBER: ...on the 26th?

BEV: ...on the 6th of October.

HUBER: This Committee will be traveling?

BEV: ... Depending on what you schedule--it may be possible to leave Tuesday morning and get to Washington D.C. Tuesday night and then be briefed on Wednesday, hearings on Thursday.

GREGG: Does Borsch have an office in Washington?

BEV: Patton and Boggs.

GREGG: He's there though?

BEV: Yes, he is there. I would like to make one comment.

When you were discussing refining the natural gas in the state and therefore keeping it out of FPC jurisdiction. I thought you would be interested in knowing that there has been a study undertaken of whether or not there is a real need in the state to use the royalty gas. The study was undertaken by a consultant to the FPC. The consultant is the Resource Planning Associates, in Cambridge. They did a study on two aspects of information that the FPC wanted. One being the socio-economic impact of a line coming through the state, either down the rail belt or along purposed EL Paso route; or going through the wildlife range or going to Fairbanks and down the Alaskan highway. The second aspect of the study relates to whether

the state has a real need for its royalty gas and so in undertaking their study, this firm started calling around Alaska to find out if there was anyone willing to step forward and say--yes, I want to use that royalty gas to use to do this, that, or the other thing. Of, course, at this point, there isn't anyone willing to say, I want to take that royalty gas and use it for fertilizer or even heating. So, we're very concerned that the recommendations of that FPC consultant--will be that the state has absolutely no need for it's royalty gas. Therefore, it should all be ordered into Interstate Commerce.

HUBER: What consultant is this?

BEV: Resource Planning Associates--they're a consultant to the FPC.

HUBER: That's a loaded question to ask that of a non-industrialized area...Do you have a plan to use it when you don't have industry here--that now that the gas is here, the industry comes where the resource is. So, they're asking a loaded question...There's just no way that you can compare - is there an interest in that gas in Alaska? at this time? For many people who have money, there is no interest... For people who have no money, and no facilities in, we have a lot of interest in that.

GREGG: Did you talk to these people, Bev, when you were in Washington?

BEV: They called us and unfortunately, we didn't have anything concrete to give them. We couldn't send them to a company that was going to open a factory of any sort doing anything with the gas.

GREGG: There are two separate studies you're talking about?

BEV: Right, on the socio-economic aspects, we sent them a copy of the state's job forecasts. The state Department of Labor had a consultant doing a job forecast on construction manpower--so we sent that to them--and sent this information on our past experience with them.

GREGG: What is the projected date of the study by Resource Planning Associates?

BEV: September 20th.

GREGG: I'll write a letter over Senator Jackson's signature asking for a copy and see what happens.

BOWMAN: One other point, sometime in the last few weeks

or so, Bev and OMAR people requested of us some assistance in paying for a group of Alaskans going down to some hearings in Washington. I said at the time that I wasn't too sure we were able to do this. Anyway, I called Berrier at LAA, to do the research of whether we could pay out of the funds that we have allocations to help defray the costs of private groups. This is the answer from Berrier--until I received this, I was not in any position until the Committee met to say we could assist them in any way. As I understand it, you were down there last week, Bev?

BEV: Yes, and we had many profitable meetings. I'd like to share the information with Gregg.

BOWMAN: It seems, though, that we would be able to do anything on that. I just need confirmation from or Legislative sources.

HUBER: We have the authority now and the question is how much money do we want to expend and for what purpose, right?

BOWMAN: Yes, if there is one. I presume the need is still there. Were you able to get your money, Bev?

BEV: Yes, we took care of it.

BOWMAN: Are there other questions or business to come before the Committee? Keith?

SPECKING: Mr. Chairman, I'm wondering if it would be possible for Gregg to let us know in advance of this Washington thing. Where are we first meeting? There could be a little confusion there.

BOWMAN: Yes. Where is our assembly point?

GREGG: I'll send you confirmation of your hotel reservations to the address that Cathy has unless there's some other address that I should send it to. What the tentative schedule will be--I'll work it up in the next week or so.

SPECKING: Yes, in the event we don't get together that night before, we'd know where in the morning.

HUBER: Am I the only one that will be joining the group on the morning of the 9th and for the 10th.?

BOWMAN: I don't know.

HUBER: Everybody else wants to get in on the 7th, is that right? We start on the 7th over in Philadelphia.

BOWMAN: We don't know where Pat Rodey, Mike Bradner, and Chancy Croft is going to be. There will probably be others.

ANDERSON: Has the OMAR made a proposal for assistance?

BOWMAN: They make a request about three weeks ago when they were trying to get the moneys together to send a group down.

ANDERSON: My objection to OMAR, as noted in the previous minutes, still stands, unless OMAR takes a look at our labor force...and makes it one of their objectives. I don't really think I can support a request for using our funds. But, I'm sure that they will come up with a way so that the inconsistency will be resolved where you're asking people to help you then turning around and saying, well, you can't work on it.

HUBER: Of interest to the Committee; our xerox operator on the second floor of the Capitol, Bob Chy, who was out for a cancer operation last year. I ran into him in Fairbanks and he complained very bitterly to me that he's been in Fairbanks 13 weeks as an Alaskan trying to get out on the line and he hasn't been able to make it yet.

BOWMAN: I agree and I get a lot of calls like that but you have to really get down into each one and search it out to verify a lot of information. I don't know of too many, I'm sure there are a lot of them, but I don't know of too many people. They might not have gotten the job they wanted or the position out in the Union, but I don't know of too many people.

HUBER: Bob is with the teamsters...

BOWMAN: He's with the teamsters and wasn't able to get out?

HUBER: That's what he volunteers. All of you fellows here know Bob, so you know that he's a competent man and a worker.

BOWMAN: I also want to take notice of Senator Meland her. Senator, would you have some instructions for the committee?

MELAND: Mr. Chairman, I don't have any instructions for you. I certainly am very impressed with the type of rapport that you have in your meeting. Seems like you have accomplished an awful lot and in good humor, thank you.

BOWMAN: Well, it's always a pleasure for us Senator, to have you sit in with us.

Are there any other items you want to bring up? If not, the meeting will stand adjourned. I appreciate all of you coming on the notice we had. We will be sending out the minutes and other documents, as soon as we can get them together. Thank you.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

ANCHORAGE CHAMBER OF COMMERCE  
SYMPOSIUM

WITH  
Louisiana attorney John Camp

October 6, 1975

Croft's introductory remarks are not included because the tape-recorder was located too far away from the speaker.

I came to Alaska to talk on an intrastate gas line and how it would relate to Louisiana. The problem with your gas going into the intrastate line on a contract that would permit you to pull that gas out at some later date and if you have an FPC approval on this--how safe would you be?

I would be gravely concerned if I was an Alaskan...I also posed the same question to Don Smith and another member of the FPC and to Russ Moody who just left the FPC. I go back to my suggestion that I've no doubt in my mind with the proper contract and proper certification to doing...I think you have to go much further than that, as the philosophy and political and economic realities on the further end of the pipeline are really going to go on what happens to your gas.

Now, circumstances that make it more difficult is when people take your gas when you need it. It would seem to us that legislation would give you your best protection--even legislation can be changed, however. I'll I'm doing is giving you thoughts I have--I'm certainly not qualified to go further than that. With assurance, your deal to protect Alaska is going to be made before that gas starts moving. If you don't protect yourself in the absolute maximum degree...control of your producer share of the gas in your leases, taxes with a refund to those people using gas in your state--everything you can do must make it more economically feasible to keep the gas here--more difficult to move.

If you can get in a position where it's a question of a pipeline running from the North Slope to the Midwest or California or some place else. What you're trying to do is take some of your gas out of that line. Let's assume the line is full to Anchorage and you want to take some of that gas out and use it here..I'll say you have your work cut out for you in the future. The shortages will be greater, the politics will be tougher. Every practical circumstance I can think of mitigates against favorable decisions in your favor down the road.

People are going to do the right thing as they see it. The right thing is to protect the home folks. I'm just giving you thoughts

that I had run into on how this works. I may not be absolutely correct on my facts as I've only run through this and I'm subject to correction.

My understanding is as the lower end of El Paso's line or rather in the California users off of El Paso that the format normally is interruptable industrial contracts, meaning you pay a low price, you intend that your gas may have been interrupted as various problems arose. It's interruptable. Over into New Mexico and Arizona and other areas from which a part of El Paso's gas is received, the general type of contract, according to the information, is a confirmed contract.

You want the gas, you make a confirmed contract--getting the gas over a period of so many years on a regular basis. The FPC now construes the firm contracts and the interruptable contracts on virtue of the same basis and that same rule is being repeated in key legislation now before the Congress. What I'm saying is that a guy in New Mexico who made a firm contract built his plant and did not put in alternate fuel capacity. A man in Los Angeles has perhaps alternate fuel capacity but, he has an interruptable contract. There's no difference in the way they're now being considered. There was a time -- but this has been building up for the past several years, it's all over. I point out a couple salient facts--the interruptable contracts are where the people are and the votes are. The interruptable contracts are on the East coast--they're on United gas pipeline climb, they're on the El Paso climb. It's not a question of whose land they are on but where they are. They are where the votes are, the people are, and the jobs. The Firm contracts, by and large, are in New Mexico and Louisiana and in any other place where we don't have any people and no votes.

Now back to my personal feelings--better make your deals now and get your protection there. If it were me, just me, not the state of Louisiana, I would keep my gas in the ground--I'm not talking about royalty gas--I'm talking about my producer's gas in the ground until I have something worked out. I don't see you keeping it in the ground ten years...the circumstances are so desperate that that's not going to happen. If it were me, it might take another six months--but it will take some period of time. I say it will stay in the ground til we get fair treatment assured to us under the best approach.

I can't over emphasize to you how little knowledge and how distorted the knowledge is in the Congress and federal agencies on the gas problem. I'm not saying they're stupid, I'm saying that you don't have very many people in Congress who have been involved or next to the oil and gas business. The fact that you're from Louisiana or Texas or Oklahoma doesn't mean you're an instant oil and gas expert. You run into this every day. From an oil state

you'll be lucky that you got a couple or three people in Congress who know anything about the oil and gas business. Whatever the reason you just don't have that much expertise and you are very fortunate in Alaska for I know three people you have down here --I'm not up here to elect them, I'm just telling you that they have a good grasp on this problem. You don't need to lobby them --you need to lobby the guy from New Jersey, New York, Iowa and other places. In my own state of Louisiana, we've had people tell us: I don't know anything about oil and gas, I don't have anyone on my staff that knows, so figure this out for us--that's what you're here for. We have found particularly congressmen, from basic producing states who were elected on the platform to get prices down--reduce prices and cut depletion allowance...

Before I get into that I have an editorial from the Washington Post which I will tell you (one of the newspapers in the country that doesn't reflect the views of Louisiana). The Washington Post says Texas, Louisiana, Oklahoma are subsidizing the fuel costs of Washington D.C. and the East coast and heavily populated areas of the country. I'm convinced, but didn't know they were. I met with the Governor of Oklahoma last week on the problem in Washington. He was very frustrated because the deeper the gas reserves in Oklahoma, that haven't been produced, and believed to be there below 15,000 ft.--you could absolutely not produce that gas at the current price rate. It's a question of no gas or cheap prices--it just can't be done. I said to the governor, I'll answer your problem for you, as I've been through this, I can give you the staff people on one of the key committees that we had a real battle with. I was telling one of the senators that you have to have a price to drill the deep sands and so on and on. So his answer was, I didn't understand the problem--that the averages would take care of it. He said, look, you don't understand that if you drill an 8000 ft. well and you make a lot of money on it and drill a 15,000 ft. well and lose a lot of money on it--the average will be all right.

Now, I read in daily gas reports what the prices are for synthetic natural gas. So when we say our prices are too high when compared to what? Coal? Synthetic gas? LNG from outside? when compared to what? It doesn't have any value. When we proposed our legislation to our legislature, we made a presentation along this line. The reason we have the problem is that the gas is so cheap. We talked to them about a plant in West Virginia at the mouth of a coal mine that converted to gas because it was cleaner, cheaper and so on. It should never have been converted to gas if gas had been where it should have been. As long as we have these cheap prices, we increase the demand and so on. Again, I go back to where the votes are and how it's done. I re-emphasize to you that when we talk to people from these other areas and sit down and get acquainted with them over a period of time...

I remember visiting with a congressman from Kansas. He said, you represent big oil companies, we don't have anything in common with your state. I said, did you ever have any schools closed because of gas shortages. Yes, he said, schools in my town closed two weeks in the middle of last winter because of gas shortages.

I said, I thought you had some gas. He said, we do, we have the biggest dry gas field in the world. All it took was that visit. All I had to say was, where is your gas going? We found that gas was going into underground storage under a different set of priorities from which it was taken out. Again, I go back to this Commissioner, he said, Where in the hell have you people been? Don't you know what's happening to you?...

QUESTIONS:

Q: What about deregulation? Is that in the cards politically? How would you put price of gas on an economic basis. What would that do to the local supply of Louisiana?

A: Deregulation of gas, we feel is good for the nation, as it would create gas. It would be bad for Louisiana, because it means that people who cannot bid for our short supply will then be in a position to bid for it. Governor Edwards has taken a position that it is so critical for the nation in having increased gas supplies that you could get with more prices, deeper drilling and that sort of thing. He's taken a position even though it's prejudicial to the interests of the state of Louisiana. It's such a national problem, we've got to go with it--so our position has been with the deregulation. We expect deregulation to come about under some kind of compromised formula, maybe, but it has got to come. I was there last week with our people and we were very pleased with the vote. Our senators have met with some of the "border states" on the problem. I'll I did was give just an earthy explanation of what this was all about. It was no gas, or get the price up so we can drill for some of the deep gas. One senator said, I don't understand it that way--I'm for cheap gas. I said, well, fine. How are you going to get the money to drill for deep gas you can't produce for the present time. He said, I didn't understand it that way, but I'll go with you. I'm convinced that we're going to get deregulation--whether it will be 100%, I don't know.

It seems to me that if the price is competitive, then they would just sell it to the highest bidder ...

That's true, but the thing about it is, You've got so many reserves known and believed to exist, that you can't drill it and produce it for the current permitted prices. In other words this won't stay in the ground.

Now let me go back to my staff problem. I was meeting with staff members a year or so ago. One of the three top committees, he was saying that we should have a national price for gas. Maybe you can help me with the problem I have right now. I'm representing some clients of North Louisiana that are trying to sell gas where the wells cost \$30,000

to drill and it's very low production. We're also trying to buy that gas. We're trying to sell gas out of the well of one of our clients that cost three million dollars and went down 20,000 feet. Now can you tell me how you can have a price that will really work out across the border on this. We'll make some adjustments they said--no understanding of the problem at all.

Q: Mr. Camp, the lands of Louisiana, who owns or controls those lands where gas was found. Did the state of Louisiana receive any percentage of that as a royalty gas and if so; what are you doing with it.

A: The substantial part of the gas produced in Louisiana is produced from state owned land. Up until three or four years ago, leases would not provide that we take state royalty gas. We are not in fact having to take state royalty gas at this moment. We have a critical need, we call in the people around the table, ...we need some gas, and we need it now.

Q: Would you have a certain amount given to the state of the production of that field as your right as a royalty or do you want it all.

A: We have a royalty on it. All of our new leases provide that if you bring in new gas well, that is not previously committed, If you get a new lease, and you discover gas you have to first offer that and sell it intrastate. If you can't sell it, have the state offer to sell it. What we're trying to do is keep it in the state. So we can pull our royalty share, we can also tell the producer we want him to sell his share intrastate.

Q: Our problem is a little different here--we sold the right to our gas quite a few years ago. However, the state retains one eighth to twelve and a half percent of that production of that field as our royalty. Our problem is control of where the gas goes, how it yields, as it basically belongs to others. Louisiana gas primarily comes from state owned leases.

A: Under our old state-owned lease, we do not have the right to get at the producer's share, only the new leases. We have our royalty right the same as you do. What I'm suggesting is that your lease form for new leases--I understood you had a lot of state lands that were not leased.

Q: We do, but all of Prudhoe Bay is on state land...We've got our royalty with the option to take it...

A: Well, Senator, do you have a lot of state owned lands that are yet to be leased for development? Would there be any problem in putting in those new leases yet to be granted--provisions that would give you some control over what happens to the producer share.

Q: The non-royalty share?

- A: That's correct. We do that in Louisiana and it's a new statute in Texas. I'll be glad to give you copies.
- Q: Mr. Camp, does the state of Louisiana take any of its royalty gas for the use of the state?
- A: No, we have the right to own recent leases. I'm saying that what actually happened in that we've had a need to call on state royalty gas. What we've done is call on the holders of various state leases and suggested to them that we have that right and that wouldn't it be much better if they worked it out for us and gave the man some gas so we didn't really have to get involved in all sorts of bidding problems. Incidentally, on that same point, at our recent Legislature, we passed a law that permits our mineral board to sell gas by negotiation rather than bids. Of course, the first problem is what looks like a bunch of crooks trying to get the state's gas. My point was this, there is legislation in Congress that could make every intrastate gas line a common carrier. There are some bills that will have the same effect. So I said any time that the town of Elizabeth (e.g.) wants to bid for gas against the city of Chicago, Elizabeth will lose. We've got little towns that don't have much money and we've got bidders over the country whose prices are totally inelastic. So on a bid basis, we figure that most of the gas available in Louisiana might well be lost. So what we did was pass a law that set all kinds of guidelines and standards and says that if mineral board decides to negotiate for the sale of state royalty gas, the contract must go back to our natural resources committee in the House and Senate and everybody else for approval. What it does is give us the right to negotiate the sale of gas to the people in Louisiana whereas if we had an open bid, the chances are, we would lose to somebody else....(end of tape)

...I brought eight states with me--that's the thing you might possibly be missing, I don't know, but it has been most effective for us--and we can get out and hussle these other states to have similar interests with us. We had meetings in Washington, we invited the governors people up, all the state people up, the legislature. Even seven or eight members of the New Mexico legislature came up. What we had found was this, that most state levels, I'm speaking here of people I've worked with like Mississippi, Arkansas, Kansas, Wyoming, Texas, and New Mexico and a number of others. At the state level, they tell me to find what's going on by reading the newspapers. Frequently, we've been able to take what a committee is doing .. five major committees meeting the same day--so if you don't have a staff to do it, you can't do it. We find out what's happening, what is being proposed--maybe we say, boy, this is hitting New Mexico and then get a hold of New Mexico people

and tell them this is what they are trying to do to you. We've worked great with the New Mexico senators and representatives. It's a question of what's happening. I don't know a single senator or congressman whose staff did not fully occupy themselves with taking care of the home folks' problems. There's no way they can find out what's happening in five or six of these major committees. I tell you that people against your interests would know.

Q: Mr. Camp, I understood you to say that we ought to build our own pipeline for our own gas. Do you mean by that then that it wouldn't really matter to the state of Alaska or if a major interstate pipeline went through Alaska or whether it went through Canada, if we built our own pipeline for our own royalty gas down from Prudhoe Bay. Is that what you meant?

A: No, not exactly as I also said, that if your gas supply is moved from the North Slope to the lower 48 in such a fashion that the pipeline does not cross the part of Alaska where you would need gas or industry. What I am saying, if you built the pipeline from the North Slope across Canada--then you'd never have any of these problems, because you'd never even get a crack at the gas. First, I personally believe a pipeline of Alaska is preferable and secondly, if you're going to have an interstate line, for god sakes have it at a place where you can always argue about it and at least try to get some of the gas out.

Q: Were you also suggesting that we wouldn't have this problem of the gas being commandeered outside from an interstate line if we had our own pipeline from Prudhoe Bay that didn't have anything to do with the industry.

A: What I was really trying to say was that it would be possible if it would be possible that you could build a pipeline from Prudhoe Bay to Valdez or whatever big enough or pipelines big enough to handle your gas--hopefully all of your gas is moving through Alaskan lines. Then you would be in a much better position than if one or more of those lines were an interstate line running through Alaska to Chicago.

Q: What would be considered interstate if it's liquified and taken out.

A: What my understanding is at the present time, is that it wouldn't be considered intrastate, I tell you that this is subject to change when in a tight spot--these rules can change. As long as you have your pipeline and your gas and you're not connected with anyone else, you've got your best hope. Of course, if you build your own pipeline, not necessarily the state building it, and you financed that

line with the guarantee from the people who were going to build it--then I don't see any real financial risks there for Alaska.'

- Q: We've heard you say, then, that if the proposed gas line goes through from Prudhoe to Valdez--that it will be liquified there and shipped out. Then there is the twelve and a half percent royalty gas--you suggest that it go where the population is going to go. Now, it just so happens that the Prudhoe-Valdez area is not going to be the area where all the people are going to be located. Are you suggesting that you would build a state-pipeline carrying a 12 and a half percent royalty in a location other than the one established.
- A: I'm not sure I'm suggesting that, but it sounds like a good idea for the economics that go with it. You may have to find some producer's gas--you ran a new lease, and in that lease you can keep a call on that gas--you can require it in your lease to be run through your pipeline. You've got the muscle.
- Q: Recently a report was published by Getty which was not supposed to be published. Getty reported an estimated deregulation that the price of gas would go to 2.25 per Mcf. Do you believe that is correct?
- A: Our experience in Louisiana would tell us not. We have a free market in Louisiana and in Texas. I talked with the chairman of the Railroad Commission a week ago--and he told me there had been a few isolated sales of \$2.00 but really sales are much lower than that on the average. An average during the past year has been about \$1.40.
- Q: Let's assume Getty's prices of \$2.25, the lowest estimate so far coming out of here by BLM and the studies they have had done or some that other people had done run from \$2.50 to \$3.00 -- that's in the same area of competition. Do you believe that we could continue to compete with that kind of gas?
- A: Yes, let's go back and talk about the gas in the lower 48. Remember the facts on Louisiana, the export as much as all the other states put together? Our drilling was up about 20% and production down about 12 or 13%. The production decline has been doubling every year... there is a significant decline in production in Louisiana even though there is a significant number of new wells being drilled. At the prices you're quoting, somewhere around two dollars. It's cleaner and easier in handling at a flat even delivered price, you're still better off.
- Q: The price I was talking about was city gate price..Do you think our gas would be competitive?
- A: I read some figures the other day in New York city and I'm

not sure I can quote them to you correctly, but it seems to me that for a unit of gas it was \$2.25. The price of gas just isn't that big. This is a political football and if you take the delivered price of gas in most instances, the actual well-head cost of the gas is not the biggest part of the cost. If the gas delivered turns out to be \$2.00, I think it would be considered a bargain. Maybe I don't know that much about that, I don't think you have much of a problem. I have in my briefcase an analysis of all the price afforded within a given quarter recently--there are a bunch of prices in that--\$5.00 is one. You've got a lot of uses...My own feeling is that at \$2 or \$2.50, you have not reached the point where you have a surplus of unsalable gas...

Q: Do you see any hope of what I call this ridiculous FPC regulation that says when gas....will the regulation ever be changed?

A: Oh, no. The only way that will be changed is through pure transportation agreements of the FPC...The real hope we have is that some of our strongest...are running out of gas. If we just don't let them have the rest of the gas until they've got something that's reasonable, we'll get it.

Q: The reserves are presently estimated at 26 trillion, I think most of that has been committed with the leases of the North Slope. WE have a right to 12 and a half percent. There's a real fear that once this gets into any gas line--whether it be trans-Canada or trans-Alaska, that it will be treated as interstate commerce and lose the right to use it in whatever we desire it for. If I understand your advice that we have a commitment for the use of that 12 and a half percent. It behooves us to have a commitment and probably have an interstate line if it's economically feasible to use.

A: You should do all those things and get your gas. Let me give you three examples where contracts just didn't mean very much. At Lake Charles, we have... they made a deal with Pennico to buy and drill some off shore reserves. The deal was that Pennico would take half the gas for its interstate line, Connico and the ... would take the other half. Pennico got it's half, the other two applied and nothing happened--nothing happened for so long that Pennico came in and said that half the gas is gone, let's shut the valves off--because the other two own the other half. FPC said that it didn't matter that Connico didn't sell their gas interstate, you cannot abandon--keep delivering the gas. There is another case involving south bound...royalties where there was a 50 year lease (I think Gulf was the company) and it expired so that the owners at that point had never contracted with anybody. The owners at that time wanted to sell the gas to somebody else intrastate--I think for \$1.90. The FPC said 'no. It doesn't matter that the owners of the mineral rights never involved itself in the sale of its gas--it is committed interstate and you cannot stop deliverance unless the FPC approves. There are some others like that.

Q: Has that ever been challenged?

A: Oh, yes. Connico often worked out some small percentage. There are a number of recent cases--

Q: Do you have any examples of the kind of manufactures involved?

A: Louisiana is filled with petrochemical plants and so is East Texas. Natural gas is used to make every kind of synthetic fiber and materials and all sorts of sophisticated products. I personally know of major companies, I know of two right now who are making a major survey of the world's locations to attempt to determine where some major new petrochemical plants must be located--in order to be located at the base of natural gas. They're looking at the mid-East, at various areas outside the U.S.

Q: We here have one petrochemical plant that manufactures-- that's the urea-ammonia, which uses about 50 million cubic feet of gas. I guess we can presume that the pressure on fertilizer is going to be a future. Because these are base products and not packaged in the consumer goods where your freight is high. I would suppose that we should go into that very vigorously--if it's not already being done. Do you think so?

A: Absolutely, I really would encourage you to do that if it's not already being done. Again, in preparation to the trip up here, I talked to some of the Washington representatives of an organization, I don't know the name, made up of all the other companies, the Duponts, etc. involved in this kind of endeavor. I think it sounds like a good idea even though the economics may not be with it.

The petrochemical group has a prominent organization. Before I came up here, as I said, was to talk to their Washington representatives about whether or not this was a good suggestion. I made the suggestion based on conversations I had already had with people in that organization.

Q: If it's going to cost 11 or 12 million to build the pipeline Maybe we should produce fertilizer in Prudhoe Bay and then ship it out.

A: As I understand it, some of the estimates are like a billion and nine to build the gas line from the North Slope down to Valdez--all the rest of that money goes into liquification plants. That's not that much money in terms of .....

Q: Alaskans are a little bit concerned over the possibility that maybe the final decision as to whether the pipeline will go across Canada or Alaska may not be a decision of the FPC but in Congress. Do you have any feel for that at all?

A: No, I don't. I don't have anything useful to give you at all. If I were pursuing this, I would be sure to talk to some people who would be getting the gas out of your all-Alaskan line. I would assume that would affect states like Arizona, California, New Mexico, and all the states, and maybe Texas, that would benefit from deliveries of gas to the West coast of the U.S. I don't know if you are doing this, but this is the most successful thing we've been able to do is go find states that have an interest in what we're trying to do.

Q: In that regard, you may have heard of the two proposals of displacement of gas that now moves to California, El Paso particularly, would move it to the Mid-west and the East. What dangers would you see in that? You talked earlier about the possibility of curtailment.

A: What dangers that I would see if your gas was moved to the East coast?

Q: We don't care once we sell it, but do you think that is practical? Do you think the people back East would buy it?

A: Yes, I'm sure all of you have seen this map. It is a map of major natural gas pipelines--you will see that you can move gas anywhere in the populated areas. If your gas comes in the West coast, you have existing lines, where the flow would have to be reversed. I know El Paso stated in one of the exhibits I read, that this was no problem.

Ok, once you get this gas down into this area, into Texas or Louisiana, you've got a spaghetti bowl of pipelines that will permit that to go anywhere. So my answer is, I think would be all over the United States.

Q: In meeting with the California coastal Commission people, they were talking about converting that line to an oil line going the other way in order to get additional refining...with that in mind is there sufficient passage to California, Texas, Oklahoma, Louisiana to handle the gas?

A: I don't have the technical knowledge to answer that. My impression is that if you reversed the direction you can do this. I know Texas, Arizona, New Mexico gas is going to California. If they're getting your gas and don't need your gas..judging from the position by El Paso, you could reverse the flow of that gas....I think you have a tremendous number of allies in the U.S. that you might not be using. If you send a delegation to meet with a Commissioner or somebody else or congressman. Here, I can't over emphasize, here is a mass of people out here you're not communicating with. And they are the guys that are going to make all the decisions.

Q: (garbled)

A: I would think that first of all your Legislature could possibly pass some very restrictive legislation--part of which

may be unconstitutional. You're entitled to try and build your own pipeline. You've got a long hard way ahead of you with many different battles and you're going to have to face each one as you go along. Each time you take a position to make it more practical or more feasible or easier to leave the gas here and more difficult for people to absorb your gas in the lower 48, you've got the best hope of success.

Q: Could you go into some detail some of the legislation whereby Louisiana taxes gas and then gives the rebate to those who use it.

A: It does not do that any more. WE had a law for that purpose but really we got short of gas, and we saw no reason for the rebate because we don't have any gas for anyone to use, But for the period when the law was effective, it provided that if you had an industry in Louisiana using natural gas, you got a refund against your other taxes. If you put a tax on all gas--but if an industry used gas in Louisiana, he got some special tax concessions of a significant amount.

Q: (garbled)

A: No, Louisiana has a severance tax on all gas produced.

Q: You talked about the gas from the North Slope already being Committed, from your experience from a producers standpoint, then he has some escape in his contract if he can't deliver? If he has his gas committed to a utility or another gas company in the East coast--if he can't deliver, he's not going to be penalized if he couldn't go ahead and fulfill it--it's a continued sale, isn't it?

A: No, I can't say that. If you passed a law that directly interfered with Interstate commerce, I think you would lose.

Q: I'm not talking about that--but rather our continued sale. I'm questioning the emphasis we're placing on the fact that people would say, we've already sold that gas.

A: I'd like to comment on that. Could anyone tell me if the Alaskan Regulatory Commission regulates the drilling and operation on your leases(?) I include in that question a reference to how the wells should be drilled, the whole bit.

Down in Louisiana, we find that if we can create as much muscle as possible, we hardly have to use it. In fact when handed all these things to the Governor, I was asking the Legislature how we were going to apply. I said I hope we never have to use it. I think it's so restrictive that I really don't think we have to use it. But, if someone won't play ball, we will use it--and we had almost no opportunities to use it, because everybody plays ball. You're sitting

there with one board pointed by the governor that's regulating how many wells you should drill--and another agency appointed by the governor that gives you well permits and really regulates the physical drilling of the well. If you have those two things under firm control, you've got an awful lot of muscle. If you don't have as much as you like, maybe you ought to pass some laws and create some more. We're pretty reasonable people..... Let me give you an illustration of what we did last week. At the Southern Governor's Conference, I think it was Gov. Edwards, ...he needed 20 million cubic feet of desert(?), nothing; they had some glass manufacturing plants, and textile mills, and some thousands of people would be out of work this winter if they couldn't get some gas. Gov. Edwards said, we'll get you some gas. The political realities in Louisiana is that we need North Carolina's votes bad. You heard the figures, we're short of gas. But, our best hope of getting gas, is to get people like North Carolina going with us. The Governor said, you get them some gas. We invited about 30 companies to come in. We explained our problem and at least six people stood up and said they'd be delighted to help. We didn't make anyone do anything. In fact, one guy said, I understand the political realities of what you are trying to do--you want some votes from these people.  
(end of tape)

MEMO: Members of the Gas Pipeline Impact Committee  
FROM: Eric Eckholm  
RE: Discussion of Gas Pipeline with Department of  
Interior officials.  
DATE: 10/31/75

PLAYERS: John Latz, DOI  
Burke Riley, DOI  
Clark Gruening  
Pat Rodey  
Staff

Riley apologized for short notification stressing informal and not official briefing. Latz did all the talking. He is an engineer for DOI, and seemed very knowledgeable. He said:

1. Gas pipeline by either route is financially desirable.
2. Neither route has financing capability at this time
  - a) Arctic route would need federal subsidy or guarantee.
  - b) El Paso is not at all credible unless they get financially sound partners.

This lack of sound financing is partially the reason why the Federal Power Commission is not rushing to make a decision.

The industry will probably make some readjustments in gas ownership to insure financing capability for a pipeline.

- a) At present, North Slope gas is optioned out to 8 gas companies who are behind the Gas Arctic proposal.
- b) Cost of the pipeline will be shared in proportion to ownership of gas. Principal present owners of gas cannot finance pipeline.
- c) Tenneco Gas is the largest gas company in the world, and probably only company able to come up with financing necessary for construction of the pipeline.
- d) Whichever line is able to come up with sound financing will probably swing rest of owners behind it, thus taking competitive bids for line.
- e) Exxon wants to build Canadian line because of McKenzie Delta gas, which they own most of.

Latz indicated the State's royalty gas is critical at this point in time. The Canadian line is not feasible for at least two years according to DOI. Each 1 year delay means 10% loss of economic desirability for either line.

His suggestion for state posture, if we decide we want an Alaskan line--commit royalty gas with qualifications:

1. Gas available only to the extent that the State doesn't need it for in-state use.

2. Committed only if purchaser insures pipeline is built through Alaska. He also indicated industry assurance that we would not do the same thing we did to the oil industry; reserves tax, was necessary.

He stressed he did not advocate committing to Tenneco, that if the state committed to anybody (i.e. El Paso), that they would then cut a deal with Tenneco to insure financing.

He also indicated that time was critical to maintaining favorable state position.

Latz's general comments:

- 1) Keeping our gas in the ground is not a possibility. It uses up gas, we do not own the resevoir, and need to come up with a lot of financing for the equipment.
- 2) The lower 48 market will accept any \$3 per million cubic feet gas it can get according to Arctic's marketing people.
- 3) Anything over 50¢ wellhead price is profitable enough for the line.
- 4) 400 million barrel loss of oil by 2000 A.D. will accrue due to gas production, but this is insignificant compared to gas revenues.
- 5) Nobody in the industry or government has ever done this before...nobody's sure what is going to happen...

Mr. Latz stressed that these are only his opinions, not DOI policy, these are rough notes from his qualified opinions.

11/7/75

Memo: To the file  
From: Eric  
Re: Meeting with Pat Dobe, Div. of Oil and Gas

Main Points

- A) State should not commit royalty gas at this time
- B) Keeping the gas in the ground is an option
- C) Industrial development in Alaska is a very real possibility
- D) The country is running out of gas and oil, prices will only rise.

Explanation

A) The state should not commit royalty gas at this time.

Past history has shown that if we commit our gas to go out of state, we may not be able to use it in-state if we later want to (FPC ruling in Louisiana). To commit our gas now might preclude later development in state.

B) Keeping the gas in the ground is an option.

As the gas is produced, we can count 12.5% as credit, not taking any of the gas. At a point when the reserves are estimated to be down to only our share, we could cut off production.

This has not been done before. We run the risk of 1) accepting reservoir estimates, and possibly not getting the amount of gas we are entitled to, or 2) having the US nationalize the gas and taking it away. It would not involve reinjection, if we just did not produce it.

C) Industrial development in Alaska is a very real possibility.

The cost of gas is spiraling. Gas in California is spiraling. present costs are in the neighborhood of 50¢ Mcf in Alaska, and \$2.00 Mcf in California. If industry can purchase guaranteed quantities of gas at 1/2 or 1/4 the rate, immense savings can result (in the neighborhood of \$30M a year for a petrochemical plant). This savings will probably more than offset the cost of transportation, and added labor and construction costs, which are escalating at a much slower rate than gas.

D) The country is running out of gas and oil, prices will only rise.

It is a fact that the reserves in this country, and around the world are running out. Some countries are talking more often about significantly cutting production to maintain reserves. 40 years is the number Dobe mentioned more than once for supply of major reserves. California is going to be faced with critical shortages in 2 years. The country is hungry for natural gas. If Alaska uses it's gas to sell outside the state, our resources will be depleted in 15--25 years. According to Dobe, around 199- the state will begin to face shortages. Due to nationwide shortages, and geography, Alaska will probably be unable to purchase gas elsewhere--"We'd better hang on to what we've got."

Memo: To the file

From: Eric

11/11/75

Re: Arlon Tussing seminar/Alaska Industrial Development Council

A brief history on Alaska Oil and Gas use, and possible direction;

"The era of cheap energy is over"

Main Points regarding North Slope Gas;

- 1) It is not economical to produce North Slope gas.
- 2) De-regulation of gas in lower 48 would make production of North Slope gas less feasible.
- 3) Either line will probably need some federal subsidy to be completed.

Explanation:

- 1) Neither line is economical.

Tussing said he studied ~~all~~ major construction projects in the past, and they run approximately twice as expensive as anticipated. This would mean a price of \$16 to \$20 billion for the Gas line, either route. Here is his projected scenario;

The FPC gives a go ahead to either route, and allows companies to charge interest on their construction loans to current consumers--A portion of the line is funded, \$3 or \$4 billion in loans from private industry with projected cost of \$8 to \$10 total.

--By about 1979 the preliminary work is done, the main financing is needed, but the cost has risen to \$14+ billion--financing companies want proof that gas can be sold with solid contracts at a price to cover the cost of the line. The price is too high to guarantee sales.

--The constructors of the line go to congress to get bailed out and obtain financing for the rest of the line.

--Congress provides a subsidy, but the wellhead value is negative. the state receives minimal price for taxes or royalty gas.

--In this case, the Alaskan line is economically beneficial to Alaska, considering revenue from building the line, and possible industry attracted by cheap gas at tidewater, before liquifaction.

2) De-regulation of Natural Gas would adversely affect North Slope production.

Effects of De-regulation

- a) supply will increase.

--price will rise to intra-state level (FPC inter-state price is 52¢ Mcf. Intra-state price is about \$2.00 Mcf)

--Horded gas will be sold

--more gas will be tapped

- b) Existing lines interstate will be able to compete with intra-state prices, and the non-producing states will have their shortages eased.

- c) Demand will go down.

--As price rises, some consumers will switch to other fuels--at present, 50% of natural gas is used as boiler fuel, this would be cut down as price rises.

Page 2, Tussing

All other things equal, the demand for Alaskan gas would go down. --Alaskan gas is going to be expensive. With regulated price, expensive Alaskan gas can be used to supplement cheaper, regulated southern gas. The price can be "rolled-in" to maintain a competitive price with other forms of energy, especially coal. If gas is de-regulated, there will be no "cheap" gas to average the price with, and the High cost of North Slope gas would keep it out of the market.

3) Either line will probably require a federal subsidy  
--see scenario for 1). Line costs will be prohibitive for private financing, and not be worthwhile to produce unless congress provides subsidy.

Memo: To Committee members

From: Eric

Re: Suggestions for gas use, speaker didn't want his name used.

11/12

- 1) Severance tax increase incrementally according to revenue lost if Canadian Line is OK'd by FPC
- 2) Severance tax tied to price index
- 3) equity ownership of Pipeline rather than cash contract.

1) If the FPC goes with Canadian line, raise Alaskan Severance tax to cover economic opportunity lost to the state;  
If we determine the Alaskan Line will produce 15 times the revenue the Canadian line will, then raise the severance tax 15X to cover our losses.

2) Structure the severance tax so that we are insured some return. Set a % and a base price, and tie it to a price index to compensate for increasing market value.

--The FPC might set an unreasonably low wellhead price on the gas, from Alaska's viewpoint. If Alaska makes the tax something like 10% per X, or 5¢, whichever is greater--we are assured of some return.

--Prices are skyrocketing for gas. If we make a deal today, we may get shafted tomorrow. severance tax should be tied to at least one or possibly several price index--gas price intra-state, inter-state, or wholesale price index--insure we maximize returns.

3) equity ownership of a pipeline. (watch out, hot topic)

The state of Alaska assume joint venture with industry for construction of pipeline. Serves several purposes;

--Once we make a cash deal for our royalty gas, there is a very strong possibility that it might be deemed inter-state commerce, and we would be giving up any chance of future in-state use, no matter where the line goes.

--We make a deal for partial cash payment, and say 25% equity of line, and 25% equity of ~~new~~ LNG tankers. We get;

a) A cancellable contract if the line does not go through Alaska, which we might not have with a cash contract.

b) Increased financial backing for an Alaskan line--the financing is minimal now, with state support the financing is ~~may~~ enhanced, we recover whatever we invest with taxes very quickly, without cash outlay.

c) A continuing revenue source ~~at~~ at a rate of return that is attractive--12%--14% on line, and LNG tankers are not regulated, so their return will be probably higher. This money cannot be squandered, and would provide steady, bankable revenue for the state.

#### Problems

--Obviously political dynamite--state participation in private industry

--possible mismanagement due to political partisanship rather than corporate profit seeking

But--this would be controlled by private industry, with the state as only a minor stockholder--would give state leverage and \$\$

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Memo: Committee members  
From: Eric  
Re: Tenneco meeting  
11/13/75

Tenneco has proposed to buy the state's royalty gas.  
They offer; \$100,000,000 front end money

- they will pay the interest
- Alaska will pay by future oil or gas income
- They will support Alaska route

--\$100,000,000 front end money.

They will give us the money even without FPC allowance to pass on the cost of the money to their present consumers. El Paso's offer is contingent on FPC allowance to pass on costs.

They say we can back out if Alaskan route is not given FPC Go-ahead. There is some question if this is possible with the FPC once a contract has been signed..i.e. if we commit our gas contingent on obtaining an Alaskan route, and we accept some cash for it, if the line goes Canadian, we might not be able to then back out of the contract.

-- We would pay back the principal, not the interest out of our future oil or gas revenues.

--They want a commitment of at least 90% of the royalty gas before they will sign a contract. They say that supporting the Alaskan route will cost considerable money, and that they need at least 90% of the gas before their company will consider backing an Alaskan route. They say that there are undoubtedly other gas reserves in Alaska that will be able to take care of our in-state future needs as they arise.

--Tenneco sees the next 4--6 month period as critical in obtaining a go-ahead on the pipeline. With the stalemate of an energy policy in Washington, the only way the country can further "Project Independence" is to push for quick availability of Alaskan Gas. With the country facing a gas shortage this winter, and an election coming up, the decision can be made soon, possibly with congressional override of FPC's right to determine route. After this period, the variables are too great to determine what might happen. Tenneco is willing to push for Alaskan route if they get commitment soon.

--El Paso is so far into the project they will continue to be involved even if we commit gas to Tenneco. Tenneco did not specify what involvement El Paso would have, or their plan for building the line, or their strategy for getting the decision for an Alaskan route. They are the largest gas company in America, and are financially as viable as all the major Gas Arctic people combined.

--personal observation Tenneco is gambling. They seem to think the Alaska route is possible. They have not put very much into their proposal or their discussions with Alaska. They are asking the state to commit 90% of our royalty gas, but they have yet to show strategy plan for getting Alaskan line, or construction plan for the line, if approved. We need more information...

**Tennessee Gas Transmission**  
A Tenneco Company



Robert C. Thomas  
Vice President

Chamber of Commerce Building  
P. O. Box 2511  
Houston, Texas 77031  
(713) 223-2275

August 23, 1975

Mr. Guy R. Martin, Commissioner  
Department of Natural Resources  
State of Alaska  
Pouch M  
Juneau, Alaska 99901

Dear Mr. Martin:

In response to communications with Alaskan officials, Tennessee Gas Transmission, a Tenneco Company, has been developing a method for contracting the royalty reserves owned by the State of Alaska in the Prudhoe Bay Field. We have designed a method which provides the necessary benefits to Tennessee Gas and we request your evaluation of the benefits which can be derived by the State. We are attaching a memorandum which outlines the framework of our approach in some detail.

In our opinion the key issue involved in the sale of the right to contract this gas is the routing of the gas pipeline from Prudhoe Bay. If the State desires the pipeline to cross Alaska, the royalty gas should be contracted to an interstate organization which can supply additional support for this route. We feel the State, with this new support and combined with existing backing, can successfully influence the routing of this market outlet. This could protect the future of Alaska through creation of jobs and insure that progress is achieved in a manner consistent with the Alaskan way of life.

In summary, our proposal would allow the State to receive:

1. Support for a trans-Alaskan system.
2. An initial cash payment to be repaid at a later date.
3. A portion of the gas for use in Alaska.
4. Maximum permissible wellhead price.

The company would receive:

1. The right to contract for the purchase of the State's Prudhoe Bay royalty gas.

Mr. Guy R. Martin, Commissioner

August 28, 1975

Page 2

2. Recovery of their initial payment to the State at a later date.

With the publication of the Department of Interior study concerning the relative merits of the alternate market systems, time becomes more critical. Decisions will be made in the near future which will affect the pipeline routing. We do not feel that rumor of a U. S. - Canadian agreement dictates a Canadian routing because the basic problems confronting this route have not yet been solved. Our analysis of the facts now indicate a trans-Alaskan route can be completed at an earlier date thereby creating economic benefits for our company, the State and the consumer.

We suggest the State consider a negotiated contract covering all their Prudhoe Bay royalty reserves. A competitive bid sale cannot obtain comparable benefits.

We are prepared to immediately enter into negotiations with the State concerning these royalty reserves. We request a meeting with you after your review of these recommendations. We will be prepared to meet on any acceptable date.



Robert C. Thomas

cc

Attachment

MEMORANDUM

CONTRACTING OF PRUDHOE BAY GAS

STATE OF ALASKA

In late May, 1975, Tennessee Gas Transmission Company received a letter from the Commissioner of Natural Resources for the State of Alaska requesting proposals for the purchase of the State's royalty gas from leases in the Prudhoe Bay Field. We have communicated with Alaskan officials and discussed the needs of the State to be met in contracting the gas and the ability of Tennessee Gas Transmission or the industry to structure a mutually advantageous proposal.

We have reviewed carefully the ramifications of contracting or securing the rights to contract these gas reserves from the State. Our procedure in reviewing this situation was to determine the benefits necessary to us before we could offer to contract the gas and the benefits to be obtained by the State before they could justify the selling of the right to contract their royalty reserves. The benefits listed below represent what is in our best interests and what we assume to be in the best interests of the State.

1. Benefits Which Must Accrue to the State

In order to justify selling the right to contract the royalty natural gas reserves, certain benefits should accrue to the State. The more significant ones considered are:

- a. The company purchasing the right to contract the reserves should be capable of giving maximum support to a market outlet across the State of Alaska.
- b. The State should receive substantial front-end money.

- c. Some of the gas should be available for use in Alaska.
- d. The maximum possible wellhead price should be paid at the wellhead for the reserves when produced.

2. Benefits Which Must Accrue to the Purchaser

There are still unknown timing factors and substantial risks associated with purchasing the right to contract Prudhoe Bay gas. To compensate for these risks, certain benefits must accrue to the purchaser. These are:

- a. The front-end payment must be financeable eliminating the necessity for the company to make a large capital advance in a single year.
- b. The front-end payment must be recoverable at a particular point in time, perhaps out of a percentage of natural gas revenue or other guaranteed type arrangement.
- c. The right to contract all of the State's royalty gas in Prudhoe Bay must be secured. A minor percentage may be reserved by the State for use within Alaska, but if not used will be included with the gas marketed by the purchaser of the rights.

We have worked toward an approach that would meet these requirements.

In the consideration of various methods of financing, three limiting factors immediately surface. They are (1) the constitutional or statutory limitation on State debt for longer than one year, (2) FPC regulations controlling advance payments and their anticipated expiration at year end, and (3) the capital and

debt position of most pipeline companies. The State does not qualify under current FPC regulations for receiving advance payments.

There are several other factors which must be considered in this decision. Plans are now being made for pipeline routing which will drastically affect the future of the State of Alaska. We see the contracting of royalty gas as leverage supporting the routing of the pipeline across Alaska. This leverage will diminish rapidly with time and will completely disappear if not used. Despite the rumors of a U. S. - Canadian agreement covering a Canadian pipeline route being initialled by the two governments, we now feel a trans-Alaska project can be completed at an earlier date thereby creating economic benefits for our company, the State of Alaska and the natural gas consumer. We base this analysis partially on the fact that the Canadian problems related to natives claims and the rights of the Provinces have not been resolved. We question these can be resolved in a reasonable length of time. It is also possible that some type of U. S. Federal assistance in the form of financial guarantees or new legislation will be required for the successful completion of a pipeline. This would be difficult to obtain for a Canadian route.

We feel there are substantial volumes of additional gas to be discovered in Northern Alaska in the future. This future gas will go to market through the route selected at this time. These volumes could be the energy source for future industrial growth within Alaska if the market outlet is now established through the State.

There has been much speculation about the economics of a market outlet for Prudhoe Bay gas and the effect it will have on the future wellhead price of this gas. This speculation is due to the substantial cost overruns being experienced by major engineering projects throughout the world. A recent study by Tenneco indicates the capital cost of the trans-Alaska pipeline

the liquefaction plant, LNG ships, and receiving facilities, when escalated to the year of expenditure, to be \$3.8 billion, or 57% greater than the recently published U. S. Department of Interior study. After adding a \$.50/Mcf wellhead price, this capital cost would yield regasified LNG at the Los Angeles city gate at a cost of \$2.58/Mcf in 1982. If Tenneco's projection of capital costs should be low by a factor of 50%, which is highly unlikely, the Los Angeles city gate price will increase to \$3.54/Mcf. According to our market analysis, however, this gas will be saleable in the interstate market. We do not wish to minimize the problems of financing that relate to the escalating project cost, but the escalation certainly does not render this gas valueless at the wellhead.

A negotiated sale of the right to contract these reserves is the most advantageous method. A competitive bid sale is not appropriate and it cannot accomplish the many objectives nor provide the benefits envisioned.

This is supported by the following:

1. A competitive bid sale should be made on a standard basis for all bidders. This is preferable only when all bidders have equal capabilities and price is the only variable.
2. All bidders could not supply the same degree of effectiveness in the support of the Alaskan route.
3. The unknown risk factors such as date of delivery, routing, natural gas regulation in the U. S. and many other factors which must be taken into consideration will result in lower cash bids on a competitive sale. Provision for some of these uncertainties can be made in a negotiated sale.
4. Competitive bidding would suggest the breaking up of the royalty reserves into smaller packages for sale. These smaller reserves would attract neither the cash bids nor the substantial support for the routing that will be required.

We would propose the following approach as one meeting our requirements and interests and accomplishing the objectives we have assumed for the State. We have divided it into four parts for the purpose of review.

1. Pipeline Route Support

As of this date, Tenneco has not actively supported either of the projects designed to deliver North Slope gas. With the securing of the right to contract the State royalty gas and with the current facts now indicating a trans-Alaska system will offer the quickest and most assured method of getting this gas to market in the lower 48 states, we would be prepared to support the Alaskan route.

2. Capital Contribution

- a. Tenneco will make available to the State an amount in excess of \$100 million for the right to contract all of the royalty natural gas reserves in the Prudhoe Bay Field.
- b. These funds will be made available to the State over a three year period according to its needs. The amount of the funds advanced will be dependent upon the drawdown schedule which will be agreed upon by the parties prior to the execution of the agreement.
- c. All financing will be arranged by Tenneco.
- d. There will be no recovery of the advanced funds for a period of three years following the date of the advance.
- e. We will consider that each drawdown will constitute a separate advance, and that such advances will be recovered out of a percentage of revenue from the

royalty gas production beginning three years after the drawdown and continuing over a recovery period of five years. In the event gas sales have not begun by the beginning of the recovery period, the recovery will be made initially from revenue derived from a percentage of royalty oil production until natural gas production begins. According to our interpretation, this advance would not be classified as debt on the books of the State since repayment is to be made solely from a percentage of revenues to be generated by the sale of the State's natural gas and/or oil.

3. Gas Available for Alaskan Use

Tenneco recognizes that some of the State's royalty gas may be required for use within the State. However, the major source of gas for future use within the State will be available from new reserves found and transported through the system now considered for Prudhoe Bay. We are confident this new gas will become available as the natural gas demand grows in Alaska.

Tenneco would consider a reservation by the State of up to 10% of the royalty gas production for use within Alaska so long as the pipeline, plant and shipping design would accommodate it. The State would own this gas and pay the applicable transportation tariff. In the event this gas was not used within the State, it would be sold to Tenneco under the contemplated contract.

4. Pricing

The gas produced at Prudhoe Bay will flow into interstate commerce and under current regulations would be subjected to control by the U. S. Federal Power Commission. Tennessee Gas is also a company regulated by the FPC. For this reason, we are unable to guarantee a specific wellhead price.

We feel the best assurance for maximum possible price lay in the requirements and market potential of the purchaser. Tenneco's interstate pipeline systems have average current requirements for supplying existing customers of 3.8 Bcf per day making us one of the largest interstate systems in the U. S. The majority of our current market consists of the higher premium residential and commercial market.

We can contract to pay the maximum price permitted by the FPC and are willing to do so. Our market analysis indicates that the wellhead price will be at least \$.50/Mcf in the early 1980's, and that it will increase on an annual basis as the project matures. In addition, we do not expect that deregulation, in whatever form it could be established, would have the effect of reducing the wellhead price below this figure.

We propose that Tenneco (through Tennessee Gas Transmission Company or a subsidiary) and the State immediately enter into negotiations for the purpose of purchasing the right to contract the State royalty gas in Prudhoe Bay and securing support for a trans-Alaska market outlet.

## SUMMARY

I represent Tennessee Gas Transmission, the natural gas pipeline subsidiary of Tenneco Inc. By letter dated May 22, 1975, the Commissioner of Natural Resources of the State of Alaska requested Tennessee Gas Transmission to submit a proposal for the disposition of the State's royalty gas in the Prudhoe Bay Field. Our memorandum dated August 28, 1975, was in response to this request.

The suggested approach discussed in the memorandum resulted from our assessment of critical factors to be considered by both the State and our company. The approach outlined is acceptable to our company and we have submitted it for review by this Board.

The main thrust of the approach we suggest is contained in the overall benefits to be obtained by each party. The significant benefits we feel should accrue to the State compared to what we have suggested in our memorandum are as follows:

**Benefit 1:** The company acquiring the right to contract the royalty reserves should be capable of giving maximum support to obtaining a trans-Alaska pipeline route.

**Approach:** As of this date, Tenneco has not actively supported a project designed to market North Slope gas. With the securing of the right to contract the State royalty gas we would be prepared to give maximum support to the securing of a trans-Alaskan route. This support would be in the form of time, money and people. This support would be fully coordinated with the State to insure maximum impact.

Benefit 2: The State should receive substantial front-end money.

Approach: Tenneco will make available to the State an amount in excess of \$100 million for the right to contract all of the royalty natural gas reserves in the Prudhoe Bay field. The exact amount contributed will be subject to negotiations between the parties and will reflect the needs of the State, the drawdown schedule and other factors. These funds will be made available to the State over a three-year period according to a mutually acceptable schedule. There will be no recovery of the contributed funds for a period of three years following the date of the advance. The contributions will be recovered out of a percentage of the royalty gas or oil production beginning three years after the drawdown and continuing over a recovery period of five years. These funds made available to the State would be interest free.

Benefit 3: Some of the gas must be available for use in Alaska.

Approach: Tenneco would consider a reservation by the State for up to 10% of the royalty gas production for use within Alaska.

We do not intend to imply that this 10% represents the maximum anticipated future growth of the State's natural gas needs. We feel the primary goal at this time is to insure a Trans-Alaskan system. The major source of gas for long-term growth will be available from future reserves found and transported through this system.

Benefit 4: The maximum possible wellhead price should be paid at the wellhead for the reserves when produced.

Approach: The gas produced at Prudhoe Bay will flow into interstate commerce and under current regulations would be subjected to control by the U.S. Federal Power Commission. Tennessee Gas is also a company regulated by the FPC. For this reason, we are unable to guarantee a specific wellhead price.

We feel the best assurance for maximum possible pricing lay in the requirements and market potential of the purchaser. Tenneco's interstate pipeline systems have average current requirements for supplying existing customers of 3.8 Bcf per day making us one of the largest interstate systems in the U.S. The majority of our current market consists of the higher premium residential and commercial market.

We can contract to pay the maximum price permitted by the FPC and are willing to do so. Our market analysis indicates that the wellhead price will be at least \$.50/Mcf in the early 1980's, and that it will increase on an annual basis as the project matures.

These are the major benefits accruing to the State of which the most important is the support of the pipeline route across Alaska.

The purchaser is subject to unknown timing factors and substantial risks associated with purchasing the right to contract Prudhoe Bay gas. To compensate for these risks, certain benefits must accrue to the purchaser. These are as follows:

- a. The front-end payment must be financeable eliminating the necessity for the company to make a large capital advance in a single year.
- b. The front-end payment must be recoverable at a particular point in time. We have structured an eight-year recovery period in this approach. This recovery will be from a percentage of royalty natural gas or oil revenue.
- c. The right to contract all of the State's royalty gas in Prudhoe Bay would be secured subject only to the 10% reservation by the State for use within Alaska.

We feel the most important consideration by the State at this time is the securing of a Trans-Alaska routing for the Prudhoe Bay reserves. This is the one single factor that will have the greatest impact on the State throughout its future. This must be considered in relation to the other benefits which can be obtained either through the proposal we submitted or the approach recommended by any other company.

- a. Front-end Capital Contribution - Strictly a short-term benefit and will be available regardless of the route selected.

- b. Wellhead Price - You will be assured of getting the maximum permissible price regardless of the pipeline routing.
- c. Retention of Gas for Use in Alaska - This has little if any value if the market outlet does not cross Alaska.
- d. Routing - This is a mutually exclusive, either-or decision. The market outlet will either cross Alaska or it will not. Once a route is selected, it will influence exploration because companies understand that reserves from future discoveries in the North will be transported to market through the first system constructed or by an expansion of that system. Resulting economic and industrial benefits will accrue to that system and to industry and people able to be served by it.
- e. To insure there is no question about our intentions to support the routing of this project, we are willing to give the State the option to terminate our right to contract should the trans-Alaska route not be approved. This termination would be conditioned only upon the State refunding our capital contributions plus interest and assuring us we would not be prejudiced in any future attempts to contract the royalty gas.

We understand the difficulties you face in deciding in the near term a question as important as how to dispose of the State's royalty gas. We have heard arguments that the State's interest can be best served by leaving the gas in the ground as bargaining leverage to assure that gas is available in the State for future development and expansion and to assure that what gas is sold returns the highest possible price.

However, we do not think it feasible to keep part of the gas in the ground. Either the gas will flow to market or it won't; it's all or nothing. Another factor which must be considered is the natural gas shortage in the lower 48. Headlines yesterday in the Seattle newspaper said "500,000 Americans jobless this winter due to natural gas shortage." Future prospects are not encouraging.

This State's policies have always responded to such overriding national interests and we not believe the State will now alter that basic approach.

Moreover, as this Board is well aware, a decision now to agree to contract the royalty gas does not commit the State to a specific price. As mentioned, we will agree to pay the maximum permissible price.

We are not aware of all the proposals that have been presented to the State for the contracting of their royalty natural gas reserves. I'm sure there have been many. I'm confident, however, that no other company can offer the State the additional support for a trans-Alaska route that our approach insures. It is in this additional support that our proposal will differ from any other proposal which the State receives.

We see the contracting of royalty gas as leverage supporting the routing of the pipeline across Alaska. This leverage is very strong now but will weaken rapidly with time and will disappear completely if not used. In our opinion critical decisions concerning the routing will be made in the next 6 - 12 months.

We have recommended to you that a negotiated sale of the right to contract the royalty natural gas is the most advantageous method. We recognize the political problems inherent in a government entity negotiating a sale, but the objectives we envision cannot be achieved through a competitive bid sale. As an example, how many bidders could supply the same degree of effectiveness in providing additional support for the trans-Alaska route?

My company is prepared to enter into negotiations with the State or this Board for the purpose of securing the right to contract the State's royalty gas in Prudhoe Bay and to provide support for a trans-Alaska pipeline route.

Tennessee Gas Transmission  
A Tenneco Company



Robert C. Thomas  
Vice President

Chamber of Commerce Building  
P. O. Box 2511  
Houston, Texas 77001  
(713) 229-2275

November 3, 1975

Mr. Guy R. Martin  
Department of Natural Resources  
State of Alaska  
Pouch M  
Juneau, Alaska 99801

Dear Mr. Martin:

In accordance with your request, we have prepared a comparison of the offers submitted to the State of Alaska by Tennessee Gas Transmission Company and El Paso Natural Gas Company for the purchase of royalty gas from Prudhoe Bay Field. The comparison is summarized on the attached tabulation.

In our opinion, the primary consideration to be given by the State is the securing of the pipeline route across Alaska. The most significant difference between the two offers is Tenneco's ability and commitment to give additional support to this route selection. To insure there is no question concerning this support, Tenneco has agreed to allow the State to terminate the right to purchase the gas should the pipeline route not cross Alaska.

We will look forward to working with the State in the furthering of this project.

Robert C. Thomas

cm

Attachment

bcc: Jared Carter w/attachment

COMPARISON OF OFFERS SUBMITTED TO THE  
STATE OF ALASKA BY TENNECO AND EL PASO  
FOR THE PURCHASE OF PRUDHOE BAY ROYALTY GAS

	<u>TENNECO</u>	<u>EL PASO</u>
1. Gas Volume	All royalty gas but State can reserve up to 10% for their needs.	All royalty gas or any part surplus to State's needs.
2. Advance Payment	In excess of \$100 million subject to negotiation.	10¢/MCF of gas dedicated which equates to \$300 million for all of the royalty gas.
3. Conditions precedent for making advance payment	None	Requisite governmental authorizations in satisfactory form and the conclusion of all necessary financial arrangements (rate base treatment of the advance).
4. Recovery of advance payment	In 5 years starting 3 years after drawdown or a total of 8 years.	Within 7 years of commencement of oil or gas production or 7 years after date of advance, whichever is later.
5. Offer to pay share of field gathering and processing facilities if assessed to State of Alaska by producers in order to take in kind	No	Yes
NOTE: Government is not normally required to invest in field facilities to take in kind, but to pay a fee for gathering and processing royalty gas. Lease agreements provide for government taking delivery in kind at a mutually agreed upon point and for the producer to charge a fee for any processing.		
6. Give additional support to the Alaskan pipeline route	Yes	No
7. Interest charged on advance payment to the State	No	No
8. Relinquish right to purchase gas if pipeline goes across Canada	Yes	No

HISTORICAL NET PRODUCTION OF NATURAL GAS IN TEXAS  
(BILLIONS OF CUBIC FEET)  
1962-1973

	<u>Intrastate</u>	<u>Interstate</u>	<u>Total</u>
1962	3250	2960	6210
1963	3359	2979	6338
1964	3442	3165	6607
1965	3538	3201	6739
1966	3787	3276	7063
1967	3984	3334	7318
1968	4159	3461	7620
1969	4345	3620	7965
1970	4614	3844	8458
1971	4900	3721	8621
1972	4930	3788	8718
1973	5123	3427	8550

FINANCIAL STATISTICS -- MAJOR GAS TRANSMISSION COMPANIES

\$ - Millions

	<u>12-31-74</u> <u>Assets</u>	<u>Gross</u> <u>Revenue</u> <u>1974</u>	<u>Net</u> <u>Income</u> <u>1974</u>
Arkansas Louisiana Gas Company	\$ 616	\$ 280	\$ 59
Cities Service Gas Company	2,898	2,806	204
*Colorado Interstate Gas Company	454	354	38
*Columbia Gas Transmission Corporation	2,838	1,278	110
Consolidated Natural Gas Company	1,636	861	63
El Paso Natural Gas Company	2,122	1,251	74
Florida Gas Transmission Company	273	104	13
*Michigan-Wisconsin Pipe Line Company	1,161	531	50
Mississippi River Transmission Corp.	176	142	12
*Natural Gas Pipeline Company of America	1,269	564	99
*Northern Natural Gas Company	1,704	1,013	120
Northwest Pipeline Corporation	406	276	15
*Panhandle Eastern Pipeline Company	951	564	69
Southern Natural Gas Company	1,066	539	59
Tennessee Gas Pipeline Company	6,402	5,001	321
*Texas Eastern Gas Transmission Corp.	2,438	1,065	192
Texas Gas Transmission Corporation	864	692	45
Transcontinental Pipe Line Corp.	1,532	520	12
United Gas Pipe Line Company	565	608	20

\*Participants in Gas Arctic

Tennessee Gas Transmission  
A Tenneco Company



Robert C. Thomas  
Vice President

Chamber of Commerce Building  
P. O. Box 2511  
Houston, Texas 77001  
(713) 229-2275

October 31, 1975

Mr. Guy Martin, Commissioner  
Department of Natural Resources  
State of Alaska  
Pouch M  
Juneau, Alaska 99801

Dear Mr. Martin:

During my presentation to the Alaskan Royalty Oil and Gas Advisory Board earlier this month, it was requested that we provide additional information concerning the effect of FPC regulation on the ability of the State to utilize a portion of their royalty gas within the State. The attached memorandum is submitted in response to that request. It is still our belief that the State is free from the direct jurisdiction of the FPC, but the FPC will be able to exercise some indirect control. Freedom from this indirect control could be obtained by securing the proper authorizations in the initial certificate or by securing appropriate federal legislation. Either of these alternatives are considered feasible if the proper actions are taken by the State in the very near future.

There are some that support a state-owned pipeline to insure freedom from FPC jurisdiction. Our memorandum mentions this point. In legal theory this may have merit, but in reality there is little basis for support for at least two reasons:

1. A pipeline from the North Slope is tremendously expensive regardless of its planned capacity. Based upon current events, investor confidence in municipal and State financings may not be sufficient to support such a venture.
2. If financing were available, the State would be obligating itself for all of the capital required for the pipeline in order to secure assurance of access to their royalty gas which is no more than 12 1/2% of the gas transported.

The benefits do not appear to justify the risk involved in the State's financing of a pipeline. Future decontrol of natural gas could eliminate the indirect control by the FPC without the necessity of the financial involvement.

Tennessee Gas Transmission

Mr. Guy Martin, Commissioner

-2-

October 31, 1975

We trust this information will be of benefit to you and the Board. Our legal representatives would be prepared to discuss this problem in greater detail with your legal counsel if you consider it worthwhile.

Robert C. Thomas

cm

Attachments

bcc: Jared Carter w/o attachments

The following is written in an effort to summarize recent discussions concerning the relationship of regulation by the Federal Power Commission (FPC) and the sale by the State of Alaska of its royalty interest in Prudhoe Bay gas.

## I

It is conceivable under an appropriate fact situation that the FPC would have no jurisdiction over the production, sale and use of any Prudhoe Bay gas. This situation would exist if all the gas were produced within the State of Alaska (none from offshore Federal leases) and all gas were consumed in Alaska without ever having left Alaska. In this fact situation the State of Alaska and all producer sellers could sell gas and be subject only to those restrictions contained within their sales contracts. However, because of the lack of market and the cost of facilities needed to get the gas from Prudhoe Bay to whatever Alaskan market there is, such a totally intrastate project is not presently feasible.

## II

Proceeding then on the assumption that most of the gas produced from Prudhoe Bay will necessarily leave Alaska and must in some manner be transported to and consumed in the lower 48 states, it must be recognized that any such project cannot become a reality without FPC approval of some particular facet of its operation. It must also be recognized that the necessity of FPC approval for portions of such project, coupled with the FPC's right to consider all factors bearing on the public interest and convenience, gives the FPC a position in determining what type of project is ultimately built. This does not, however, mean that the State of Alaska cannot endeavor to structure a project that gives the State of Alaska the best opportunity possible to utilize its royalty gas as Alaska sees fit.

The FPC generally has jurisdiction over the sale for resale of natural gas in interstate commerce, the transportation of gas in interstate commerce, and the construction and operation of facilities to be used for such sales and transportation. However, it appears that (1) the FPC would have no direct certificate jurisdiction over the sale of royalty gas by the State of Alaska and (2) that the FPC would have no jurisdiction to fix the rates at which Alaska could sell its royalty gas whether by direct sale or by sale in interstate commerce for resale. Such conclusion is reached on the basis that Alaska is neither a "person" nor a "natural gas company" within the meaning of the Natural Gas Act. The FPC's regulatory authority covers only those entities which are "persons" or "natural gas companies" as defined in Section 2 of the Act.

Section 2 of the Act defines "natural gas company" to mean a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale. That same section defines "person" to include an individual or a corporation. A corporation is defined to exclude municipalities. "Municipality" is defined as a city, county, or other political subdivision of a State. Inasmuch as the State of Alaska would probably sell the royalty gas through some agency of the State, the FPC would have no direct jurisdiction over such transaction.

There is authority to support the conclusion that the State of Alaska is beyond the jurisdiction of the FPC. In Tennessee Gas Pipeline Company, Docket Nos. CP66-269, et al., by order issued June 29, 1967 (37 FPC 1195) the FPC made the following statement concerning the State of Louisiana as a royalty owner (37 FPC 1197):

"We note that in addition to the aforementioned, the State of Louisiana and one of its local subdivisions (the Buras Levee District) are among the royalty owners of the acreage at issue. But Section 2(5) of the Natural Gas Act would seem to exclude such political entities from the definition of "natural-gas company" and thus exempt them from the necessity of obtaining this Commission's authorization prior to effectuating an interstate sale. However, in view of the fact that this Commission already has made clear its concern with the cost to Tennessee of the Bastian Bay reserves we would expect that both the State of Louisiana and the Buras Levee District will be most interested in the course of these proceedings and we would welcome their participation as interveners."

Since the State of Alaska is not a "natural gas company" under the Natural Gas Act, the FPC would also be precluded from regulating other activities performed by the State of Alaska which, if done by some other entity, would be subject to FPC regulation. Therefore, if the State of Alaska were to construct and operate a natural gas pipeline from Prudhoe Bay to the southern coast of Alaska, the construction and operation of that pipeline and the transportation of gas by that pipeline would not be subject to direct FPC regulation, even though all or some portion of the gas ultimately entered the interstate market. Under this arrangement, all of the gas produced in Prudhoe Bay could be transported to the southern end of the pipeline with no direct certificate regulation by the FPC and the rates to be charged by such pipeline for transporting gas from Prudhoe Bay to the terminus would not be subject to direct FPC regulation.

While sales of Alaska's royalty gas made from such line would not be subject to direct FPC control, the sale of gas attributable to the working interests of Prudhoe Bay leases would, of course, be subject to FPC regulation, whether made at the wellhead or at the southern terminal of the line, if such sales were made to a "natural gas company". The resale in interstate commerce of Alaskan royalty gas, facilities necessary at the terminus of the line for the liquefaction of the gas and loading of LNG, the facilities necessary to receive and transport such gas, and the resale of such gas in the United States would be subject to direct regulation by the FPC. Through its regulation of these aspects the FPC might affect the viability of any contractual arrangements made for Alaska's royalty gas.

### III

In view of the existing provisions of the Natural Gas Act, the State of Alaska is exempt from direct FPC regulation. However, under certain

circumstances, it will be subject to indirect regulation. If we assume that the pipeline from Prudhoe Bay to the southern coast of Alaska will be constructed and operated by a "natural gas company", the State of Alaska will be subject to indirect regulation if any part of its royalty gas enters such a pipeline.

To the extent royalty gas is so transported, even if transported only within Alaska and consumed in Alaska, the transporting pipeline will be required to obtain a certificate of public convenience and necessity pursuant to Section 7(c) of the Natural Gas Act. The rate charged by the jurisdictional pipeline for such transportation will be subject to FPC regulation under Section 4 of the Act. This is the situation that must be anticipated under either the present Gas Arctic route or the present Trans-Alaska route. While Alaska might sell its royalty gas at an unregulated price, the FPC will have direct control over the transportation rates charged by jurisdictional pipelines that carry the gas to the ultimate market. In addition, to the extent any buyer of Alaska's royalty gas resells such gas in interstate commerce, that rate will be subject to FPC regulation. Thus, through its regulation of the rates allowed for resale or the rates allowed for transportation, the FPC might affect the viability of any contractual arrangements made for Alaska's royalty gas.

The Commission, in exercising its authority to regulate the transportation of gas by interstate pipelines, has refused to grant such authorization due, in part, to the inferior end use for which the transported gas was destined. See F.P.C. v. Transcontinental Gas Pipe Line Corp., 365 U.S. 1, (1961) and Arizona Public Service Company v. F.P.C., 483 F.2d 1275 (1973). In those two cases certificates were denied, and the Courts upheld such denial, because, among other things, the consumer intended to use the gas for boiler fuel -- an inferior use. Thus, in processing an application for authorization to transport gas in interstate commerce, the Commission will consider the end use of the gas. It might be possible for a pipeline to distinguish the Transco and APS cases and to show that the present and future public convenience and necessity requires certification of a particular transportation agreement.

#### IV

As indicated above, it appears that the FPC, under the Natural Gas Act, has no direct jurisdiction over Alaskan royalty gas committed to the Alaska pipeline project. The State of Alaska would, therefore, be free to sell all or part of its royalty gas at whatever price it can negotiate and to withdraw such gas from the course of such sales in accordance with the terms of its sales contracts without governance by the FPC.

Despite the latitude afforded an entity exempt from FPC regulation, there is a degree of indirect regulation due the jurisdiction of the FPC over the natural gas company operating the pipeline across Alaska. Such indirect regulation would arise each time the State of Alaska effected a change which required the natural gas company to amend its certificate.

Thus, at the time the State of Alaska desired to enforce that contractual provision permitting a portion of the royalty gas to be used within the State, the natural gas company would have to obtain a certificate authorizing such modification in service. However, it would appear that, in view of the State's exempt status, the holding of Granite Cities Steel Company v. Federal Power Commission, 320 F.2d 711 (D.C. Cir. 1963) would have no bearing on the State of Alaska's authority to divert a portion of its royalty gas to users within the State.

V

In order to completely circumvent the indirect regulation of Alaska adverted to above, it is conceivable that the legislative branch of the U.S. Government could propose legislation that the executive would sign which specifically (a) removed the issue of the transportation of Alaskan gas to the lower 48 states from the jurisdiction of the FPC and (b) provide procedural guidelines for the resolution of all legal issues associated with such transportation. Under such a statute, it is probable that the Natural Gas Act would be suspended as it applied to the Alaskan gas, thus mooted all of the legal principles enunciated herein. In view of the various approaches such legislation could take, a detailed discussion at this time would constitute mere speculation.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Memo: To Committee members  
From: Eric  
Re: ISEGR briefing  
11/19

The meeting was open to all legislators and staff.  
Attending;

John Huber	Ted Smith
Joe Orsini	Susan Sullivan
Ed Willis	Kathryn Ostrosky
Jim Rhodes	Bill McGuire
Anne Carbonetti--Leg. Affairs	
Mike Scott	ISEGR
Dave Kresge	ISEGR
Eric Eckholm	

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The briefing dealt with the ISEGR study prepared for Dept. of Interior. Enclosed is a recent study they prepared, the last portion is a summary of the ISEGR report. Also, I mailed out a very brief summary prior to the meeting.

The map details 10 proposed routes that ISEGR is running through their "Man in the Arctic" computer model for the BLM. They should have results on economic impact by early January.

They reiterated their main points from the study;

1) per capita income does not rise more than 2% from either proposal, due to population migration.

2) They assume the state is going to save 50% of their petroleum revenue in an investment fund. This will mitigate the "boom/bust" cycle by providing long term state revenue not tied to the initial resource. (see report inclosed) This investment fund is assumed to provide a 7% return on investment.

Other comments

1) If El Paso goes, there will be a significant detrimental effect on pricing of goods in Alaska. It follows on the heels of the oil line, and another boom will probably cycle inflationary pricing higher than normal inflationary process'.

2) Petrochemical Industry is high capital-intensive. In other words, it does not provide much employment, and the revenue generated will be minor compared to the North Slope tax base. Kresge suggested a tax break for industry producing in-state consumable items such as cement/food processing.

3) little can be done about boom/bust economics, but by state saving revenue, the end can be tapered off the "bust" stage.

4) If "Project Independence" suggestions are followed, Alaska will have a well everywhere there is the smell of oil or gas. Kresge feels this is not feasible, but they do assume OCS development in creating their state growth model.

Memo: Members of the Gas Pipeline Impact Committee  
From: Eric Eckholm  
Re: Cook Inlet Royalty Gas  
11/25/75

Problem: Anchorage Natural Gas (ANG) has asked for the right to purchase the state royalty gas from the North Cook Inlet field. This gas is presently being sold to Phillip's Petroleum for use in their Liquefied Natural Gas (LNG) operation, which is then shipped to Japan. The Royalty Board, with the concurrence of the legislature determines use of royalty gas.

ANG's Proposal:

1) ANG wants to purchase all of the state's royalty gas now being purchased by Phillips, at a price equal to that being paid to Phillips.

--This could be done as a "paper trade" in that gas from the North Cook Inlet is equal to gas from Swanson River areas where ANG is currently receiving gas. ANG could purchase royalty gas in equivalent amounts from Swanson River, and credit the North Cook Inlet producer.

2) ANG says their reserves are running low, and purchase of State royalty gas will allow them to continue to fill their contracts with state users that might have to be switched to costlier oil fuel (i.e. Bernice Lake power plant) if gas was not available. This would increase electrical costs to consumers.

Also, the amount of gas available to ANG is limited (550 Billion Cubic Feet until 1992), and they are seeking to build up their reserves to assure continued financing.

Phillip's response:

1) ANG doesn't really need the gas. They are building a case without real needs because they want cheap gas in the future. At present, ANG is only utilizing 72 Million Cubic Feet/day when their contract allows as much as 160 MMcf/day.

2) Phillips has created a market for LNG that didn't exist, at considerable risk and expense to Phillips. They sunk \$125 million developing the market, and their partners pulled out, leaving Phillips with all the risk. They generated income for the state that would not have been there without Phillips. By taking the state royalty gas, the economics of Phillips operation would be impacted.

3) There is a possibility of allowing Phillips to come under APUC regulation if the gas is sold to ANG. Phillips does not want to become regulated as a public utility, and the small percent of royalty gas should not warrant them being regulated by the APUC.

11/25/75

Page 2, Royalty proposal

Staff comment:

This proposal could be an important precedent for future use of the State's royalty gas.

--It signals the intention of the state to use gas "in-kind" and within the state, if possible. Previously, royalty gas was assumed to be paid on a 1/8th of revenue basis, not as possible real gas for state use. All of the projections by industry of gas development include the royalty gas, with the assumption that the state would take 1/8th share of \$\$, not gas. This is true with North Slope transportation system plans.

Staff recommendation:

Sell the gas to ANG, with the following conditions;

- ANG demonstrates a real need for the gas.
- ANG pays a price equivalent to that being paid by Phillips, and it continues to rise on a equitable market price.  
(The state would not be "subsidizing" Anchorage users)
- Phillip's Petroleum is not subject to critical economic burden.  
(Phillips has wells drilled on their present platform that are not being used. They have a contract with the Japanese for 15 years--1970-1985, 140 MMcf/day delivered to Japan. They would have to confirm their reserves and ability to meet their contract.) This would also probably increase development of the Cook Inlet field.

[Staff note--I toured the Phillip's plant in Kenai. I was impressed by the efficiency of the operations, and the environmental concern. Phillip's also had an Alaskan hire policy, 10 out of 46 employees were Alaskan natives, and they trained employees in all phases of the operation. They are a highly capital-intensive industry that appear to me to be a positive asset in terms of natural gas resource use in Alaska. Although I recommend taking the royalty gas, I believe that the state should be concerned in maintaining a good business relationship with Phillips.]

The Royalty Board is meeting December 9 and 10. They will be giving a presentation to this Committee on December 11. If they take action relative to the royalty gas, the legislature would be asked for a concurrent resolution during the session.

Phillips has not signed a contract with the state, they pay the state essentially on a day to day basis. By selling the gas to ANG, we would not be cancelling any contracts.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
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Alaska State Legislature  
JOINT GAS PIPELINE IMPACT COMMITTEE

November 17, 1975

QUESTIONS CONCERNING  
THE PRUDHOE BAY NATURAL GAS RESERVOIR  
AND RELATED MATERIALS

In the following questions, "Aerospace" refers to the two volume draft study entitled Alaska Natural Gas Transportation Systems, prepared by the Aerospace Corporation under contract to the Department of the Interior, and published by the latter in June, 1975. Unhyphenated page numbers (i.e., Aerospace, p. 19) refer to Volume I, containing the executive summary. Hyphenated page references (Aerospace, p. 3-13) refer to the backup material contained in Volume II. "Gruy" refers to the two volume analysis prepared by H. J. Gruy and Associates, Inc., of Dallas, Texas under subcontract to the Aerospace Corporation. The analysis is entitled Gas Supply Study, Alaska Natural Gas Transportation System, Sadlerochit Reservoir, Pruhoe Bay Field, Alaska. Copies of selected pages from these studies are attached. However, all four volumes are available for review and copying in the committee's Anchorage office.

1. (A) What discount rate does your firm use in evaluating field development investment of the sort envisaged in the Prudhoe Bay area?  
(B) If more than one rate is used, indicate the reasons, and the circumstances appropriate to each rate.
  
2. (A) Are there any circumstance under which a requirement to reinject all gas produced could lead to a reduction in the rate of oil recovery, or in the ultimate recovery?  
(B) If so, explain those conditions and estimate the amount of reduction.  
(C) Are there any circumstances under which the reinjection of gas could be more costly than production of gas for sale?

3. (A) The Aerospace study states (p. 3-30) that gas compression for reinjection will require five percent of the gas as fuel. Is this a reasonable estimate?
- (B) How does this compare with the field consumption of gas to be expected under the assumption of maximum production for sale?
- (C) Neglecting the gas used as compression fuel, is there any reason why all the re-injected gas could not eventually be recovered?
- (D) Assuming that all gas was reinjected, at what point do you estimate the total quantity of gas reinjected would equal the total recoverable gas reserves contained in the reservoir?
- (E) Would this quantity (less that consumed in reinjection) actually be recoverable at that point? If more or less, why?
4. (A) Are the cost figures used in the H. J. Gruy model (Aerospace, p. 3-23 and Gruy, p. 10) reasonable?
- (B) Aerospace (p. 3-22) indicates that the quantity dependent costs are in addition to the costs of water treatment plants, but no cost figures are provided for such plants. Apparently, there are similar additional capital costs associated with gas processing, to control the water and hydrocarbon dewpoints, and to remove carbon dioxide (Aerospace Report, p. 3-8). Please explain the relative costs of these activities, and any other related activity necessary to prepare the gas for sale, so that the committee can have a general idea of why the costs of producing the gas for sale are higher than the costs of production for reinjection.

5. (A) Have you entered into any agreements for the sale of your share of the Prudhoe Bay gas which would require you to produce the gas even if the price obtainable for it was very low?  
(B) What minimum price, if any, is mentioned in any gas sale or option agreement covering North Slope gas to which your firm is a party?
  
6. (A) What will become of the heavier hydrocarbons contained in the gas stream (ethane and heavier) if the gas is reinjected?  
(B) If it is sold?  
(C) To what extent, if any, has your firm committed itself to the sale of these heavier hydrocarbons?
  
7. (A) Will the proceeds of the production of gas and oil be shared by the producers on the basis of original oil and gas in place?  
(B) If not, then how?  
(C) If, as is indicated in Gruy, the production of gas for sale results in a loss of oil, what principal will govern the apportionment of this loss among the field's several owners?
  
8. (A) The Aerospace study indicates that the future field development costs of gas production for sale exceed the costs of field development under a 100% reinjection assumption by a substantial amount. (Aerospace, p. 19 indicates a difference of \$3.8 billion). Does your firm generally believe this to be a realistic prediction?  
(B) If so, please explain the reasons for this \$3.8 billion difference; if not, why?

9. (A) Pages 3-37 of the Aerospace report indicate that the total costs of producing the gas, considering the lost oil production (at \$9/barrel) and the actual field development costs, under maximum pressure maintenance, would be \$7.251 billion. Is this a reasonable figure? If not, what would be a reasonable estimate?
- (B) The Aerospace report indicates that, assuming a \$9/barrel price for oil and a 10% discount rate, the cost of gas production will be \$47/MCF (Aerospace, p. 3-38, 3-39). Is this a reasonable figure? If not, what would be a reasonable figure?
10. (A) Would your firm be willing to develop the field for gas production (for sale) if the expected revenue from the gas sales were less than the costs of its production? (In other words, are there any circumstances under which your firm would go ahead with development for gas sales even if the present net worth of the field (or your part of it) were to be reduced thereby?)
- (B) Are there any circumstances under which the production of natural gas could be subsidized by the production of oil?
- (C) Are there circumstances under which a firm could be compelled to produce the gas even though such production did not make economic sense?
11. (A) The Aerospace study seems to indicate that the maximum gas production from the Prudhoe Bay Reservoir sustainable for any substantial period of time, without undue loss or oil recovery, is about 2.5 BCF/day. Some pipeline feasibility calculations

seem to be predicated on a higher rate of production. Is the Aerospace estimate realistic?

(B) If not, what is a realistic estimate?

## SIGNIFICANT FINDINGS

From the sensitivity indications it was clear that pressure maintenance with peripheral water injection yields higher discounted future net revenue (DFNR) values than those obtained from depletion cases. The pressure maintenance cases become more attractive as the prices for oil and gas increase. Oil production rates of 2.0 million bopd appeared difficult to maintain for many years as did gas deliveries above 2.5 bcfd. For the range of oil and gas prices considered, drilling at 160-acre spacing does yield maximum DFNR, but involves a large capital expenditure at a time when reservoir parameters are not very well defined. A prudent choice of 320-acre spacing for preliminary drilling spacing obtains a reasonable DFNR at a moderate risk on capital expenditure. Infill drilling to 160 or even 80-acre spacing could then be deferred until the reservoir is defined and the wells are needed. Gas-oil ratio limits were not critical although DFNR showed unexpected sensitivity to such limits as the gas price increased. Ratios above 15,000 cubic feet per barrel seem to penalize oil production without corresponding economic gains.

Five cases assuming some restrictions on the sale of gas and moderate to maximum usage of injected water for pressure maintenance emerged as being of greatest interest. They are the following:

Case 19 (42126) - This case tests the capability to sustain a 2.0 million barrel per day oil recovery rate, by pressure maintenance with water injection and by reinjection of 95 percent of the produced gas. The gas compression for reinjection requires five percent of the gas as fuel. The oil rate is held to 1.2 million barrels per day for the first four years of production, the gas-oil ratio limit is set at 4,000 cubic feet per barrel, and the minimum well spacing is 320 acres. The total oil produced through year 25 is 7.84 billion barrels with no gas sales.

Case 20 (22326) - This case considers partial pressure maintenance by water injection with the same oil production rate limits of 1.2 million barrels per day for four years increasing to 2.0 million barrels per day thereafter. Gas sales begin after the fourth year of production and are held to 2.5 billion cubic feet per day. With the production of gas cap gas and some increase in water injection, this rate is observed to hold for six years and then to commence a steady decrease. Well spacing and gas-oil ratio limit are the same as for the previous case. Oil production amounts to 6.75 billion barrels with gas sales of 14.448 trillion cubic feet.

Case 21 (22322) - This case modifies Case 20 to reach gas sales of 3.5 billion cubic feet per day and increase the gas-oil ratio limit to 10,500 cubic feet per barrel. Calculated oil production totals 6.26 billion barrels and gas sales are 15.320 trillion cubic feet.

# Development and Operating Costs

## SADLEROCHIT RESERVOIR

	<u>ESTIMATED COST</u>
DRILL AND COMPLETE TYPICAL WELL	\$3,000,000
FIRST WORKOVER	220,000
SECOND WORKOVER	310,000
ABANDONMENT	210,000
FIELD OPERATIONS, MONTHLY	\$9,020,000
QUANTITY-DEPENDENT COSTS	
PIPELINE GAS PROCESSING	\$0.07/MCF
GAS LIFT COMPRESSION	0.03/MCF
INJECTION GAS	0.05/MCF
INJECTION WATER	0.09/BBL
LIFTED OIL TREATMENT	0.023/BBL

A two-dimensional three-phase simulator model was used for this study. The vertical equilibrium concept is incorporated in the two-dimensional model to simulate the flow behavior of an oil reservoir overlain by a gas cap and underlain by water.<sup>1</sup> The physics of the reservoir behavior is simulated by a set of differential equations that result from combining Darcy's law and the law of mass conservation for each phase in the system. The equations include the effects of gravity, viscosity, capillarity and fluid and rock compressibilities. The drive mechanism resulting from solution gas is also included in the differential equations. The differential equations are approximated by finite difference equations based on a Taylor's series expansion. The finite difference equations are simultaneously solved for each time increment for oil phase pressures and oil and water saturations by a modified version of the Strongly Implicit Procedure (SIP)<sup>2</sup>. Fluid formation volume factors, solution gas-oil ratio and capillary pressure relationships are updated at each iteration by the Newton-Raphson method. Relative permeabilities and viscosities are explicitly calculated at the beginning of each time step. Calculation of relative permeabilities and capillary pressure relationships are based on the vertical equilibrium concept. A provision is provided to perform workovers on wells depending on assigned water-oil and gas-oil ratio limits.

B. Description of Economics Program (M-3)

The output from the D-2 Model provides data from which annual oil and gas production, gas and water injection, oil, gas or injection wells drilled, workovers performed and wells abandoned can be calculated.

The costs for all field operations are either supplied by card or have been incorporated in the economics program. The principal of these costs are listed on Table 4 for each case. The range of other costs considered but not shown on Table 4 are:

	<u>Minimum Cases 1-21</u>	<u>Maximum Cases 19-23</u>
Well drilling costs (includes contingency for dry holes)	\$1,650,000	\$3,000,000
First workover cost	75,000	220,000
Second workover cost	100,000	310,000
Well abandonment cost	75,000	210,000

## PRUDHOE BAY COST DATA

Cost data were developed from published information, contacts with industry sources and subsequent discussions with Prudhoe Bay Field operators. Field development expenditures for facilities completed prior to January 1, 1975 have been included in the category of sunk costs, a lump sum figure estimated to be approximately \$1.2 billion. All costs are based on 1975 prices with no consideration for inflation.

The economics program applies these costs to the output of the D-2 Model which itemizes field activity, such as, the annual volumes of oil and gas produced; of oil produced by means of gas lift; of gas and water injected into the reservoir for pressure maintenance, etc. The monthly costs for field operations are incremented by the costs for drilling and completion of additional wells required for production or injection. Finally, wells are worked over accordingly to a set of prespecified rules, such as the following set for the occurrence of a gas-oil ratio above the limit specified for the simulation.

1. First workover, perforations are moved down one-half of original perforation interval and total perforated interval remains the same.
2. Second workover, perforations are reduced to the lower one-half of the previous thickness.
3. The third time the gas-oil ratio is exceeded, the well is abandoned.

The quantity-dependent costs are in addition to the capital expenditures provided for associated facilities, e.g., the injected water cost per barrel is added to the cost of water treatment plans and water injection wells.

DRAFT

## GAS PRODUCTION AND SALE

With the further development of the field made possible by completion of the Alyeska oil pipeline, oil and associated gas will be produced. While facilities will exist to reinject this gas for pressure maintenance, it is expected that substantial quantities of gas will be available for sale.

In this schematic, a typical production site is shown in relation to the subsurface reservoir in the Sadlerochit Formation. For illustrative purposes, the three wells are, from left to right, a gas injection well, a gas producer (reversible for injection), and an oil well. All have been drilled directionally from a common pad or drill site which will eventually accommodate 6 to 20 wells.

Production from three or four such sites will be processed at flow stations where the initial separation of gas, oil, and water occurs. The gas gathering system collects all of the produced gas at a central processing facility for further treatment to remove condensable liquids and for two-stage recompression to required injection pressures.

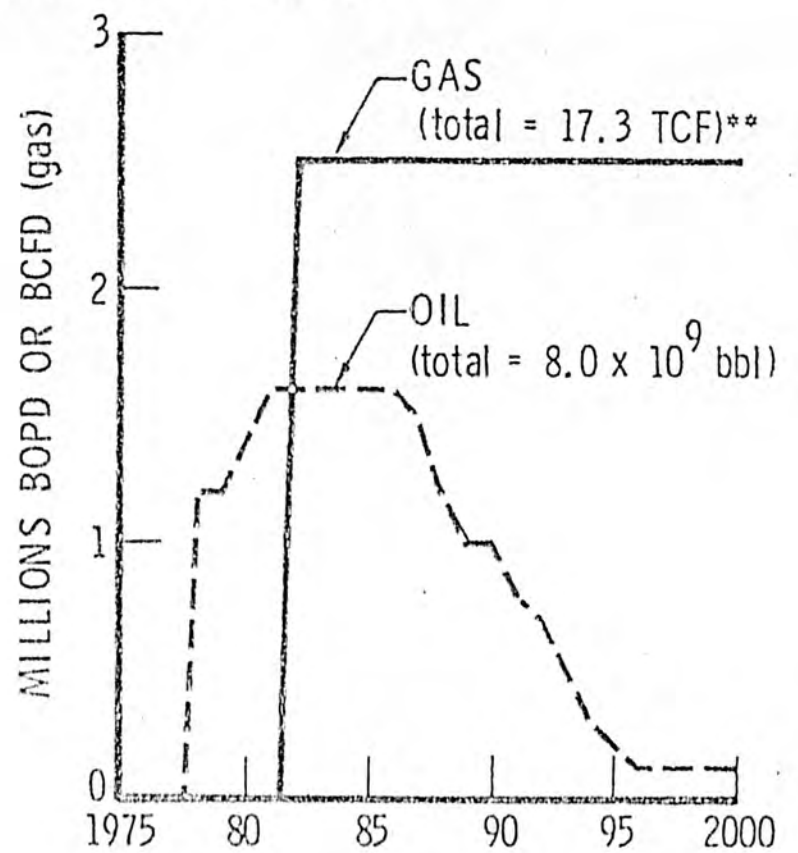
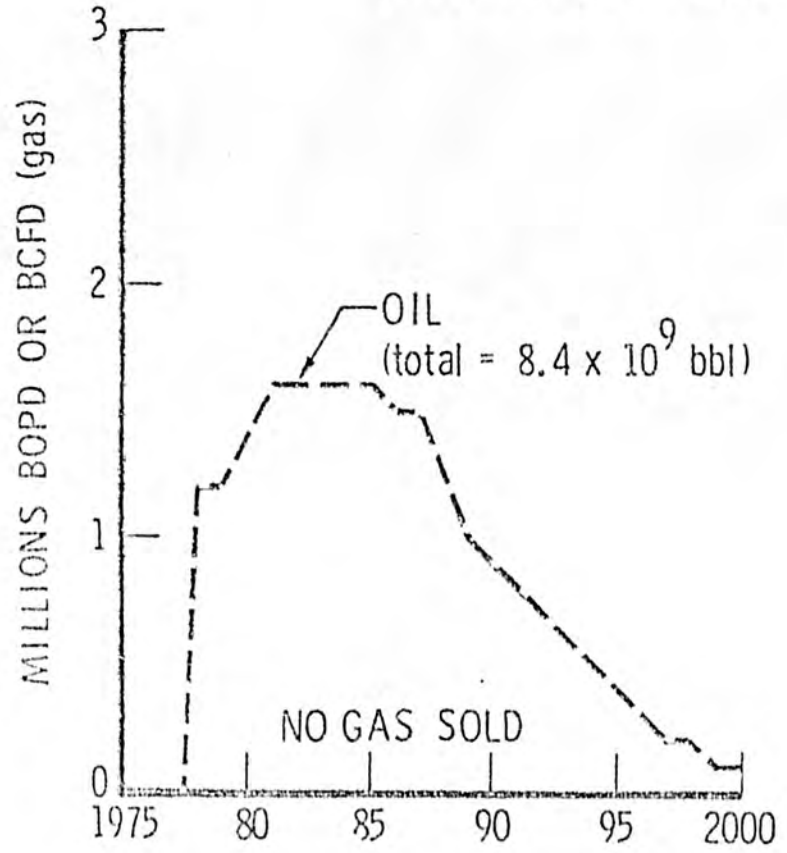
Gas not required for reinjection or other use will be processed for carbon dioxide removal and control of the water and hydrocarbon dew points before being routed through the first stage compressors for delivery to the pipeline point of sale.

Reservoir pressure, depleted by the withdrawal of oil and gas, can be maintained by the injection of water separated from the production stream at the flow station or obtained from other sources. Although the introduction of water increases the ultimate recovery of hydrocarbons, the collection, processing, and injection of water involves both plant and operating expenditures which add significantly to the field development costs.

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# Prudhoe Bay Gas Supply

MAXIMUM PRESSURE MAINTENANCE IN SADLEROCHIT RESERVOIR  
DAILY RATES OF SADLEROCHIT GAS AND OIL SALES



GAS SALES	NONE	2.5 BCFD
FIELD DEVELOPMENT COST*	\$8.2 billion	\$12.0 billion
COST PER MCF ( Base Case )	--	\$ 0.47

\* Estimated Future Expenditures Only

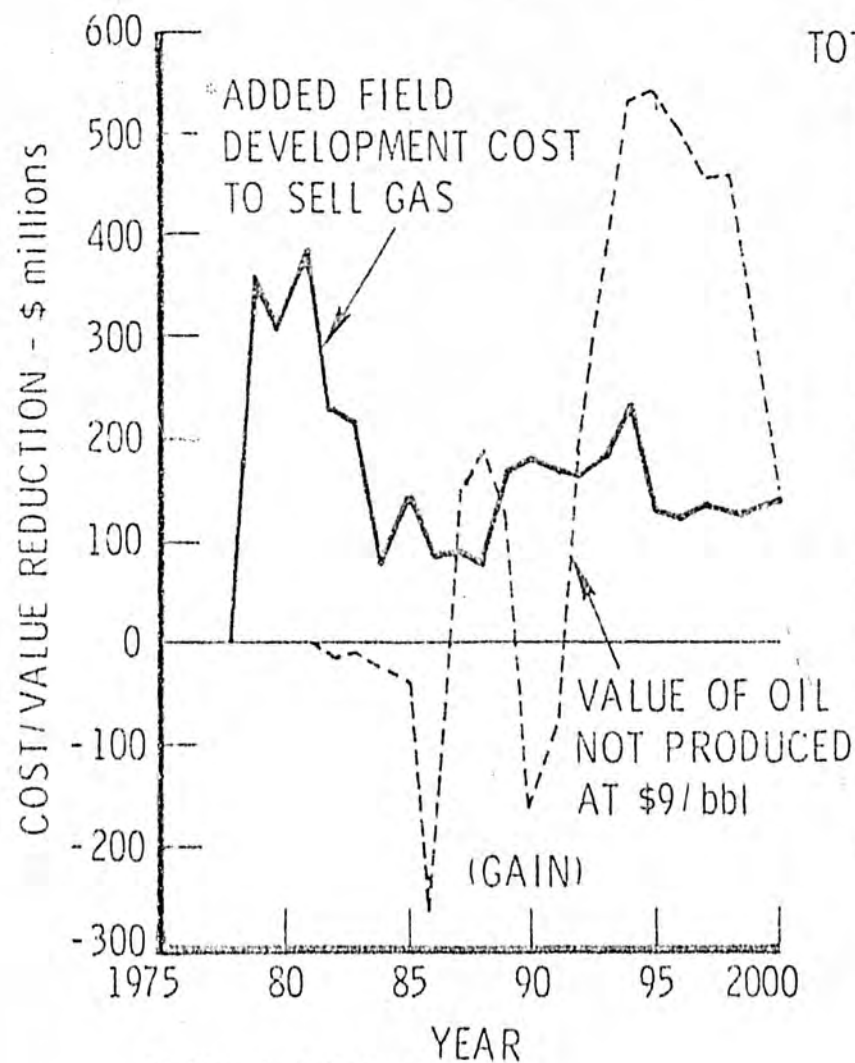
\*\* 17.8 tcf Through Year 2000

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# Resource Cost of Gas

MAXIMUM PRESSURE MAINTENANCE IN SADLEROCHIT RESERVOIR  
2.5 BCFD GAS SALES vs NO GAS SOLD - 44402/44102



Estimated future expenditures only

TOTAL\*\* RESOURCE COSTS TO SELL GAS - \$ millions

DISCOUNT RATE	OIL PRICE		
	\$5 / bbl	\$9 / bbl	\$12 / bbl
0%	5,727	7,251	8,394
5.0%	2,907	3,463	3,880
7.5%	2,183	2,523	2,778
10.0%	1,695	1,907	2,066
12.5%	1,349	1,477	1,573
15.0%	1,109	1,193	1,256
20.0%	785	817	841
25.0%	586	594	600

\*\* Sum of field development cost to sell gas and gross value of oil not produced if gas is sold

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## PRODUCERS COST OF GAS

As a practical measure of merit in comparing field development patterns, discounted future net revenue (DFNR) from the production and sale of both oil and gas has been calculated from the viewpoint of the field operators who must pay all production costs out of net (working interest) revenues after deducting production (state severance) taxes.

The fundamental concept described for establishing a resource cost of gas from any pair of field development options which are alike, except for the sale of gas, can also be used to arrive at an incremental unit cost to the operator for producing and selling the gas.

Regarded as a minimum wellhead price, it is that dollar amount per mcf of gas that would make the present discounted value of profits for the oil producing companies when no gas was produced just equal to the present discounted value of profits when gas was produced.

The generalized equation shown on the opposite page serves to calculate such an incremental average cost per mcf from the future field development costs and the forecast quantities of net oil and gas sold for the account of the working interests. The terms used are the same as those defined in the earlier explanation of Price-Discount Arrays. The discount rate and its relation to rate of return required by the producer of oil and gas to attract capital is discussed elsewhere in this report.

Using cost and net production figures from the comparative cases 44402 and 44102, previously discussed for maximum pressure maintenance in the Sadlerochit reservoir, and assuming a wellhead price of \$9 per barrel for oil, yields the curve at the right for a unit cost of selling gas which just equals the sum of added field cost, reduced oil revenues, and severance taxes. At 10%, the value is approximately \$0.47/mcf. For other prices of oil ( $P_o$ ) at the same discount rate, the price of gas ( $P_g$ ) needed to cover operators costs for this pair of cases is:

$$P_g(44102, 44402) = \$0.377 + 0.0108 P_o$$

The constant term (\$0.377) is the amount per mcf which can be attributed to the development and operating cost of selling the gas over reinjecting it and the determinant of the second term is literally the fraction of a barrel of oil which would not be sold for each mcf of gas which was sold. In these cases, an effort was made to minimize the effect of the variable term by planning the field development for like volumes of oil production when gas was produced as when it was not. The difference of 1% of a barrel per mcf is probably nearing practical limits of such achievements.

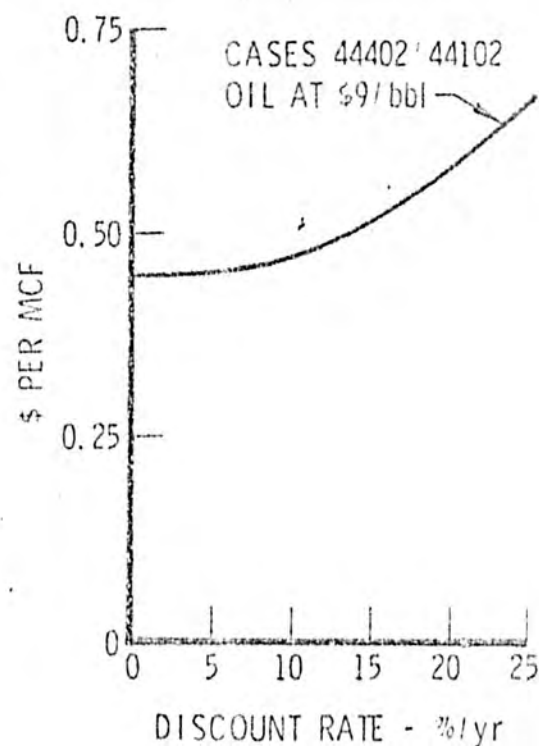
# Producers Incremental Unit Cost of Gas

## MAXIMUM PRESSURE MAINTENANCE IN SADLEROGHIT RESERVOIR

### 2.5 BCFD GAS SALES vs NO GAS SOLD

$$P_G = \frac{\sum \frac{P_0(1-T_0)\bar{Q}_0^t - \bar{C}^t}{(1+R)^t} - \sum \frac{P_0(1-T_0)Q_0^t - C^t}{(1+R)^t}}{(1-T_G) \sum \frac{Q_G^t}{(1+R)^t}}$$

- $P_G$  = INCREMENTAL UNIT COST OF GAS (\$per MCF)
- $P_0$  = WELLHEAD PRICE FOR OIL (\$per barrel)
- $T_G$  = SEVERANCE TAX ON GAS
- $T_0$  = SEVERANCE TAX ON OIL
- $Q_G$  = NET VOLUME OF GAS SOLD (MCF)
- $Q_0$  = NET BARRELS OF OIL SOLD IN CONJUNCTION WITH  $Q_G$
- $\bar{Q}_0$  = NET BARRELS OF OIL SOLD IF GAS WERE NOT SOLD
- $\bar{C}$  = DEVELOPMENT COSTS IF GAS WERE NOT SOLD
- $C$  = DEVELOPMENT COSTS IF BOTH GAS AND OIL WERE SOLD
- $R$  = DISCOUNT RATE
- $t$  = YEARS



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PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Replies to Questions  
from  
Alaska State Legislature - Joint Gas Pipeline Impact Committee  
Concerning  
"The Prudhoe Bay Natural Gas Reservoir and Related Materials"

---

1. A and B

We do not have a single discount rate that we apply to all oil field projects. We use a range of rates to investigate the sensitivity of this factor, and to cover a range of risks that we judge might occur, consistent with good business practice.

15-20 %

2. A and B

There are circumstances under which a requirement to re-inject all the gas produced might lead to a reduction in the rate of oil recovery and the loss of ultimate oil recovery. However, these are hypothetical circumstances; under good reservoir management schemes we would inject water if necessary in sufficient quantities to prevent this happening.

C

Yes, there are circumstances where gas injection is more costly than gas production for sales. The factors that must be considered are:

- i. The cost of gas injection equipment.
- ii. The cost of gas sales processing equipment.
- iii. The cost of water injection to offset gas sales.
- iv. The wellhead price of gas.

3. A

The estimate is reasonable.

B

The amounts of fuel gas used in reinjection and in sales gas processing are about the same.

3. C

No.

D

Never under good reservoir management.

E

It should all be recoverable.

4. A

The well drilling/workover costs are reasonable.

Quantity dependent costs are reasonable direct operating costs.

B

Water injection facilities plus water injection wells are estimated to cost \$1.3 billion.

Gas conditioning plant additions for gas sales to augment the compressors used for injection we estimate at \$500 million.

The reason for the extra plant required for gas sales is that the reinjected gas contained about 12% carbon dioxide plus heavy hydrocarbon gases. These gases would be removed before transmitting the nearly 100% methane through a pipeline.

*FPC  
cost of  
gas processing*

5. A and B

BP Alaska has committed to negotiate a gas sales contract with a gas company. No specific price is mentioned within the contract but would be the highest prevailing price on the North Slope.

6. A

Some of the heavier hydrocarbons are recovered before the gas is reinjected. They are retained in the crude oil. The remainder are initially reinjected.

B

More of the heavier components will be removed when the gas is processed for sale. As much as possible of these products will be blended with the crude oil; the remainder could be used as fuel on the field, thus releasing more natural gas.

C

No commitments have been made.

7. A and B

The sharing of oil and gas production on the field is being discussed in unitization meetings that are in progress. This allocation will be related oil and gas in place.

C

We do not believe there will be a loss of oil recovery from gas sales.

8. A

No, the Study estimate of \$3.8 billion is too high.

*unless includes operating costs*

B

Our estimate for the total investment cost, including water injection for gas sales of 2.5 BCF/Day, is \$1.8 billion.

9. A

The Study estimate is too high for two reasons:

- (1) Total investment for gas sales is too high (see 8. B).
- (2) No oil loss is expected.

B

The reservoir is complex and the productions of oil and gas are interrelated, and pre-unit committees are now working on the allocations of costs between oil and gas productions. Until these are resolved we cannot be specific about production costs.

10. A and B

We would not normally produce a reservoir where costs exceed revenue. However, Prudhoe Bay contains both oil and gas and we would look at the overall benefits of producing both, as their production costs are inter-related.

C

We do not foresee any.

11. A and B

The maximum gas production rate of 2.5 billion sc/day is reasonable. It is, however, dependent on two factors:

- (a) An oil production rate of 1.5 millions b/d which will produce about half the gas.
- (b) Injection of water as necessary into the reservoir to replace the gas voidage in the gas cap zone of the reservoir.

December 10, 1975

*Hydrostatic  
tests*

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Joint Gas Pipeline Impact Committee  
HEARINGS  
December 10-11, 1975

Senator John Rader opened the meeting. Senator Kay Poland made the motion that John Rader be Chairman. Senator John Huber seconded that motion. Senator John Rader was then made Chairman and Representative Clark Gruening was made Vice-Chairman.

The following is a brief summary of the December 10 and 11 Hearings. A more detailed transcription will be made.

December 10:

Forrest Garb, President of H.J. Gruy and Associates presented testimony in the morning

December 10:

The afternoon testimony in answer to Gregg Erickson's questions was presented by B.P. Alaska, Kenneth Keep; Exxon Co. USA, Justin Miller; and ARCO, Howard Slack. Each submitted written statements.

December 11:

The Department of Revenue, Tom Williams of the Petroleum Revenue Division spoke on revenue from natural gas production and answered questions from Eric Eckholm's letter. David Knudsen of the Petroleum Revenue Division continued to answer questions favoring a trans-Alaska line as being more beneficial with higher revenues to the state than the Arctic Gas route. The net present value today being \$100-200 million. He also mentioned that deregulation of natural gas will not lead to instantaneous release of natural gas supply; it will not create new supplies. There is no alternative cheap resource. The establishment of a well head price lies between 50¢-\$1.00. Continual change disrupts an exact figure.

December 11, afternoon:

Guy Martin, Commissioner of the Department of Natural Resources presented a brief written statement and an outline for subsequent testimony: a. demand vs. surplus; b. reservoir study implications; c. status report of Royalty oil and gas Board. He pointed out that the surplus study will change having to deal with projections of state needs to match time period for need. It is difficult to make any reliable projection for a 10-15 year period.

Pat Dobej, Division of Geological & Geophysical Survey presented map scenarios of Open File 90-92 dealing with how we've used energy in Alaska in the last three years to 1974. Last year, 1st Bcf was actually used from what came out of the ground.

The Reservoir Study is a conservation tool. It was mentioned that early production of gas does have implications on the production of oil.

Howie Hamilton from the Division of Oil and Gas also presented map scenarios

Witnesses appearing before the Committee were Arlon Tussing, ISEGR; John C. Bennett, El Paso Natural Gas Co.; Amos Matthews, Alaskan Arctic Gas Co.; and Dr. Vic Fischer, Director ISEGR who recommended that a study be made of each route: El Paso and Arctic as each have different economic affects.

Following was a short business meeting that closed the day.

Two motions were made during the business meeting. One motion made by Senator Huber to allocate \$500 for a study of methanol was defeated.

Another motion allowing staff to continue working for the Committee in Juneau was carried.

Legal Division  
Post Office Box 360  
Anchorage, Alaska 99510  
Telephone 907 277 5637

M. K. Singletary  
Regional Attorney



December 8, 1975

Joint Gas Pipeline Impact Committee  
Alaska State Legislature  
425 G Street, Suite 750  
Anchorage, Alaska 99501

Attn: Mr. Eric Eckholm

Gentlemen:

Enclosed for the Committee's consideration is Atlantic Richfield Company's response to the list of questions submitted with your letter of December 19, 1975.

It is presently contemplated that Howard A. Slack, Vice President and Resident Manager, will make a brief statement on behalf of Atlantic Richfield Company during the hearing on December 10.

Very truly yours,

A handwritten signature in cursive script that reads "M. K. Singletary".

M. K. Singletary

MKS:ajd

Encl.

CC: H. A. Slack

ATLANTIC RICHFIELD COMPANY TESTIMONY  
JOINT GAS PIPELINE IMPACT COMMITTEE HEARING  
ALASKA STATE LEGISLATURE  
ANCHORAGE, ALASKA - DECEMBER 10, 1975

- 1A. What discount rate does your firm use in evaluating field development investment of the sort envisaged in the Prudhoe Bay area?
- 1B. If more than one rate is used, indicate the reasons and circumstances appropriate to each rate.

Our Company's evaluations of field development investments are based on economics after federal income tax, using a single discount rate with all risks treated as a part of project costs. The specific discount rate we use is confidential, but it primarily reflects the cost of capital and varies with time. The Aerospace study based its economic evaluations on a discount rate of 10% before federal income tax and assumed no inflation. This rate of return is too low for evaluating field development investments.

The total economics of a field that is being developed should reflect a much higher rate of return than is used as the economic criterion for incremental field development investments (i.e., much higher than the discount rate discussed above). In general, a field that is being developed represents a successful project. A company's successes must pay for their unsuccessful ventures such that the company can make a reasonable rate of return on their overall exploration and development program. A report entitled "Calculation of New Oil Costs, United States, Years 1959 through 1974" dated May 1, 1975, which was prepared by LaRue, Moore and Schafer, Petroleum Consultants, as a basis for testimony by

Mr. Robert R. Nathan, Robert R. Nathan Associates, Inc., before the Senate Committee on the Interior on April 28, 1975, stated that a 15% discounted cash flow rate of return to the producers (after federal income taxes) is "the minimum required in our opinion, to maintain exploration levels."

- 2A. Are there any circumstances under which a requirement to reinject all gas produced could lead to a reduction in the rate of oil recovery or in the ultimate recovery?
- 2B. If so, explain those conditions and estimate the amount of reduction.

From a reservoir mechanics standpoint, there is no reason prolonged reinjection should affect oil producing rate or ultimate recovery. However, from an economics standpoint, there probably would be a point where it would be impractical to add injection compressor capacity to maintain the oil rate. At this point the oil producing rate could be sustained and perhaps increased if gas were sold. An additional one billion cubic feet of gas per day could be compressed to sales line pressure with the same compression equipment initially used for reinjecting gas. The increased capacity to handle produced gas in this manner could accommodate increased oil rates from the existing wells.

- 2C. Are there any circumstances under which the reinjection of gas could be more costly than production of gas for sale?

All the cases we have studied for reinjection of gas include the eventual sale of gas. The reinjection case in the Gruy study terminates in the year 2000 without gas sales. It has no costs or revenue for gas sales. When gas is eventually sold, gas reinjection over a long term should be more costly than early gas sales, both in terms of gas

handling equipment and operating costs. This would occur because the same sales gas compression and processing facilities would be required for late gas sales as for early sales. However, during the prolonged injection period, more costly compression equipment would be required because two stages of compression are needed to reinject gas while only one is required for sales. The long delay of gas sales for reinjection also would extend the producing life of the field, causing additional operating and maintenance costs. Inflation will also cause gas sales to cost more for the delayed gas sales case than for the early gas sales case.

- 3A. The Aerospace study states (p. 3-30) that gas compression for reinjection will require 5% of the gas as fuel. Is this a reasonable estimate?

Yes. Consumption of 5% of the produced gas as compressor fuel for reinjection is a reasonable estimate. An additional 5% would be consumed as fuel in the operation of the separation centers and the power plant, giving a total consumption for field fuel of about 10%.

- 3B. How does this compare with the field consumption of gas to be expected under the assumption of maximum production for sale?

There are, of course, many reservoir management alternatives in the gas sales and reinjection programs with many uncertainties regarding fuel consumption in each program. However, we believe that field fuel consumption for a long-term gas reinjection program would be essentially the same as for a program involving early gas sales. Our conclusion is based on the assumption that the reinjection program would provide for gas sales to begin well before oil production ceases.

- 3C. Neglecting the gas used as compression fuel, is there any reason why all the reinjected gas could not eventually be recovered?

No. From a reservoir mechanics standpoint all the reinjected gas could be recovered. However, when the economics of the operation are considered, all the reinjected gas may not be recovered if a long-term reinjection program were employed.

- 3D. Assuming that all gas was reinjected, at what point do you estimate the total quantity of gas reinjected would equal the total recoverable gas reserves contained in the reservoir?

The timing for reinjected gas volumes to equal the total recoverable gas reserves is, of course, dependent on the reinjection rate. If prolonged gas injection were anticipated, additional compression might be added to increase the injection rates. Even with the increased rates, the earliest possible timing for injected volumes to equal the total recoverable gas reserves would be about 30 years. With no increased injection capability, the timing would be about 45 years. The utility for such information is not readily apparent. It should be pointed out that some of the reinjected volume would be gas that was produced and reinjected several times, whereas part of the gas that would ultimately be recovered would not have been produced in reaching the described balance.

- 3E. Would this quantity (less that consumed in reinjection) actually be recoverable at that point? If more or less, why?

Yes. From a reservoir mechanics standpoint all of the reinjected gas could be recovered. However, when the economics of the operation are considered, all of the reinjected gas at the point described in question 3D, may not be recovered.

- 4A. Are the cost figures used in the H. J. Gruy model (Aerospace 3-23 and Gruy p. 10) reasonable?

The cost estimates used in H.J. Gruy's study do not appear to be unreasonable although they are lower than our current projections. Their estimates are, however, in 1975 dollars and are quite different from the actual expenditures in current dollars (i.e., in the year they are spent) expected to be made for field development and operations. There is a great deal of uncertainty in predicting future investment and operating costs for the Prudhoe Bay Field because of major changes in inflationary trends during the past few years and the complications of operating in the harsh Arctic environment.

- 4B. Aerospace (p. 3-22) indicates that the quantity dependent costs are in addition to the costs of water treatment plants, but no cost figures are provided for such plants. Apparently there are similar additional capital costs associated with gas processing to control the water and hydrocarbon dewpoints and to remove carbon dioxide (Aerospace Report p. 3-8). Please explain the relative costs of those activities and any other related activity necessary to prepare the gas for sale so that the Committee can have a general idea of why the costs of producing the gas for sale are higher than the costs of production for reinjection?

The Gruy reinjection case terminates in the year 2000 and has no costs or revenue for gas sales. As indicated in our response to Question 2C., the costs of producing gas for sale should not be higher than the costs of reinjection with eventual gas sales. Regardless of when the gas is sold, carbon dioxide and certain natural gas liquids will be removed from the gas stream and the stream will be dehydrated in a gas conditioning facility prior to sales. This facility will be designed to make the Prudhoe Bay gas production meet pipeline quality specifications. The cost of constructing the gas conditioning facility is estimated to

be about \$900 million (current dollars based on construction timing for gas sales beginning in 1982).

- 5A. Have you entered into any agreements for the sale of your share of the Prudhoe Bay gas which would require you to produce the gas even if the price obtainable for it was very low?

The three funding agreements into which we have entered provide the funding party with the exclusive right to negotiate for a portion of Atlantic Richfield's gas in the Prudhoe Bay Field subject to regulatory approvals and various termination provisions on the part of each party dependent on certain happenings or occurrences.

We do not expect the price for Prudhoe Bay gas to be so low that there will be any question with regard to the economic desirability of sale of the gas. Each of the contracts we have made provides for a mechanism for determining the applicable wellhead price in the event the gas continues under price regulation or becomes exempt from price regulation. In the event the contracts are not subject to price regulation, the contract price clauses would ensure that the sales prices would reflect fair market value.

If, on the other hand, the prices under the gas contracts to be negotiated are subject to FPC regulations, then the price would be the highest just and reasonable price set by the Federal Power Commission. At this time we do not know what this price would be, but the present FPC nationwide price for gas at the wellhead is 51¢ per MCP plus applicable BTU adjustment and sales taxes, and we feel sure that the nationwide price for gas at the time of first sales from Prudhoe Bay (1981-1983) will be

considerably higher. We recognize that the present nationwide area rate price of the FPC does not apply to Alaskan gas, and we would expect the Alaskan price to be higher than the nationwide price because of the greater costs involved in Alaska.

5B. What minimum price, if any, is mentioned in any gas sales or option agreement covering North Slope gas to which your firm is a party?

As mentioned in our response to Question 5A., we have entered into funding agreements with Pacific Lighting Gas Development Company, Panhandle Eastern Pipe Line Company, and Texas Eastern Transmission Corporation. The contracts between Atlantic Richfield and Panhandle Eastern Pipe Line Company and Texas Eastern Transmission Corporation provide, in part, as follows (the contract with Pacific Lighting Gas Development Company provides roughly the same):

"(a) The contract gas sales price under regulation shall be negotiated to the highest of (1) the highest price provided in any long-term Prudhoe Bay contract for delivery of substantial volumes of gas to the lower 48 states or (2) the highest applicable just and reasonable rate adopted by the Federal Power Commission of (3) the highest nationwide area rate in effect in 1975 adjusted for applicable Alaska taxes and inflation to date of first deliveries.

"(b) The contract gas sales price absent regulation shall be negotiated to the highest of (1) commodity value in Buyer's market less treating and transportation costs to such market, (2) any higher price then payable under any other long-term Prudhoe Bay

contract for delivery of substantial volumes of gas to the lower 48 states, and (3) a negotiated minimum price not less than the highest nationwide area rate in effect in 1975 adjusted for Alaska taxes and inflation to date of first deliveries.

"(c) Other pricing provisions shall include but not be limited to full BTU adjustment, 100% tax reimbursement, excess royalty clause, escalation and redetermination clauses and Seller's right to file for special relief."

- 6A. What will become of the heavier hydrocarbons contained in the gas stream (ethane and heavier) if the gas is reinjected?

We have no plans to initially construct facilities for removal of heavier hydrocarbons from the gas stream. These hydrocarbons will be reinjected along with the gas. If a long delay in gas sales were incurred, the economics of installing facilities to extract the heavier hydrocarbons prior to gas sales would be studied.

- 6B. What will become of the heavier hydrocarbons contained in the gas stream (ethane and heavier) if the gas is sold?

When the gas is sold, most of the ethane and heavier will remain in and be sold with the gas stream or will, if Atlantic Richfield exercises an option in its gas contracts, be recovered from the gas stream, taken in kind, and utilized elsewhere. Certain liquids will be separated out in the gas conditioning plant. Atlantic Richfield retains the option to take these liquids or leave them for disposal by the gas purchasers.

6C. To what extent, if any, has your firm committed itself to the sale of these heavier hydrocarbons?

None. As mentioned in our response to Question 6B, above, Atlantic Richfield has the option to further process the gas stream for removal of ethane and heavier liquids.

7A. Will the proceeds of the production of gas and oil be shared by the producers on the basis of original oil and gas in place?

Proceeds of production will not, of course, be shared on any basis. The owners of tracts overlying the Prudhoe Bay Field signed a Letter of Intent which was submitted to the State at the Prudhoe Bay Field Rules Hearing in 1969. The letter provided that each owner would work toward a unit agreement providing for the development, production and operation of the field as if its area had been included in a single lease. The Letter of Intent provides that ownership in separate oil rim and gas cap participating areas within the unit is to be based upon oil and gas originally in place with each tract in each participating area being allocated its appropriate percentage of production. The field owners are currently involved in unitization negotiations which should resolve all the details of the production sharing problem.

7B. If not, then how?

As indicated in our response to Question 7A., final agreement has not been reached on all the details for sharing oil and gas production from the Prudhoe Bay Field.

If as is indicated in Gruy, the production of gas for sale results in a loss of oil, what principle will govern the apportionment of this loss among the field's several owners?

Provisions will not be made for sharing any hypothetical "loss of oil" or gain of oil, but only for sharing the oil and gas actually produced. The so-called "loss" of production in Gruy's report is in reality a difference in estimates of recovery through the year 2000 for different reservoir management programs determined theoretically through the use of a mathematical reservoir simulation program.

- 8A. The Aerospace study indicates that the future field development costs of gas production for sale exceed the costs of field development under a 100% reinjection assumption by a substantial amount (Aerospace - p.19 indicates a difference of \$3.8 billion). Does your firm generally believe this to be a realistic prediction?

We have not studied the same cases for gas sales and reinjection as those provided by Gruy for the Aerospace study. The reinjection case they have studied terminates in the year 2000 and has no costs or revenue for gas sales. We do not believe that a program which does not provide for eventual gas sales is realistic. We also note that the Aerospace cases do not appear to be optimized and improvements might be made which would reduce the difference between the two plans in both field development costs and ultimate recovery. Although we do not have adequate data to determine the validity of the quoted \$3.8 billion difference in field development costs for the assumed conditions of the two Aerospace cases, we have reviewed component parts of Gruy's cost estimates and do not find them to be unreasonable.

- 11
- 8B. If so, please explain the reason for this \$3.8 billion difference. If not, why?

It is our understanding that the \$3.8 billion difference in development costs between the gas sales and reinjection cases includes both capital expenditures and operating costs. However, we suggest that Gruy is in a better position to report on the specific causes for the difference.

- 9A. Pages 3-37 of the Aerospace Report indicate that the total costs of producing the gas considering the lost oil production (at \$9/bbl.) and the actual field development costs under maximum pressure maintenance would be \$7.251 billion. Is this a reasonable figure? If not, what would be a reasonable estimate?

\$3.8 billion of the total \$7.251 billion reported cost of gas production represents the added field development costs discussed in Questions 8A and 8B. The remaining \$3.45 billion is based on the 400 million barrels "lost oil production" with gas sales as compared with a reinjection program.

The Aerospace report indicates that 400 million barrels less oil will be recovered by the gas sales program as compared with the reinjection program but states on pages 3-34 that "it is reasonable to suppose that the small percentage reduction in oil recovery forecast between the two cases would be reduced even further through practical experience gained in operating the field." We are certainly in agreement with this conclusion.

For an analysis of hypothetical hydrocarbon losses to be complete, the recovery of gas, natural gas liquids, and condensate, as well as oil, must be considered in comparing

gas sales with a reinjection program. Although we have not quantified the effects of early gas sales on hydrocarbon recoveries other than for black oil, we believe that directionally earlier gas sales will provide a greater recovery of natural gas, natural gas liquids and condensate. It is also important to note that the gas sales case would bring to the U.S. energy market 42% more energy prior to the start of the 21st century than would the gas reinjection program.

- 9B. The Aerospace Report indicates that assuming a \$9/bbl. price for oil and a 10% discount rate, the cost of gas production will be \$.47/MCF (Aerospace p. 3-38 and p. 3-39). Is this a reasonable figure? If not, what would be a reasonable figure?

The 47¢/MCF gas production cost indicated in the Aerospace report is part of a national economic benefit analysis and is not indicative of the true cost of production. The assumptions that go into the national economic benefit analysis which make it unrealistic from a producer's standpoint are: (1) all costs are in 1975 dollars, (2) federal income taxes are excluded, and (3) the 10% before tax discount rate is not sufficient in the current high inflation environment to provide an adequate incentive to find new gas reserves. The current replacement cost for gas reserves is much higher than the reported 47¢/MCF.

- 10A. Would your firm be willing to develop the field for gas production (for sale) if the expected revenue from the gas sales were less than the cost of its production? (In other words, are there any circumstances under which your firm would go ahead with development for gas sales even if the present net worth of the field (or your part of it) were to be reduced thereby?)

No.

10B. Are there any circumstances under which the production of natural gas could be subsidized by the production of oil?

We do not foresee any circumstances where production of natural gas (for sale) from the Prudhoe Bay Field would be subsidized by the production of oil.

10C. Are there circumstances under which a firm could be compelled to produce the gas even though such production did not make economic sense?

Federal Power Commission regulations require that the price of gas sold in interstate commerce be "just and reasonable." This, by definition, requires that a reasonable profit be realized on such sales. We anticipate no circumstances which would compel a firm to produce the gas (for sale) even though such production would be uneconomic.

11A. The Aerospace study seems to indicate that the maximum gas production from the Prudhoe Bay reservoir sustainable for any substantial period of time without undue loss of oil recovery is about 2.5 BCF per day. Some pipeline feasibility calculations seem to be predicated on a higher rate of production. Is the Aerospace system realistic?

The gas sales rate that could be sustained from the Prudhoe Bay reservoir for any substantial period of time is, of course, sensitive to the starting date for gas sales. Based on the assumed gas sales date of the Aerospace study, we believe that the 2.5 BCF per day estimate is realistic.

11B. If not, what is a realistic system?

As indicated above, we believe that the Aerospace system is realistic.

Replies to Questions  
from  
Alaska State Legislature - Joint Gas Pipeline Impact Committee  
Concerning  
"The Prudhoe Bay Natural Gas Reservoir and Related Materials"

---

1. A and B

We do not have a single discount rate that we apply to all oil field projects. We use a range of rates to investigate the sensitivity of this factor, and to cover a range of risks that we judge might occur, consistent with good business practice.

15-20 rmb

2. A and B

There are circumstances under which a requirement to re-inject all the gas produced might lead to a reduction in the rate of oil recovery and the loss of ultimate oil recovery. However, these are hypothetical circumstances; under good reservoir management schemes we would inject water if necessary in sufficient quantities to prevent this happening.

C

Yes, there are circumstances where gas injection is more costly than gas production for sales. The factors that must be considered are:

- i. The cost of gas injection equipment.
- ii. The cost of gas sales processing equipment.
- iii. The cost of water injection to offset gas sales.
- iv. The wellhead price of gas.

3. A

The estimate is reasonable.

B

The amounts of fuel gas used in reinjection and in sales gas processing are about the same.

3. C  
No.

D  
Never under good reservoir management.

E  
It should all be recoverable.

4. A  
The well drilling/workover costs are reasonable.

Quantity dependent costs are reasonable direct operating costs.

B  
Water injection facilities plus water injection wells are estimated to cost \$1.3 billion.

Gas conditioning plant additions for gas sales to augment the compressors used for injection we estimate at \$500 million.

The reason for the extra plant required for gas sales is that the reinjected gas contained about 12% carbon dioxide plus heavy hydrocarbon gases. These gases would be removed before transmitting the nearly 100% methane through a pipeline.

*FPC  
low at  
of SW,  
compressor*

5. A and B

BP Alaska has committed to negotiate a gas sales contract with a gas company. No specific price is mentioned within the contract, but would be the highest prevailing price on the North Slope.

6. A

Some of the heavier hydrocarbons are recovered before the gas is reinjected. They are retained in the crude oil. The remainder are initially reinjected.

B

More of the heavier components will be removed when the gas is processed for sale. As much as possible of these products will be blended with the crude oil; the remainder could be used as fuel on the field, thus releasing more natural gas.

C

No commitments have been made.

7. A and B

The sharing of oil and gas production on the field is being discussed in unitization meetings that are in progress. This allocation will be related oil and gas in place.

C

We do not believe there will be a loss of oil recovery from gas sales.

8. A

No, the Study estimate of \$3.8 billion is too high.  
*unless includes operating costs*

B

Our estimate for the total investment cost, including water injection for gas sales of 2.5 BCF/Day, is \$1.8 billion.

9. A

The Study estimate is too high for two reasons:

- (1) Total investment for gas sales is too high (see 8. B).
- (2) No oil loss is expected.

B

The reservoir is complex and the productions of oil and gas are interrelated, and pre-unit committees are now working on the allocations of costs between oil and gas productions. Until these are resolved we cannot be specific about production costs.

10. A and B

We would not normally produce a reservoir where costs exceed revenue. However, Prudhoe Bay contains both oil and gas and we would look at the overall benefits of producing both, as their production costs are inter-related.

C

We do not foresee any.

11. A and B

The maximum gas production rate of 2.5 billion sc/day is reasonable. It is, however, dependent on two factors:

- (a) An oil production rate of 1.5 millions b/d which will produce about half the gas.
- (b) Injection of water as necessary into the reservoir to replace the gas voidage in the gas cap zone of the reservoir.

December 10, 1975

*Johnston  
12.13*

STATEMENT BY HOWARD A. SLACK,  
VICE PRESIDENT AND RESIDENT MANAGER,  
ATLANTIC RICHFIELD COMPANY,  
TO THE JOINT GAS PIPELINE IMPACT COMMITTEE  
ANCHORAGE, ALASKA

DECEMBER 10, 1975

Mr. Chairman and members of the Committee. We have previously submitted for your consideration answers to the questions posed in your letter of November 19 concerning the Prudhoe Bay natural gas reservoir and related materials. While these answers speak for themselves, I think it is appropriate to note that we are not certain that we fully appreciated the thrust or utility of some of the questions. Further, some of the questions involved so many variables that it was difficult, if not impossible, to provide answers which satisfy all of the variables involved. Thus, some further elaboration or clarification may become appropriate incident to your further consideration of this matter.

Now I would like to briefly summarize the thrust of our answers.

1. Atlantic Richfield Company supports the early sale of Prudhoe Bay natural gas and believes it can be produced and marketed at a competitive price and generate a reasonable return to the producers, the pipeline owners and the State of Alaska. We are firmly convinced that Prudhoe Bay gas can make a substantial contribution to the Nation, both in terms of net economic benefit and in terms of achieving positive steps toward energy independence. Further, early gas sales will allow condensate and natural gas liquids to be recovered when their yields are the highest. In addition, we would expect early gas sales to achieve a greater gas recovery than prolonged reinjection.

2. The Committee's letter of October 23, 1975 requested comments on the Aerospace Study's reported loss of 400 million barrels of oil resulting from early gas sales. The Aerospace Report indicates that 400 million barrels less oil will be recovered by the gas sales program as compared with the reinjection program, but states on page 3-34 that "It is reasonable to suppose that the small percentage reduction in oil recovery forecast between the two cases would be reduced even further through practical experience gained in operating the

field". We are certainly in agreement with this conclusion. In our opinion, this so-called "loss" of 400 million barrels is in reality nothing more than the difference in estimates of recovery through the year 2000 for two different and theoretical reservoir management programs. Further, the "loss" only commences to occur after 1992 and it is probable that experience gained in the field prior to that time would allow variations in well completion intervals, production volumes, water interjection locations, etc. to reduce this theoretical difference in oil recovery.

Thank you very much for your interest and attention.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.



Alaska State Legislature  
JOINT GAS PIPELINE IMPACT COMMITTEE

REVISED AGENDA--PUBLIC HEARINGS--DEC. 11

- 10:00 am Department of Revenue, Petroleum Revenue Division  
Presentation of state revenue from natural gas.
- 10:45 Dr. Arlun Tussing  
Wellhead price projections of North Slope gas.
- 11:00am Department of Natural Resources, Div. of Geological  
and Geophysical Survey.  
Testimony regarding current and projected natural  
gas consumption in Alaska
- 1:00pm Department of Natural Resources, Division of Oil and Gas  
State presentation of Prudhoe Bay Reservoir projections.
- 1:45pm Royalty Board  
Discussion on Royalty Board actions.
- 2:30pm El Paso  
Latest developments of El Paso proposal
- 3:00pm Arctic Gas  
Latest developments of Arctic gas proposal
- 3:30pm ISEGR, Vic Fisher  
State options.
- 4:00pm Committee work.



## Alaska State Legislature

### JOINT GAS PIPELINE IMPACT COMMITTEE

#### AGENDA FOR PUBLIC HEARINGS DECEMBER 10-11

#### COURTROOM K--ALASKA COURT BUILDING

#### December 11

- 10:00 a.m. Department of Revenue  
Petroleum Revenue Division
- Presentation on State revenue from  
natural gas
- 11:00 a.m. Department of Natural Resources  
Division of Geological & Geophysical  
Survey
- Testimony regarding current and pro-  
jected natural gas consumption in  
Alaska.
- 1:30 p.m. Department of Natural Resources  
Division of Oil and Gas
- State presentation of Prudhoe Bay  
Reservoir projections
- 2:30 p.m. Royalty Board
- Discussion on Royalty Board actions.  
They are meeting in Juneau Dec. 9-10
- 4:00 p.m. Discussion on future Committee work.

The Agenda may be changed at the discretion of the  
Chairman or Committee.



## Alaska State Legislature

JOINT GAS PIPELINE IMPACT COMMITTEE

AGENDA FOR PUBLIC HEARINGS  
DECEMBER 10-11

COURTROOM K--ALASKA COURT BUILDING

Testimony regarding natural gas supply from the  
Prudhoe Bay Reservoir:

December 10

- 10:00 a.m. H.J. Gruy and Associates
- 1:30 p.m. BP Alaska
- 2:15 p.m. Exxon Corporation
- 3:00 p.m. ARCO Regional Council

There will be opportunity in the afternoon for H.J. Gruy and Associates and the Oil Companies to participate in a "round table" discussion of the major issues.

STATEMENT BY HOWARD A. SLACK,  
VICE PRESIDENT AND RESIDENT MANAGER,  
ATLANTIC RICHFIELD COMPANY,  
TO THE JOINT GAS PIPELINE IMPACT COMMITTEE  
ANCHORAGE, ALASKA

DECEMBER 10, 1975

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field". We are certainly in agreement with this conclusion. In our opinion, this so-called "loss" of 400 million barrels is in reality nothing more than the difference in estimates of recovery through the year 2000 for two different and theoretical reservoir management programs. Further, the "loss" only commences to occur after 1992 and it is probable that experience gained in the field prior to that time would allow variations in well completion intervals, production volumes, water interjection locations, etc. to reduce this theoretical difference in oil recovery.

Thank you very much for your interest and attention.

SCOMM

#13:4

*See pages*

STATEMENT OF  
DON S. SMITH, VICE CHAIRMAN  
FEDERAL POWER COMMISSION



HEARINGS BEFORE  
THE SUBCOMMITTEE ON PUBLIC LANDS  
OF THE  
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS  
U. S. HOUSE OF REPRESENTATIVES

OCTOBER 9, 1975

Mr. Chairman and Members of the Committee, this statement is presented in response to your request of September 9, 1975, for information relating to the progress being made on various proposals currently pending action by the Federal Power Commission to transport natural gas from Alaska to the lower 48 States.

Present Natural Gas Supply Posture

As you are well aware, the Nation is faced with a pervasive and deepening natural gas shortage. This crisis in natural gas supply has been manifested by shrinking proved reserve inventories, declining production levels, and increasing curtailments of deliveries of firm natural gas deliveries to consumers by interstate pipeline companies.

During 1974, our proved reserve inventory continued to decline at an alarming rate and the Nation experienced its first significant decline in natural gas production in the

modern history of the gas industry. Proved reserves in the lower 48 States have now declined 29 percent from the peak year of 1967, from 289 trillion cubic feet to 205 trillion cubic feet at the end of 1974.

Gas supply for the interstate pipelines is deteriorating at an even faster pace, largely because interstate pipelines are being outbid by intrastate buyers in competition for new gas supplies. Interstate reserves have dropped 39.2 percent from their peak to year-end 1974, and interstate production has declined by more than 9 percent since 1972. Since neither imports nor substantive forms of synthetic gas are available to plug the supply gap, the natural gas shortfall increases month by month as domestic production continues to decline. The result is a widespread denial of gas service to prospective new customers, increasing curtailments of firm and interruptible service to existing customers, and the imminent threat of dislocations in our economy.

Tables 1, 2, and 3 set forth the salient facts relative to the United States natural gas supply in the lower 48 States and in Alaska. As can be seen on Table 1, proved gas reserves in the lower 48 States, reported by the American Gas Association, have declined by 84 trillion cubic feet since 1967, and the

Table 1  
 UNITED STATES NATURAL GAS SUPPLY EXCLUDING ALASKA\*  
 1946-1974

(All Volumes in Trillions of Cubic Feet @ 14.73 Psia and 60°F<sub>c</sub>)

Year	Production	Reserve Additions	Proved Reserves	R/P Ratio (4) — (2)** (5)	F/P Ratio (3) — (2)** (6)
(1)	(2)	(3)	(4)	(5)	(6)
1946	4.9	17.6	159.7	32.5	3.6
1947	5.6	10.9	165.0	29.5	1.9
1948	6.0	13.8	172.9	28.9	2.3
1949	6.2	12.6	179.4	28.9	2.0
1950	6.9	12.0	184.6	26.9	1.7
1951	7.9	16.0	192.8	24.3	2.0
1952	8.6	14.3	198.6	23.1	1.7
1953	9.2	20.3	210.3	22.9	2.2
1954	9.4	9.6	210.6	22.5	1.0
1955	10.1	21.9	222.5	22.1	2.2
1956	10.9	24.7	236.5	21.8	2.3
1957	11.4	20.0	245.2	21.4	1.7
1958	11.4	18.9	252.8	22.1	1.7
1959	12.4	20.6	261.2	21.1	1.7
1960	13.0	13.8	262.2	20.1	1.1
1961	13.4	16.4	265.4	19.8	1.2
1962	13.6	18.8	270.6	19.9	1.4
1963	14.5	18.1	274.5	18.9	1.2
1964	15.3	20.1	279.4	18.2	1.3
1965	16.2	21.2	284.5	17.5	1.3
1966	17.5	19.2	286.4	16.4	1.1
1967	18.4	21.1	289.3	15.7	1.1
1968	19.3	12.0	282.1	14.6	0.6
1969	20.6	8.3	269.9	13.1	0.4
1970	21.8	11.1	259.6	11.9	0.5
1971	21.9	9.4	247.4	11.3	0.4
1972	22.4	9.4	234.6	10.5	0.4
1973	22.5	6.5	218.3	9.7	0.3
1974	21.2	8.3	205.3	9.7	0.4

\*Data represents total U.S. natural gas supply prior to 1960.

Alaska's natural gas supply was not reported until 1960. Includes gas in underground storage.

\*\*Computed prior to rounding.

Source: A.G.A.

Table 2  
ALASKA NATURAL GAS SUPPLY  
1960-1974

(All Volumes in Trillions of Cubic Feet @ 14.73 Psia and 60°F.)

<u>Year</u> (1)	<u>Production</u> (2)	<u>Reserve Additions</u> (3)	<u>Year-End Reserves</u> (4)	<u>R/P Ratio</u> $\frac{(4) - (2)}{(5)}$ (5)	<u>F/P Ratio</u> $\frac{(3) - (2)}{(6)}$ (6)
1960	0.0003	0.050	0.107	356.7	166.7
1961	0.0016	0.816	0.922	576.2	510.0
1962	0.0036	0.716	1.634	453.9	198.9
1963	0.0045	0.061	1.691	375.8	13.6
1964	0.0064	0.147	1.831	286.1	23.0
1965	0.0076	0.162	1.985	261.1	21.3
1966	0.013	0.974	2.947	226.7	74.9
1967	0.023	0.711	3.635	160.8	30.9
1968	0.042	1.659	5.252	125.0	39.5
1969	0.087	0.037	5.202	59.8	0.4
1970	0.145	26.074	31.130	214.7	179.8
1971	0.154	0.388	31.365	203.7	2.5
1972	0.147	0.237	31.455	214.0	1.6
1973	0.131	0.318	31.643	241.9	2.4
1974	0.144	0.368	31.867	221.4	2.6

\*No data available prior to 1960.

Source: A.G.A.

Table 3  
 UNITED STATES NATURAL GAS SUPPLY \*  
 1946-1974

(All Volumes in Trillions of Cubic Feet @ 14.73 Psia and 60°F.)

Year (1)	Production (2)	Reserve Additions (3)	Proved Reserves (4)	R/P Ratio (4) ÷ (2)** (5)	F/P Ratio (3) ÷ (2)** (6)
1946	4.9	17.6	159.7	32.5	3.6
1947	5.6	10.9	165.0	29.5	1.9
1948	6.0	13.8	172.9	28.9	2.3
1949	6.2	12.6	179.4	28.9	2.0
1950	6.9	12.0	184.6	26.9	1.7
1951	7.9	16.0	192.8	24.3	2.0
1952	8.6	14.3	198.6	23.1	1.7
1953	9.2	20.3	210.3	22.9	2.2
1954	9.4	9.6	210.6	22.5	1.0
1955	10.1	21.9	222.5	22.1	2.2
1956	10.9	24.7	236.5	21.8	2.3
1957	11.4	20.0	245.2	21.4	1.7
1958	11.4	18.9	252.8	22.1	1.7
1959	12.4	20.6	261.2	21.1	1.7
1960	13.0	13.9	262.3	20.1	1.1
1961	13.5	17.2	266.3	19.9	1.3
1962	13.6	19.5	272.3	20.0	1.4
1963	14.5	18.2	276.2	19.0	1.3
1964	15.3	20.3	281.3	18.3	1.3
1965	16.3	21.3	286.5	17.6	1.3
1966	17.5	20.2	289.3	16.5	1.2
1967	18.4	21.8	292.9	15.9	1.2
1968	19.4	13.7	287.4	14.8	0.7
1969	20.7	8.4	275.1	13.3	0.4
1970	22.0	37.2	290.7	13.2	1.7
1971	22.1	9.8	278.8	12.6	0.4
1972	22.5	9.6	266.1	11.8	0.4
1973	22.6	6.8	250.0	11.1	0.3
1974	21.3	8.7	237.1	11.1	0.4

\*Includes gas in underground storage.

\*\*Computed prior to rounding.

Source A.G.A.

finding to production ratio has averaged 0.4 during the past five years. In other words, we have used almost two and one-half times as much gas as we found during that period. If we include the Alaskan reserves (Table 3), proved reserves declined from a high of 292.9 Tcf in 1967 to 237.1 in 1974, or an overall decline of 55.8 Tcf.

One of the most important facts to be derived from the 1974 data is that, as shown in Table 1, total natural gas production declined significantly for the first time in the history of the data series. Total production, which was 22.5 Tcf in 1973 declined to 21.2 Tcf in 1974, a decrease of almost 6 percent. This production decline of 1.3 Tcf is equivalent to about 231 million barrels of crude oil. Reserve additions, which failed to equal or exceed production for the seventh straight year, were the lowest recorded in the history of the A.G.A. data series except for 1969 and 1973. This low level of reserve additions (8.3 Tcf) resulted in the continued decline in the lower 48 States' gas reserve inventory to 205.3 Tcf at the end of 1974, the lowest level since 1952.

As shown in Table 2, there was little change in the Alaskan gas supply situation during 1974. Production, which amounted to slightly more than one-half of one percent of

total U.S. production since 1970, will probably not increase significantly until a transportation system is developed to move the gas from the North Slope to markets in the lower 48 States. Reserve additions in 1974 were similar in magnitude to those reported in the three previous years.

Jurisdictional pipelines transport about three-fifths of all natural gas produced in the United States to various distribution utilities, industries, and other consumers. A comparison of reserve additions as reported by jurisdictional pipeline companies on FPC Form 15 with A.G.A. reserve additions is set forth in Table 4. The trend of declining reserves is closely parallel to the A.G.A. reported reserves. For instance, reported reserves declined from a high of 198.1 Tcf in 1967, to a low of 120.4 Tcf in 1974, a decline of 77.7 Tcf.

Over the years, the Federal Power Commission and its Staff have carefully monitored the gas supply posture of the Nation and have issued a number of significant analyses and reports relating to gas supply. In September 1969, Staff issued A Staff Report on National Gas Supply and Demand. This report was important in two major respects: it represented one of the earliest detailed documentations of the developing natural gas supply and demand imbalance; and, it set out a number of specific findings and projections which later served

TABLE 4

Comparison of AGA and  
Form 15 Data (Lower 48 States)  
(Volumes in Trillions of Cubic Feet)

	End of Year Reserves		Net Production		Reserve to Production Ratio		Reserve Additions		Finding to Production Ratio	
	AGA	Form 15	AGA	Form 15	AGA	Form 15	AGA	Form 15	AGA	Form 15
1963	274.5	188.5	14.5	9.4	18.9	20.2	18.1	NA	1.2	NA
1964	279.4	189.2	15.3	10.0	18.2	18.9	20.1	10.6	1.3	1.1
1965	284.5	192.1	16.2	10.4	17.5	18.5	21.2	13.3	1.3	1.3
1966	286.4	195.1	17.5	11.1	16.4	17.5	19.2	14.2	1.1	1.3
1967	289.3	198.1	18.4	11.8	15.7	16.8	21.1	14.8	1.1	1.2
1968	282.1	195.0	19.3	12.6	14.6	15.5	12.0	9.5	0.6	0.8
1969	269.9	187.6	20.6	13.4	13.1	14.0	8.3	6.1	0.4	0.5
1970	259.6	173.6	21.8	14.1	11.9	12.3	11.1	0.0	0.5	0.0
1971	247.4	161.3	21.9	14.2	11.3	11.5	9.4	1.7	0.4	0.1
1972	234.6	146.9	22.4	14.2	10.5	10.3	9.4	(0.2)	0.4	(0.0)
1973	218.3	134.3	22.5	13.7	9.7	9.8	6.5	1.1	0.3	0.1
1974*	205.3	120.4	21.2	12.9	9.7	9.3	8.3	(1.0)	0.4	(0.1)

\* Preliminary Data.

as key indicators for responsive regulatory policy to cope with the emerging crisis. For instance, this report focused upon and anticipated the critical nature of the five-year period from 1969 through 1973, and projected that the national reserve to production (R/P) ratio (excluding Alaska) would drop from the year-end 1968 level of 14.6 to 10.2 by year-end 1973. (Data for calendar 1973 show that the R/P ratio for the lower 48 States stood at 9.7 at year-end.)

A second major Staff report was entitled, National Gas Supply and Demand, 1971-1990, Staff Report No. 2 and was published in February of 1972. Insofar as it provided an analysis of all supply and demand data available at that time, it was similar in character to the 1969 report. However, as indicated by the title, it was a more far-ranging report and contemplated the period extending from 1971 to 1990. Its major findings included the projection of a continuing and increasing disparity between the theoretical demand for gas and available supply; a projection that domestic production would peak in 1973 or 1974; the expectation of a continued heavy reliance on imports and other supplemental gas supplies to 1990; and, projection of a continued decline in the reserve inventory of the contiguous 48 States to 1990. Because of the time frame embraced by this report, history must ultimately be the judge as to the accuracy of these prognostications.

Current activity with regard to this type of gas supply analyses is centered in the Commission's recently completed National Gas Survey. The Survey, however, provides an even broader and more complete overview of the natural gas industry.

One of the most recent Staff analyses of gas supply is contained in A Realistic View of U.S. Natural Gas Supply, released in January, 1975.

In this report, Staff estimates of national gas availability were made to the year 1985, assuming that historical reserve addition trends of recent years would continue. Two levels of annual additions to reserves were considered: a continuation of the average experienced from 1960 through 1973 (14.7 Tcf per year); and, a projection of the average experienced since 1968 (9.5 Tcf per year). Estimated 1985 production under the higher of these two average levels of resource development was 17.4 Tcf. Production in 1985 at the lower rate of additions to reserves was estimated at 13.8 Tcf. Thus, a projection of even an optimistic average rate of historical additions to reserves indicates that anticipated 1985 production from conventional sources in the lower 48 States will fall far short of present rates of production.

In their report, the Staff also estimated that, on a national basis, average annual additions to reserves would have to rise to 22-24 Tcf per year in order to maintain production at the 1973 level of 22.5 Tcf. Actual reserves added during the period 1968 through 1973 averaged 9.5 Tcf per year. The addition of 8.3 Tcf in 1974 reduces this average to just over 9.3 Tcf per year. The deficiency in annual reserve additions to stay even is 14 Tcf. Maintenance of our approximate 1973 level of production requires that we develop about 253 Tcf of new gas supplies between now and the end of 1985. If present rates of reserves development continue, we will only have added a cumulative 102 Tcf through 1985 for a shortfall of about 151 Tcf and an attendant reduction in productive capacity to less than 14 Tcf annually. Through 1985, this cumulative shortfall of 151 Tcf would be equivalent to about 26.9 billion barrels of crude oil. On a daily basis, the oil equivalency of this shortfall would range from a 1974 level of about 0.6 million barrels per day to a 1985 level of about 4.1 million barrels per day.

The curtailment of firm service requirements to many consumers is a direct manifestation of our present gas supply difficulties. Total net curtailments of firm service on the interstate gas system were 286 billion cubic feet in calendar

year 1971, and by calendar year 1974 had risen almost 500 percent to nearly 1.7 trillion cubic feet. The rate of curtailments is continuing to accelerate with the net firm supply deficiencies of the major interstate pipeline companies projected to reach 2.9 Tcf for the year April 1975 through March 1976. This represents an annual projected gas supply deficiency equivalent to 516 million barrels of crude oil annually, or approximately 1.4 million barrels of oil per day. These firm curtailments do not fully measure the national gas supply shortfall, since there also has been a shrinkage of interruptible sales projected to amount to 283 billion cubic feet during the year April 1975 to March 1976, and undoubtedly there also have been some curtailments of service in the intrastate gas market for which we do not have data. These curtailments also do not measure the demand referred to other fuels by prospective customers, including many potential residential users. It is important to point out that unfilled demand for natural gas is largely referred to high priced imported oil, thus increasing consumer costs and our vulnerability to cutoffs by foreign exporters. Five-hundred sixteen million barrels of oil would constitute more than 20 percent of the U.S. imports of oil and oil products at 1974 levels.

At \$12.00 per barrel, 516,000,000 barrels equate to \$6.2 billion, or roughly double the total revenues of \$3.1 billion to domestic producers for sales to interstate pipelines for the 12 months ended in March 1975.

I would like to be able to report to you today that I could see an improvement in our Nation's gas supply position just ahead -- unfortunately, I cannot. This means that we must aggressively pursue those policies necessary to effect an improvement in the prospects for continued levels of adequate service to America's gas consumers. Improved domestic gas supply is essential to the maintenance of our economic well-being and to the achievement of increased U.S. energy self-sufficiency. However, increased production in the lower 48 States cannot be achieved to an appreciable extent by drawing upon presently proved natural gas reserves because these resources are currently being produced at rates very near to present capacity. Increased supply must come from as yet untapped or undiscovered conventional sources and from commercial scale production of synthetic gas. An important element of our drive toward increased domestic energy self-sufficiency must be the timely development of our Alaskan resources in a manner consonant with our responsibilities for

environmental stewardship. The development of Alaska's natural gas resources requires the placement of expensive and complex transportation systems for both oil and gas and it is in this area that formidable engineering, environmental, financial and political problems are faced. A high national priority must be placed on the early resolution of these problems if we are to receive the timely benefit of our Alaskan resources.

The Commission has taken a number of steps to insure timely development of the Alaskan natural gas resource. In December, 1973, in an effort to accelerate the exploration for and development of Alaskan gas reserves, capital advances to Alaskan producers were incorporated into the basic advance payments program. Under this program, pipelines subject to FPC jurisdiction loan monies to producers for natural gas exploration and development. During the time period in which the loan is outstanding, the pipelines are permitted to include the amounts loaned in their rate bases, thereby collecting from ratepayers a return on the funds advanced as well as taxes associated with the return. The funds advanced must be repaid either in cash or, preferably, in gas.

The advance payments program is now being investigated in light of the D.C. Circuit's opinion in Public Service Commission of the State of New York v. Federal Power Commission,

511 F.2d 338 (1975). In conjunction with that investigation, we have scheduled oral argument for October 23, 1975, to hear discussion on all issues raised by the program. Among other things, we have requested a discussion of the relative merits of various proposals for funding exploration and development of Alaskan gas reserves. In this regard, the Commission has, in several recent proceedings, denied pipelines rate treatment of interest payments to Alaskan producers because, in our opinion, interest payments arrangements do not further the basic objectives underlying our advance payments program. In those situations involving interest payments, the producer has demonstrated his ability to attract capital funds and would no longer have need for the monies which would be generated through the pipeline loan form of advance. However, the California Public Utilities Commission has adopted another policy and permitted rate treatment of similar interest payments. It has urged the FPC to reconsider its position on this issue, along with the question whether advance payments to Alaskan producers should be continued. 1/ Accordingly, all issues related to Alaskan advance payments and interest payments shall be addressed at the oral argument. We have specifically asked for discussion

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1/ Order on Petition for Rehearing and Granting Intervention, Panhandle Eastern Pipeline Co., Docket Nos. RP73-108, et al. FPC (October 8, 1975).

on the issue of whether we should suspend approval of rate base treatment for future Alaskan advances pending conclusion of the advance payment investigation.

### The Alaskan Resource

The first commercial oil well was drilled near the southern coast of Alaska in 1902. This well discovered the Katalla Field which produced only about 154,000 barrels of oil over the next 30 years. No major oil or gas discoveries were made in Alaska until 1957, when gas and oil were found in the Kenai Peninsula's Swanson River area. This discovery eventually led to exploration and the development of fields in the adjacent Cook Inlet area and by the late sixties the combined Cook Inlet - Kenai Peninsula area was estimated by the American Gas Association to contain proved oil and gas reserves of 432 million barrels of oil and 5.2 trillion cubic feet of gas, respectively. (See Table 2 for gas reserve data.)

With the exception of the drilling conducted by the U.S. Navy during World War II in U.S. Naval Petroleum Reserve No. 4 on the North Slope which resulted in several small oil and gas fields, all drilling activity in Alaska had been confined to the southern area until 1968. In that year, the discovery of the giant Prudhoe Bay oil field was announced. Although primarily considered an oil field, Prudhoe Bay also contains an estimated 26 trillion cubic feet of associated-dissolved gas reserves. This places the Prudhoe Bay field among the 15

largest gas fields in the world; and in the U.S. is second only to the Panhandle-Hugoton gas area of Kansas, Oklahoma and Texas which was discovered in 1918 (Table 5). Prior to the discovery of the Prudhoe Bay field, Alaska contained less than 2 percent of the proved domestic gas supply. By the end of 1974, Alaska's portion of the total proved domestic gas reserves had increased to over 13 percent. The impact of the inclusion of the Prudhoe Bay gas reserves in the AGA data series can be noted on Tables 1 and 3. Alaska's gas production (Table 2), however, which has never accounted for more than a fraction of one percent of the total domestic gas production, will probably not increase significantly until a transportation system is developed to move the gas from the North Slope to markets in the lower 48 States.

In addition to these proved reserves it is estimated that Alaska contains additional quantities of probable, or inferred, reserves (undeveloped reserves estimated to be associated with existing fields) and undiscovered resources. The magnitude of these two categories, which combined make up the potential gas supply, cannot be estimated with a great degree of certainty but both the Potential Gas Committee (PGC), an industry group, and the United States Geological Survey (USGS) have periodically

Table 5  
Major Gas Fields of the World  
January 1, 1975  
(Trillion Cubic Feet)

<u>Field</u>	<u>Country</u>	<u>Discovery Year</u>	<u>Original Reserves</u>	<u>Cumulative Production</u>	<u>Remaining Reserves</u>
(1) Urengoiskoye	U.S.S.R.	1966	176.5	0	176.5
(2) Panhandle-Hugoton	United States	1918	72.0	31.4	40.6
(3) Yamburg	U.S.S.R.	1969	70.6	0	70.6
(4) Medvezhye	U.S.S.R.	1967	60.0	1.0	59.0
(5) Orenburgskoye	U.S.S.R.	1967	58.6	.5	58.1
(6) Groningen	Netherlands	1959	58.2	9.4	48.8
(7) Zapolyarnoye	U.S.S.R.	1965	57.2	0	57.2
(8) Hassi R'Mel	Algeria	1956	54.0	1.1	52.9
(9) Shatlyk	U.S.S.R.	1968	53.0	0.2	52.8
(10) Pazanan	Iran	1969	50.0	0	50.0
(11) Kharasavei	U.S.S.R.	NA	35.0	0	35.0
(12) Rhourde Nuss	Algeria	1962	30.0	<u>1/</u>	30.0
(13) Yubileinoye	U.S.S.R.	1969	28.2	<u>0</u>	28.2
(14) Prudhoe Bay	United States	1968	26.0	<u>2/</u>	26.0
(15) Shebelinka	U.S.S.R.	1950	18.7	13.3	5.4

1/ Included with Hassi R'Mel cumulative production.

2/ Negligible.

Source: International Petroleum Encyclopedia, 1975, pp. 226-228 except for Prudhoe Bay which is based on AGA data.

prepared estimates of Alaska's potential gas supply. The PGC's latest estimate was published in November 1973, as of the end of 1972 and in June 1975, the USGS published its latest estimates of Alaska's potential gas supply in Geological Survey Circular 725.

The latest USGS estimates are considerably lower than previous USGS estimates and are reported as a range of values at 95 and 5 percent probabilities. The USGS estimates that there is a 95 percent probability of finding the lower value of their estimated range and only a 5 percent probability of finding the higher value. The following table compares these latest PGC and USGS estimates of Alaska's potential supply:

Alaska Potential Gas Supply (Trillion Cubic Feet)		
	<u>PGC</u>	<u>USGS</u>
Potential Supply	366.0	43.8 - 146.8
(a) Inferred or probable reserves	54.0	14.8
(b) Undiscovered resources	312.0	29.0 - 132.0

It may be noted that the latest PGC estimate of potential supply is substantially higher than the USGS estimate.

Additionally, PGC's potential estimate for Alaska constitutes about 32 percent of their estimate for the total U.S. compared

to a range of 8 to 17 percent for the USGS estimates. This serves to emphasize the widely disparate opinions of what the potential gas supply of an undeveloped area such as Alaska might be.

The PGC does not detail its total Alaskan potential estimate by productive or potentially productive area. The USGS, however, does subdivide its estimate by geological province for both the onshore and the offshore areas. This detail is shown in the following table:

Alaska Potential Gas Supply by Area (Trillion Cubic Feet)			
	<u>Inferred Reserves</u>	<u>Undiscovered Resources</u>	<u>Total</u>
Onshore	14.7	16-57	30.7-71.7
Northern (North Slope)	NA	14-49	14-49
Central	NA	0-5	0-5
Southern	NA	1-5	1-5
Offshore	0.1	8-80	8.1-80.1
Gulf of Alaska	0.1 (Cook Inlet)	2-17	2.1-17.1
Bering Sea	--	2-10	2-10
Beaufort-Chukchi Sea	--	5-50	5-50
Total	14.8	29-132	43.8-146.8

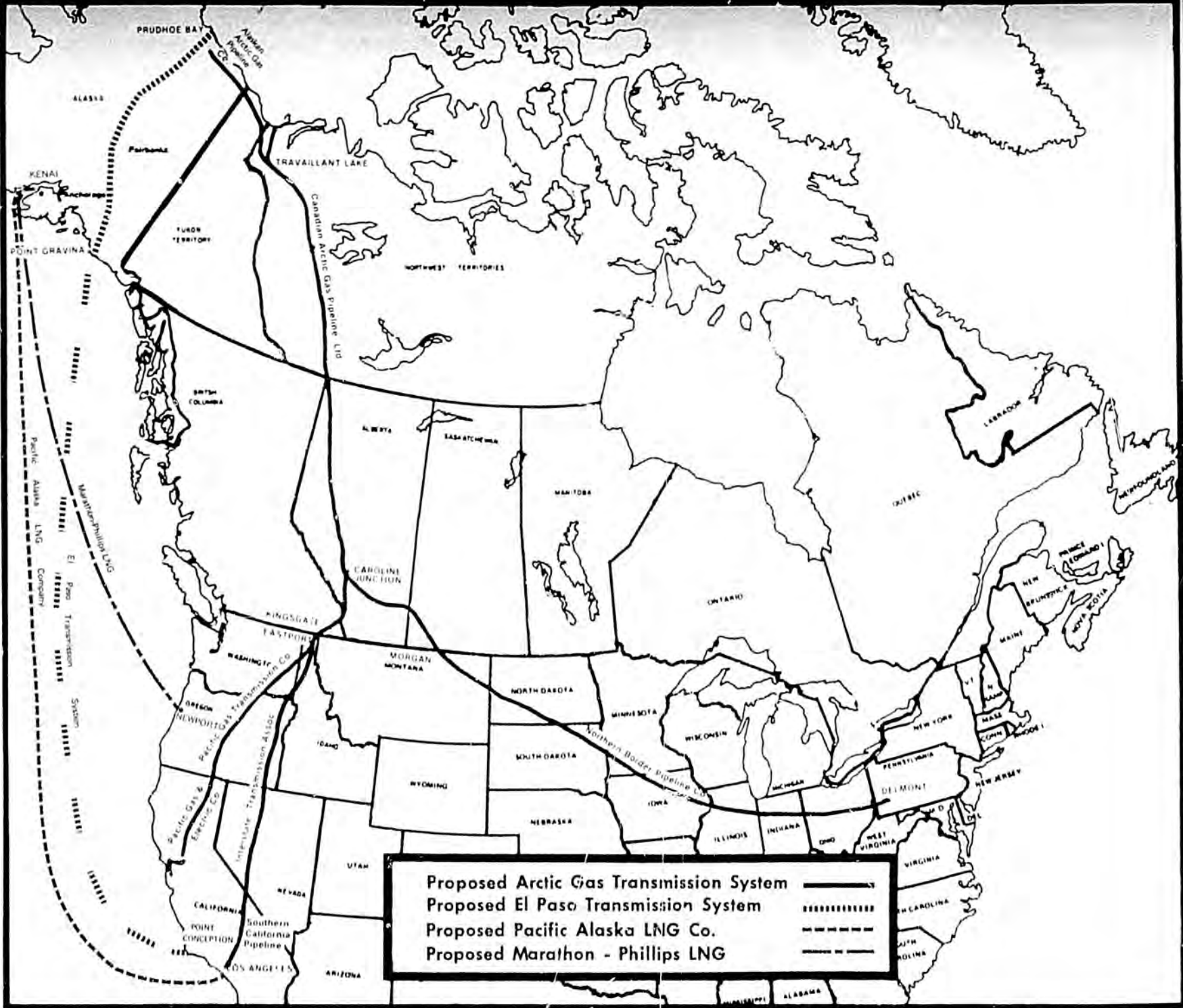
This brief discussion of Alaska's presently proved and yet-to-be developed natural gas resources illustrates the relative importance of this area's potential contribution to the nation's total gas supply. Presently proved reserves appear to be

capable of contributing an important and critically needed increment of gas supply in excess of one trillion cubic feet per year. While estimates of Alaska's undiscovered and undeveloped natural gas resources cannot be made with the same level of confidence, it would appear that the area also holds a major fraction of America's undeveloped natural gas resources.

### Pending Applications for Delivery of Alaskan Gas

#### North Slope Projects

Two competing proposals for the delivery of natural gas produced from Alaska's North Slope to the lower 48 States are currently before the Commission. (See Map, page 23) One proposal, referred to as the Arctic Gas Project, involves a plan developed by a consortium of U.S. and Canadian companies for the construction of a pipeline through Canada along the Mackenzie River. This pipeline would terminate at two points on the U.S.-Canadian border and connect with two proposed and one existing pipeline for the transportation of the natural gas to U.S. markets. The developers of the project also envision its utilization for the transportation of natural gas produced in the Mackenzie Delta-Beaufort Sea area of Canada to Canadian and possibly U.S. markets. Of the three proposed connecting U.S. pipelines, two would transport natural gas into California



Proposed Arctic Gas Transmission System	—————
Proposed El Paso Transmission System	- - - - -
Proposed Pacific Alaska LNG Co.	- · - · - ·
Proposed Marathon - Phillips LNG	· · · · ·

and the Pacific Northwest while the third would connect with pipeline systems presently serving the midwestern and north-eastern portions of this country.

A competitive proposal, submitted by El Paso Alaska Company, involves the construction of a natural gas pipeline routed for the most part within the utilities corridor being used to construct the Alyeska oil pipeline; the construction of liquefaction facilities on the southern coast of Alaska; liquefaction of the gas; the further transportation of the liquefied natural gas (LNG) by ship to facilities at Point Conception, California, and the utilization of the facilities of the California utilities and El Paso Natural Gas Company for the redelivery of the natural gas either directly or through displacement to the Midwest and Northeast regions of the lower 48 States.

It should be noted that although both of these projects are dependent upon the same Prudhoe Bay reserves, estimated at approximately 26 trillion cubic feet of natural gas, neither pipeline will directly purchase the gas but if FPC approval is forthcoming will instead act as contract carriers for the pipeline companies and distributors in the lower 48 States who will contract directly with the producers. Although negotiations are currently under way, and with the exception of the royalty

interest, the majority of the North Slope gas has been covered by agreements of intent, no contracts have been finalized. Precedent to the finalization of contracts is the submittal by the producers of a unitization agreement and its acceptance by the State of Alaska. None of the producers have as yet filed applications with the Commission for authorizations to make gas sales, nor have the parties indicated the price at which they intend to sell such gas. The Commission must ultimately determine the price of the gas to be transported to the lower 48 States. Lacking producer applications for such sales, there is no proceeding to determine this price currently before the Commission.

Although the applications as filed present unit cost figures for the transportation of the gas over various segments of the system, such pro forma costs are predicated, among other things, upon the optimum utilization of the facilities proposed for each segment and not upon the aggregated cost of delivery of a specific volume over an integrated system. Each segment of the system was designed to meet the particular needs and expectations of the applicant and not upon the actual volumes which may reasonably be expected to be available to the project as a whole. It is therefore not accurate at this

junction to merely add the estimated unit costs to determine what the cost might be to a specific market area. The costs cited in the applications before us were based upon design volumes and not upon the actual volumes available for transport by each participant. Presently cited costs may thus be considerably altered by changes in design and capacity when the reserves involved have been finally contracted for.

At the time of filing, the cost of the Arctic Gas Project was estimated to be in excess of \$9.0 billion. Under the El Paso proposal, the capital cost of the facilities required for the delivery of the LNG to California was in excess of \$5.5 billion including the pipeline, liquefaction facilities and ships, but not the facilities in California. On the basis of the assumptions indicated in each application, and notwithstanding the present inaccuracy of the figures, the indicated cost of transportation from Prudhoe Bay to delivery points at the Canadian border at Idaho and Montana ranges from \$1.25 to \$1.35 per Mcf, exclusive of the wellhead price of gas in Alaska. The El Paso proposal likewise is based upon an estimate of the cost of transportation from Prudhoe Bay to Southern California of \$1.17 per Mcf. Additional transportation costs would be incurred to further transport the gas to market areas

in the lower 48, as indicated in Table 6. In the event of substantial additional discoveries of gas supplies in the North Slope area or proximate to the final route of the respective pipelines, the facilities are designed for expansion which would result in significant decrease in unit transportation costs.

Of special interest to this Subcommittee is the comparative amount of public lands (Federal and State) involved in these two proposals. The Gas Arctic pipeline would traverse approximately 1,000 miles of public lands in the U.S., which means 25 percent of its right-of-way would be in the public domain. The El Paso project, including proposed facilities in California, would cross about 785 miles of public land which account for 82 percent of the total 950 miles of land based facilities.

#### Arctic Gas Project

##### Alaskan Arctic Gas Pipeline Company (Docket No. CP74-239).

This is a proposal to construct 195 miles of 48-inch diameter pipeline from Prudhoe Bay eastward to the Canadian Border at an estimated cost of \$575 million. The proposed facilities are designed for an initial volume of 2,275,000 Mcf per day,

refrigerated to 32° F. With additional compression, the pipeline is designed to transport up to 4,500,000 Mcf per day. The gas is to be delivered to Canadian Arctic at the international border for transportation to the lower 48 states.

Canadian Arctic Gas Pipeline Limited (before the National Energy Board of Canada and the Canadian Department of Indian Affairs and Northern Development). This proposal involves the construction of approximately 2,435 miles of pipeline within Canada for the delivery of gas produced in Alaska and the Canadian Arctic to U. S. and Canadian markets. A 48-inch diameter pipeline will be constructed from a point of interconnection with Alaskan Arctic at the Alaska-Yukon border to a point near Caroline, Alberta, a distance of approximately 1,400 miles. A 150 mile, 48-inch diameter pipeline will connect with the Canadian Arctic gas producing area at Richards Island, Northwest Territories.

A 42-inch diameter pipeline will be constructed from Caroline, Alberta to the Idaho-Canadian border near Kingsgate, British Columbia. This line will also interconnect with facilities of Alberta Natural Gas Company Ltd. Gas will be delivered at Kingsgate to Interstate Transmission Associates and, through the facilities of Alberta Natural, to Pacific Gas Transmission Company.

A second 42-inch diameter pipeline will be constructed from Caroline, Alberta to the Montana-Canadian border near Monchy, Saskatchewan for delivery to Northern Border Pipeline Company with interconnection with the facilities of Trans-Canada Pipe Lines Limited.

The estimated cost of the Canadian Arctic project ranges from \$5 billion on a no-expansion, non-escalation basis to \$7 billion with expansion and escalated costs.

Pacific Gas Transmission Company (Docket No. CP74-241).

A proposal to construct 618 miles of 42-inch diameter pipeline parallel to its existing mainline from the Idaho border near Kingsgate, British Columbia to the interconnection with the facilities of Pacific Gas and Electric Company at the Oregon-California border. The facilities will be designed to transport 1,000,000 Mcf per day of Arctic Gas and 200,000 Mcf per day from Alberta and will cost an estimated \$463 million.

Interstate Transmission Associates (Docket No. CP74-292).

Interstate is a joint venture of affiliates of Northwest Pipeline Corp. and Southern California Gas Company. The proposal involves the construction of 373 miles of 42-inch diameter pipeline from the International Boundary near Kingsgate, British Columbia to a point of interconnection with Northwest's

facilities at Rye Valley, Oregon, and 504 miles of 36-inch pipeline from the Rye Valley intertie to the California-Nevada border near Oasis, California, to connect with facilities of Southern California Gas Company at an estimated cost of \$675 million. The initial capacity will be 558,000 Mcf per day with an ultimate design capacity of 1,900,000 Mcf per day with additional compression. Northwest will receive approximately 20 percent of such volumes with the remaining volumes delivered to SoCal.

Northern Border Pipeline Company (Docket No. CP74-290).

Involves a partnership of affiliates of Columbia Gas Transmission Corporation, Michigan Wisconsin Pipe Line Company, Natural Gas Pipeline Company of America, Northern Natural Gas Company, Panhandle Eastern Pipe Line Company, Texas Eastern Transmission Corporation and Transwestern Pipeline Company. This project involves a five phase construction program of a total of 1,619 miles of 48-inch, 42-inch, 36-inch and 26-inch diameter pipeline from the Canadian-Montana border near Monchy, Saskatchewan to Delmont, Pennsylvania (near Pittsburgh). The initial phase design will be for 1,197,000 Mcf per day of Canadian gas with an ultimate capacity of 3,500,000 Mcf per day of Canadian and Arctic gas and is projected to cost approximately \$1.8 billion.

El Paso Alaska Project

El Paso Alaska Company (Docket No. CP75-96).

Proposes to construct 809 miles of 42-inch pipeline from Prudhoe Bay to Gravina Point on the southern coast of Alaska, about 40 miles south of Valdez. This pipeline generally will follow the Trans-Alaska Oil Pipeline corridor. Liquefaction and port facilities will be constructed at Gravina Point and the purchase and use of eleven LNG tankers as envisioned. The total cost of the pipeline, liquefaction facilities, and ships is estimated at more than \$5.5 billion. The facilities are designed for the delivery of approximately 3 billion cubic feet of natural gas per day to California.

It is proposed that the California receiving and gasification facilities will be constructed and operated by Western LNG Terminal Company. The interconnecting pipelines and their degree of participation has not as yet been determined. El Paso has submitted a study showing various concepts whereby present and projected unused capacity in existing pipelines throughout the country can be utilized.

Table 6, which follows, sets out the estimated capital costs of the various segments of these two proposals to transport North Slope gas to lower 48 State markets. It should be

TABLE 6

Estimated Capital Cost of Alaska Gas Proposals  
and Indicated Transportation Cost

<u>Segment</u>	<u>Estimated Cost</u>	<u>Approximate Unit Cost of Transportation/Mcf</u>
<u>Alaskan Arctic Project</u>		
Prudhoe Bay to Alaska-Yukon Border	\$575 million	\$0.20
Alaska-Yukon Border to U. S.-Canadian Border	\$5.5 billion	\$1.05 - \$1.15
U. S.-Canadian Border near Kingsgate, B. C. to California- Oregon Border near Malin, Oregon	\$463 million	Not stated
U. S.-Canadian Border near Kingsgate, B. C. to California- Nevada Border near Oasis, California	\$675 million	\$0.25
U. S. Canadian Border near Monchy, Saskatchewan to Delmont, Pennsylvania	\$1.8 billion	\$0.40
<u>El Paso Alaska Project</u>		
Prudhoe Bay to Gravina Point	\$1.9 billion	<u>1/</u>
Gravina Point Facilities	\$1.6 billion	<u>1/</u>
Eleven LNG Tankers	\$2.0 billion	<u>1/</u>

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1/ El Paso estimates the cost of delivery to California-Arizona border at \$1.17 per Mcf not including charge for transportation through existing facilities of California companies or El Paso Natural Gas Company.

emphasized again that the sum of the approximate costs by segment is not a satisfactory estimate of the overall cost of transportation.

Status of the Consolidated Gas Arctic-El Paso Arctic Hearings

The National Energy Board is scheduled to begin hearing on the Canadian Proposals on October 27, 1975. Commissioner Berger is presently conducting a Mackenzie Valley Pipeline Inquiry in Yellowknife, Northwest Territories, pursuant to direction of the Canadian Government.

At the FPC, the direct case of Gas Arctic has been completed and El Paso Arctic's direct case reopened on September 30, 1975. Section 3 (Import) hearings will commence after the El Paso Arctic hearing followed by answering and rebuttal cases. Hearings on the environmental impact should conclude the hearing phase.

The staff's final environmental impact statement is scheduled for completion in February of next year. Until such time as the North Slope producers enter into sales contracts for their reserves and seek appropriate authorizations for these sales, however, neither the Gas Arctic group nor El Paso can perfect their respective applications as to final design, cost, and economics of delivery of the Arctic gas supplies to lower 48 customers. Absent such information, the proceeding

cannot be concluded. Should the producers be able to act expeditiously on these matters and the applicants supplement their evidence accordingly, the hearings could be concluded subsequent to answering and rebuttal testimony to the Staff's final environmental evidence. Absent extended controversy on the redelivery and marketing of the gas in the lower 48, the matter could then proceed to briefing, action on the part of the Administrative Law Judge and the Commission's decision by mid-1976. Should the producers be unable to act expeditiously and the applicants be delayed in the perfection of their applications, the scheduling would be put back accordingly.

#### Other Alaskan Gas Proposals

In addition to the proposals to bring gas down from the North Slope, the Commission also has before it two additional proposals to transport gas from the southern portion of Alaska to lower 48 West Coast receiving points.

#### Pacific Alaska LNG Company (Docket No. CP75-140).

Pacific Alaska proposes to purchase 400,000,000 cubic feet of natural gas per day from the Cook Inlet area and construct pipelines to gather and transport this gas to a location near Kenai, Alaska where proposed liquefaction, storage and marine terminal facilities are to be constructed. Liquefied natural

gas (LNG) would then be transported by ship to terminal facilities in the Los Angeles Harbor to be constructed by Western LNG Terminal Company, where the LNG will be regasified and sold to Southern California Gas Company. Construction of the facilities is scheduled to commence in the last quarter of 1977 with completion and start-up estimated to be by July 1979.

The pipeline system in Alaska would extend from producing fields on the Northern side of Cook Inlet, south across the inlet to the proposed facilities near Kenai. The system would be approximately 90 miles in length with the pipeline size varying from 6 inches to 24 inches in diameter. Gas supply would be from the Beaver Creek and Beluga River fields and other productive fields in the Cook Inlet area.

Facilities in Alaska would consist of approximately 90 miles of pipeline, a liquefaction plant and marine terminal. These facilities would be designed to process and transport 400,000,000 cubic feet of natural gas per day. A marine terminal, storage and vaporization facilities also designed to handle 400,000,000 cubic feet per day would be located on Terminal Island in the Los Angeles Harbor, and a 3.4 mile 48 inch pipeline would transport vaporized LNG from this terminal to Southern California Gas Company's distribution system.

The project contemplates an initial operating level of 200,000,000 cubic feet per day with final completion within several years.

Capital requirements for the overall project are estimated to be as follows:

Alaskan Facilities	\$ 666,270,000
LNG Ships	379,500,000
Los Angeles Harbor Facilities	<u>164,624,000</u>
Total	\$1,210,394,000

The estimated unit cost of the vaporized natural gas delivered into the SoCal distribution system will be approximately \$2.43 per Mcf or \$2.40 per million Btu. Although Pacific Alaska, through an affiliate company, is actively engaged in funding arrangements to promote exploratory drilling on existing leases in the Cook Inlet Basin it has not as yet contracted for all the required gas supplies to implement this project. As of the date of its application, it had entered into gas purchase contracts with four producers in the Cook Inlet area with estimated recoverable reserves of approximately 652 billion cubic feet of natural gas, sufficient to provide daily deliveries of about one half of the initial operations.

This project is currently undergoing staff evaluation and staff is presently awaiting additional information from the applicant.

Marathon-Phillips LNG Sale to Northwest Natural Gas Company (Docket Nos. CI74-537 and CI74-538). In March of 1974, Marathon Oil Company and Phillips Petroleum Company applied for authorization to sell up to 50,000 Mcf per day from their jointly owned LNG plant at Nikiski, Alaska, to Northwest Natural Gas Company, a distributor operating entirely within the State of Oregon. The gas would have been produced from the applicant's own production in the Kenai and Cook Inlet Fields in the Kenai Peninsula of Alaska from which they have been producing and liquefying natural gas for export to Japan since 1969. The pipelines connecting the fields to the LNG plant are presently in place and no new construction was contemplated, except as new wells are completed. Northwest, being a company not subject to the jurisdiction of the Federal Power Commission indicated that it would arrange for construction and operation of an LNG storage and regasification plant at Newport, Oregon. The LNG sales agreement between Marathon-Phillips and Northwest specified an initial price of 80 cents per million Btu.

These applications raised unique issues as to the jurisdictional status of the transaction as well as the facilities that would be utilized both in Alaska and Oregon. The Commission, at the request of the applicants, established a procedure whereby the hearings on this matter would be phased into two parts, the first phase of which was to address the jurisdictional questions presented.

After formal hearing on the jurisdictional matters, a decision was issued on January 15, 1975, by the Presiding Administrative Law Judge. In Opinion No. 735, issued June 23, 1975, the Commission affirmed in part and reversed in part the initial decision involving Phase I, finding that the transportation, liquefaction, and sale of the gas in Alaska by Phillips and Marathon and the facilities related thereto would be subject to the Commission's jurisdiction. Marathon and Phillips, subsequently joined by Brooklyn Union Gas Company, Northwest and Union Oil Company of California, requested that the Commission grant a rehearing in these dockets. On August 19, 1975, the Commission issued Opinion No. 735-A denying rehearing.

Although formal hearing for Phase II, dealing with the evidentiary presentation on questions involving the public convenience was scheduled to convene on October 28, 1975, Marathon, on September 29, and Phillips on September 30, filed Notice of Withdrawal of their respective applications for this project. Marathon stated, in its withdrawal, that the jurisdictional issues were decided adversely to its position and interests, and imposed regulatory burdens which could not be met. Phillips cited similar reasons, and said the Commission ruling so materially affected its plans that it would terminate its LNG Sales Agreement with Northwest Natural Gas Company.

### Environmental Activities

The Commission Staff is carrying out the Agency's NEPA responsibilities through task forces that have been organized to prepare the environmental impact statements on the pending applications previously described. These task forces contain the various biological, physical science, and socio-economic expertise needed to assess the impacts on the environment and to examine appropriate alternatives and mitigative measures. Staff members have conducted numerous field evaluations in both Alaska and the lower 48 States as part of their independent analysis of these proposed projects. Supplemental data of a specialized nature is being gathered through several contractors.

The Federal Power Commission solicits the cooperation and assistance of other Federal, State, and Local agencies during EIS preparation. The Department of Interior and FPC established an interagency task force which cooperated in the environmental assessment of the competing proposals of Gas Arctic and El Paso, with the goal of preparing a single environmental impact statement. A memorandum of understanding joined our two agencies in this effort as a means of saving time, funds, and manpower by eliminating duplication of effort and, hopefully, to assure that the American consumer would have the benefit of the best informed and balanced decisionmaking that

the regulatory process could offer. 2/ This agreement recognized the responsibilities of FPC for evaluation of and jurisdiction for certification of the proposed natural gas facilities, and the specific responsibilities of interior for pipelines crossing public lands.

Although Interior reluctantly withdrew from this formal agreement in February of this year, for legal and administrative reasons, the association reaped mutual benefits for the agencies and the public. FPC and DOI staff worked side by side in Washington and throughout Alaska and the lower 48 States. Information was freely exchanged and discussed. The staff participated in public information hearings set in twelve cities to permit the American public to voice its views on the competing projects.3/ The spirit of interagency cooperation continues. Interior has agreed to supply appropriate witnesses for FPC's evidentiary hearings, as well as any information in its possession covering Alaska or other relevant areas.

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2/ Memorandum of Understanding for Preparation of Alaskan Natural Gas Transportation Systems Environmental Impact Statement, May 20, 1974.

3/ Anchorage, Fairbanks, Juneau, Alaska; Sacramento, California; Denver, Colorado; Chicago, Illinois; Billings, Montana; Reno, Nevada; Bismarck, North Dakota; Portland, Oregon; Spokane, Washington; and, Washington, D.C.

Our Staff has prepared comments on the Draft EIS circulated this July by Interior on the Gas Arctic project to assist Interior in finalizing its statement.

The Staff plans to circulate the Draft Environmental Impact Statement on Alaskan North Slope gas systems on November 15, 1975. A recent Court opinion in Alice Henry v. FPC permits one Federal agency to rely on the EIS prepared by another agency rather than having to prepare a full duplicate EIS of its own.<sup>4/</sup> Staff has elected to use this new option to produce a Draft EIS which will consist of FPC's own analysis of the El Paso Alaska and Western LNG Terminal proposals, Interior's draft statement on the Gas Arctic system, and a separate comparative analysis of the two competing proposals. Following the comment period, the Staff will use this extensive base of environmental data and analyses to prepare the FPC Staff Final Environmental Impact Statement. This Final Statement, expected to be completed in February, 1976, will be presented as evidence by our Staff in the second phase of the Alaska North Slope hearings. Use of this procedure and schedule will permit public commenting and environmental review of the EIS

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<sup>4/</sup> Henry v. F.P.C., 513 F.2d 395, 406 (C.A.D.C. 1975).

to move forward simultaneously with the ongoing adversary processes in the most expeditious way consistent with the requirement to develop a complete record of all relevant concerns and issues upon which the Commission must base its ultimate decision.

An evaluation of the Supreme Court decision in Aberdeen and Rockfish Railroad Company, et al. v. Students Challenging Regulatory Agency Procedures, 43 U.S.L.W. 4844 (June 24, 1975) (S.C.R.A.P. II), is ongoing to determine the impact it might have on the timing of Staff's presentation of environmental evidence in the current hearings. A motion by the parties on this issue is expected very shortly.

The environmental assessment is under way on the Pacific Alaska Company proposal, and Staff anticipates release of its impact statement during the early part of January, 1976.

#### Pursuit of Cooperative Efforts with Canada

The North Slope gas projects outlined above raise the question of our current relationship with Canada in regard to cooperative efforts in developing transport systems to the lower 48 States and Eastern Canada. The Federal Power Commission has stressed in the past that Canada and the United States have equally important vested interests in the

economics, safety, and timeliness of North Slope Alaskan and Canadian frontier energy resource development. This mutual interest and our tradition of U.S.-Canadian cooperation should foster energy policies compatible with the best interests of both Nations.

Regulatory agencies in both countries currently have competing applications before them which will require that a choice be made between an international project and a wholly domestic project. In the case of the U.S., the Arctic Gas Project would require extensive facilities within Canada which must be approved by the Canadian Government. The El Paso Alaskan proposal would of course not require Canadian approval. In Canada, the Arctic Gas project is before the National Energy Board together with the competitive all Canadian Maple Leaf project which proposes to connect Beaufort Basin gas reserves to existing Canadian transmission facilities entirely independent of U. S. Alaskan gas. The Arctic Gas Project is predicated upon both Alaskan gas and Beaufort Basin gas and thus would not be viable, from a Canadian point of view, absent U. S. approval. The recognition by all parties that both countries have in effect initial veto power over the trans-Canada international project, and the subsequent vulnerability of the project if it is built, gave rise to early discussions of a treaty agreement covering such energy transportation situations in general.

The Department of State has indicated to the Commission that negotiations are being conducted with the Canadian Government to effectuate a treaty covering the transit of one country's hydrocarbons across another country's territory. Shortly after the Arctic Gas project was filed, the Commission routinely requested that the Department of State express its views on the Trans-Canada project. To date, we have not received the comments of the State Department.

The Commission supports the concept of such negotiations with our Canadian neighbors because mechanisms of this type have a substantial potential for alleviating the complex problems associated with major international energy transportation projects, would reduce delays inherent in judicial processes, and would commit the public policies of both Nations to a project affecting the national interests of each.

#### Legislative Needs and Considerations

The complexity and multiplicity of issues involved in the competing applications make the task before the Commission a formidable assignment. The Commission will carefully evaluate not only the economic feasibility of the project but also the environmental effects of the proposals, the safety of the proposed transportation system, the impact on consumers and

markets and any alternatives which might be available. Of necessity, therefore, the environmental review and adversary processes must be allowed to develop a complete record of all relevant concerns and issues to guide us in arriving at a decision, and the Federal Power Commission has given highest priority to these tasks. The Commission and its Staff are well aware of the necessity of deciding this case in a timely fashion so that the facilities for transporting the natural gas from the North Slope to the lower 48 States can be constructed and not delay the delivery of this needed gas to consumers. The phrase "in a timely fashion" allows therein a reasonable time for judicial review, but this is an unpredictable process. There is, unfortunately, no assurance when judicial review will, in fact, be completed. An unsuccessful applicant or any of the more than 100 intervenors in the case could, by recourse to court appeals, delay a final decision for many years. This is a problem which should be recognized now and which should be dealt with now.

The foregoing is not to suggest that judicial review of the Commission's decision be eliminated entirely. Such extreme action would not only be contrary to the spirit of the laws under which our administrative agencies operate, but also would be unnecessary. There is enough time for judicial review

of our decision, if the courts proceed at a reasonable pace. Every party in interest should, quite properly, have his day in court. Our problem arises when they want their year in court. (Environmental litigation delayed the construction of the Trans-Alaskan Oil Pipeline by at least four years.)

What should be kept in mind is that among the interested parties are those who, while they may differ among themselves as to the nature of the ultimate decision to be rendered here, do believe that a decision should be rendered. There are also those who want no decision at all and who want this project delayed indefinitely. If the Congress concludes that it is indeed in the national interest that the natural gas with which we are here concerned should be transported to the lower 48 states when it becomes available, it may want to give serious consideration to legislation which would, while providing for proper review and consideration of all substantive issues, allow for summary disposition of frivolous contentions.

In considering the possible scope of judicial intervention, we should keep in mind that it could take two forms. First of all, there is the usual review of the decision of our agency. (Under Sec. 19(b) of the Natural Gas Act, 15 U.S.C. §717q, any party to a proceeding under the Natural Gas Act may obtain a review of such order in a United States Court of Appeals.)

Second, there is the relatively new role of the courts in the enforcement of the National Environmental Policy Act, 42 U.S.C. 4321, et seq. So as to make it possible for us to avoid undue delay, and because of the critical importance of Alaskan natural gas to the economy and welfare of the United States, the Congress should consider legislation which would accomplish the following:

1. Clearly define the issues which would be subject to judicial review;
2. Provide for the advance of any case involving this matter on the calendar of the reviewing court and for expedited consideration of the case by the court; and,
3. Shorten the normal period for the filing of appeals.5/

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5/ To insure that the Trans-Alaskan Oil Pipeline be constructed promptly without further administrative or judicial delay or impediment, Congress found it necessary to exercise its constitutional powers to limit judicial review of the actions taken pursuant to the Trans-Alaska Pipeline Act (43 U.S.C. 1652(d)). The provisions of that Act confine the permissible grounds for judicial review to constitutional questions and questions of federal actions beyond the scope of authority conferred by the Act and prescribe procedures which are designed to assure the most prompt possible resolution of any case and which assure that the issuance of rights-of-way, permits, leases, or other authorizations cannot be enjoined except pursuant to a final judgment.

*See Tapes*

STATEMENT OF JACK W. CARLSON  
ASSISTANT SECRETARY - ENERGY AND MINERALS  
DEPARTMENT OF THE INTERIOR  
BEFORE THE  
SUBCOMMITTEE ON PUBLIC LANDS  
HOUSE INTERIOR AND INSULAR AFFAIRS COMMITTEE  
October 9, 1975

Mr. Chairman, Ladies and Gentlemen, I am very pleased to be able to testify today on an important energy initiative before the Federal Government. Providing a transportation system for Alaskan natural gas is one of the most significant efforts that the Nation can undertake to increase the domestic supply of energy to the lower 48 States. I am particular pleased to testify before this Committee because of its expertise developed when this Committee fostered the legislation for the oil transportation system. A gas pipeline requires similar expertise.

In 1968, oil and natural gas was discovered at Prudhoe Bay on the North Slope of Alaska. This is the largest single discovery of hydrocarbons ever made on the North American continent. The field is estimated to contain some 26 trillion cubic feet of recoverable natural gas or an amount greater than 10% of total U.S. reserves. Additional reserves are likely to be confirmed in the future. Total potential recoverable resources in Alaska are estimated to be 72 to 185 Tcf.

At about the same time, reserves of gas were also discovered in the Mackenzie Delta region in the Canadian Arctic. Reserves in this area are now estimated to 4 trillion cubic feet. A number of gas and oil companies joined together in various study groups to develop transportation systems for this gas. Out of this coalition, three applications have been made to the U.S. and Canadian governments. The Arctic Gas Study Group of some 14 American and Canadian companies has proposed an all-pipeline system to carry both Prudhoe Bay and Mackenzie Delta gas to markets. This system would consist of a pipeline from Prudhoe Bay across the North Slope of

Alaska connecting with a spur to the Mackenzie Delta region of Canada and then south through Canada to a point near Calgary. Here the pipeline would split with one line going through the Midwest to the east coast and one or possibly two lines going to the west coast. Mackenzie Delta gas would be fed into existing pipeline systems in southern Canada for distribution to Canadian markets.

The El Paso Natural Gas Company has proposed a system that would carry only Prudhoe Bay gas. This system would consist of a pipeline south across Alaska and then liquified natural gas tankers to the Pacific Coast. Consumers of Alaskan natural gas in other parts of the country, according to El Paso, would receive additional supplies by displacement. El Paso contends that gas that would normally flow to California could be diverted and sent instead to the Midwest, the east coast, or other regions. The Department is studying the full potential for displacement.

In the event that the trans-Canada system is not constructed, an all-Canadian pipeline system called the Foothills Pipeline or Maple Leaf project has been proposed by Alberta Natural Gas Trunk Line Ltd. and the Westcoast Transmission Company of British Columbia. To the extent possible, it would use existing pipelines in Alberta, and would only carry Mackenzie Delta gas to Canadian markets. Expansion would occur as needed and not require all construction to be accomplished initially.

The Federal Power Commission has begun hearings on the applications by Arctic Gas and El Paso. Arctic Gas, but not El Paso, has applied for a right-of-way permit across Federal lands with the Department of the Interior. Foothills and Arctic Gas have applied to the National Energy Board of Canada and formal hearings are expected to begin at the end of October. Also in Canada, Justice Thomas Berger of the British Columbia Supreme Court heads a Commission that will hold hearings on the economic, social and environmental impacts of the Arctic Gas and Foothills systems and will report its findings to the Canadian Ministry of Indian and Northern Affairs.

For at least 2 years, the Department of the Interior has been involved in various studies dealing with transportation systems for Alaskan natural gas. In October of last year, the Department sent to Congress a study on transportation and utility corridor systems in Alaska as required by the Alaska Native Claims Settlement Act. This study develops a rational plan for the movement of high-value energy resources from remote areas of Alaska. In response to an application by Arctic Gas for a right-of-way across Federal lands, Interior has prepared a draft environmental impact statement which also analyzes, as a major alternative, a system similar to that proposed by El Paso. (See attached summary of Arctic Gas Transmission System draft environmental impact statement for the record.)

Title III of the Trans-Alaska Pipeline Authorization Act directs the Secretary of the Interior to investigate the feasibility of one or

more oil and gas pipelines from the North Slope of Alaska connecting with a pipeline through Canada delivering oil and gas to lower 48 markets. In order to assess fully the feasibility of an Alaska-Canada pipeline system, Interior is also studying a system similar to that proposed by El Paso. The report is due on November 16th. As the first step in preparing this report, the Aerospace Corporation of Los Angeles contracted to manage and coordinate an economic and risk analysis of alternative transportation systems. The Aerospace Corporation is a non-profit firm, only does work for Federal, State and local governments, and is a Federal Contract Research Center for the Department of Defense. Aerospace was employed to help insure objectivity and impartiality. So as to bring the best available expertise in industry to bear on the subject, Aerospace subcontracted seven consulting and engineering firms to carry out selected portions of the study. A preliminary draft version of the Aerospace study was sent to the House and Senate Interior Committees on August 15. The Department of the Interior has also contracted for an analysis of the ability of the capital markets to finance the projects. This study will be distributed shortly.

In addition to the Department of the Interior, a number of other Government agencies have been involved with the question of an Alaskan natural gas transportation system. Title III of the Trans-Alaska Pipeline Act requests the President to begin negotiations with Canada to determine the need for an agreement that will help to protect both countries when they transport oil and gas across the territory of the other. For some time now, the Department of State has had negotiations

underway with Canada on the terms of a pipeline agreement. These negotiations have resulted in a "draft" treaty which should be completed in the near future. The major provision requires uninterrupted throughput and reasonable taxation of pipelines. A protocol dealing with the specific implications of the construction of a trans-Canada system would have to be negotiated in the future.

Though all our studies are not yet complete, I can give you some of the preliminary results. The choice between the two primary transportation systems for Prudhoe Bay gas, the Arctic Gas and the El Paso proposals, is complicated and involves many issues some of which have not yet been fully assessed.

Even after they are assessed, the choice of routes will require judgment as to which factors are most important. The Economic and Risk Analysis prepared by Aerospace does indicate that the economic benefits of bringing Alaskan natural gas to market by either system will exceed the economic costs to the Nation of producing and transporting the gas. Under one set of reasonable assumption, the benefits exceed the cost by more than \$5 billion. The additional gas would mean an 8 to 10% increase of natural gas interstate delivery. This could offset natural gas curtailment observed to date. This favorable conclusion would be modified if there were a large drop in the price of imported oil, a very large increase in the actual cost of building these systems or long delays in constructing a system.

As to the question of which proposed system may be economically best for the country, the Aerospace study was a feasibility study and a comparative analysis of the benefits and costs to the entire Nation of the two systems. Like all such analyses, the conclusion depends crucially on the assumptions that have been made. In this analysis, if one accepts the assumptions regarding discount rates, value of gas to consumers, value of energy independence, etc., then the economic benefits and costs of the two systems are quite similar. Hence, the Aerospace study did not indicate a significant advantage to one proposed route over the other. While the American share of the costs of constructing a joint U.S.-Canadian system would be less than the costs of the trans-Alaska system, this apparent advantage could be offset by the payment of taxes to the Canadian government.

It must be pointed out, however, that the two systems studied by Aerospace are not exactly the same as that proposed by El Paso and Arctic Gas. Both systems were scaled down in size to carry flows of gas that were more reasonable considering the proved reserves of gas in both Prudhoe Bay and the Mackenzie Delta. The flow from Prudhoe used in the study is 2.5 billion cubic feet per day and is fully supported by the 26 Tcf reserves. The flow from the Mackenzie Delta

was assumed to be one billion cubic feet even though the current reserves of 4 Tcf justified only about one-half of that flow rate. No Canadian gas is assumed to be sold in the United States. Also, the Alaska-Canada system studied does not include pipelines to the west coast or beyond Chicago to Pittsburgh as are included in the application by Arctic Gas. The study assumes that by using displacement of existing lower 48 gas flows, Alaskan gas could be distributed to any region of the country without the need for building additional pipelines. When the displacement study is complete next month, we will share with the Committee potential limitations to displacement across the country.

As pointed out earlier in this testimony, the Aerospace study considered alternative hypothetical systems similar but not identical to those proposed by El Paso and Gas Arctic. The capital costs in 1975 prices of the Alaska-LNG system studied by Aerospace is estimated at \$5.6 billion. This compares with the costs of a larger system proposed by El Paso which Aerospace has estimated at \$6.6 billion. The trans-Canada system studied by Aerospace was estimated to cost \$6.2 billion. Aerospace estimated that the cost of the actual Gas Arctic proposal would be \$8.1 billion. The American share of a trans-Canada system would be about 75% of the total cost, if 1 Bcf flow can be sustained with additional reserves. If displacement of gas using existing pipelines is assumed for the Gas Arctic system, it could reduce the cost by approximately \$1.4 billion.

The time from a clear go-ahead to completion is estimated by Aerospace to be between five and six years for both transportation systems. For example, a potential delay in

the Alaska-LNG system is the lead time necessary to order and manufacture critical components of the liquefaction system. A delay in the construction of an Alaska-Canada all-pipeline system could occur because of difficulties encountered with logistics and productivity in the extreme Arctic environment and timely delivery of 48" pipe.

Some of the gas from Prudhoe and other sources of energy will be needed to power the two transportation systems. In an Alaska-Canada system, approximately 7-1/2% of the energy in the Prudhoe Bay gas will be needed to power the compressor stations along the route. For an Alaska-LNG system, approximately 11% of the input gas energy will be used to power compressor stations, the liquefaction system, the tankers, and the regasification facility. In addition, the Alaska-LNG system will need some bunker fuel for the tankers and will use some electricity at the regasification facility.

For the two systems as considered in the study, the estimated unit or average cost of transportation is \$1.31 per thousand cubic feet for the Alaska-Canada system and \$1.26 for an Alaska-LNG system. If the wellhead price is 50¢<sup>\*</sup> then the price to the United States is \$1.81 for Alaska-Canada and \$1.76 for Alaska-LNG. If U.S. property and corporate taxes are added then the price to the U.S. consumer would be \$1.94 for Alaska-Canada and \$2.27 for Alaska-LNG. Approximately one-third of the transportation cost of an Alaska-LNG system is taxes paid to American Federal, State, and local governments while only 10% of the transportation

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\* The wellhead price would have to be at least 47¢ to justify the additional development costs and withdrawal from pressurization for oil.

costs of an Alaska-Canada system will go directly to the American Government. United States tax revenues will be used either to reduce other taxes or to defray the costs of a variety of government services such as schools, police protection, roads, etc. Some of these services may be required because the transportation system is built.

The estimated value of natural gas to American consumers or, in other words, the price that consumers would be willing to pay for natural gas is at least \$2.50 per thousand cubic feet at the city gate which is more than the cost of either system. Therefore U.S. consumers would be willing to buy Alaskan gas rather than turn to some other energy source such as \$12 oil. The recent arbitrary 10% increase in the price of oil by OPEC would increase the relative value of natural gas by the same percentage.

In the two hypothetical systems studied by Aerospace, it was assumed that Alaska natural gas would be brought only as far as the first major gas consuming region. This would be California for the Alaska-LNG system and Chicago for the Alaska-Canada system. Beyond these two points, Alaskan gas would be distributed around the country by displacement of other supplies of natural gas (See Attachment ). In an Alaska-LNG system, gas that would normally go to California would be diverted and sent instead to the Midwest or the east coast. In an Alaska-Canada system, gas that would normally go to the Midwest would instead be sent to the west coast or the east coast. These displacements or "exchanges" are fairly common in the natural gas industry, although the magnitude would be larger.

Though displacement avoids the cost of building new pipelines, we are unclear as to whether there will be additional costs. Whenever

you begin to change the pattern of natural gas distribution, it may entail expanding some existing systems, building connecting pipelines that were not previously needed, and modifying regulation procedures. In the Aerospace study, no capital costs for the displacement are included for either transportation system. It is difficult to estimate what these costs will be. To do so requires, first of all, knowing where the purchasers of Alaskan natural gas will be located, and secondly, an estimate of the excess capacity that will be available in existing lower 48 pipeline systems. Interior does have a study to estimate some potential cost increases or decreases from displacement. Our tentative conclusion is that the additional cost of displacement is likely to be small for either system and that any differences in cost are likely to be even smaller. Consequently, excluding displacement costs do not significantly bias the results of the Aerospace study in favor of either system.

I believe that, for the most part, the cost estimates by the applicants and by Aerospace do reflect what we have learned from the trans-Alaska oil pipeline experience and that these cost estimates are much closer to reality than the initial cost estimates for TAPS. However, unanticipated problems can arise.

In the case of the trans-Canada proposal, a cooperative effort between two nations can bring difficulties in timing, coordination, cost sharing, and tax limitation. However, it can continue our joint efforts to develop and transport energy from all areas of the Arctic

and can affect energy supply levels even in the short run. If Prudhoe Bay and Mackenzie Delta gas are not carried together, the reserves of gas at the Mackenzie Delta especially if additional reserves are found will likely justify the construction of a pipeline to carry only this gas to Canadian markets.

Before the United States makes a commitment to a joint system, the issue of the level of future Canadian taxation -- especially provincial tax levels as well as stability of U.S. State taxes on Canadian lines needs to be resolved, as well as the share of costs that will be borne by each Nation and the conditions for possible future expansion. We are hopeful that U.S.-Canadian protocol can fully satisfy these issues.

Before deciding among the alternatives for transporting Alaska gas to the lower United States, the decisionmakers will have to take a hard look at environmental impacts. On July 28, 1975, Interior issued a draft environmental impact statement covering the Arctic Gas proposal. The final EIS is scheduled for issue early in 1976. The Federal Power Commission plans to adopt a revised version of Interior's draft EIS for the Arctic Gas proposal, and they are currently working on their own EIS in connection with the Alaska-LNG alternative proposed by the El Paso Alaska Company. Since all of the EIS work for these proposals is currently in the draft stage, we are not in a position to draw any conclusions on the relative merits of either system or alternative.

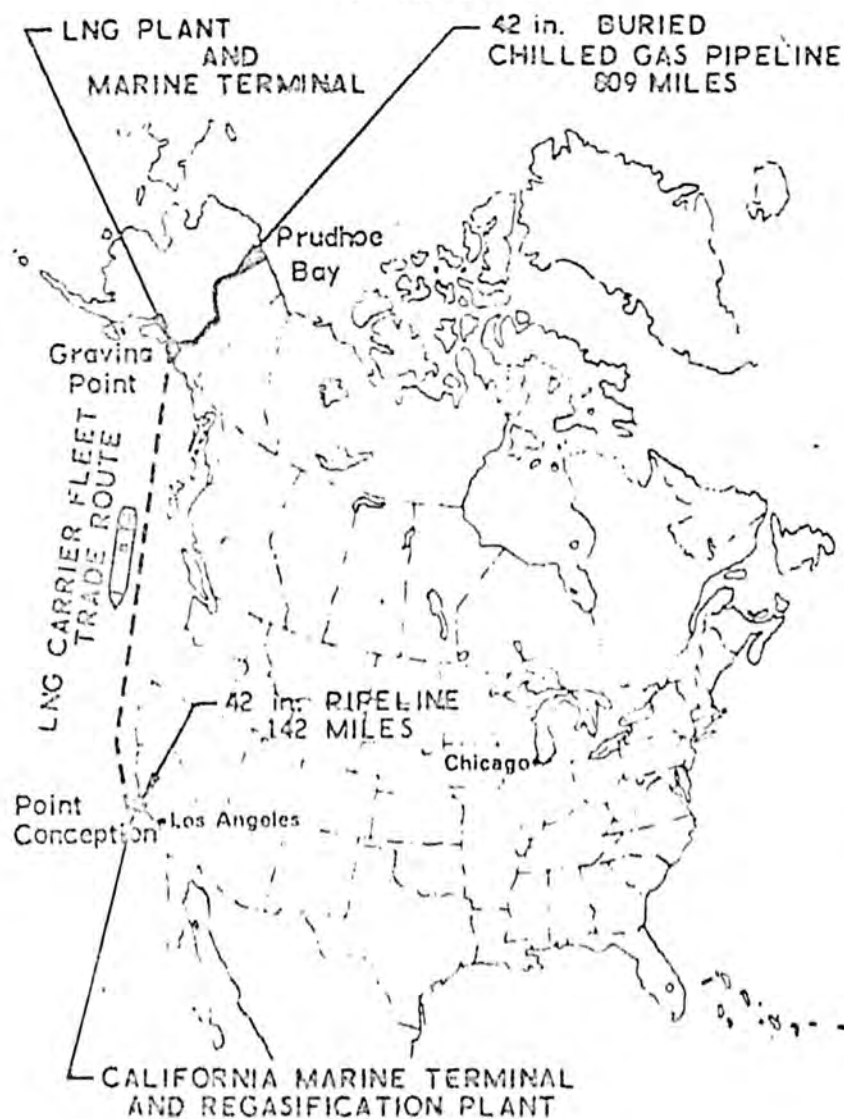
The final issue I would like to discuss here today is the question of the feasibility of private financing for either of these two systems. The capital costs of both of these systems is likely to equal or exceed the cost of the trans-Alaska oil pipeline. The magnitude of the sums of money involved, as well as the rather special characteristics of these systems that make them different from conventional gas pipelines in the lower 48 States, will challenge private financial institutions - a challenge I think they may be able to meet. However, one of the proposals is based upon a contingent liability borne by the Federal Government. The trans-Canada proponents have asked for government guarantees against cost overruns in excess of 125 percent of projected costs and for long-term flow interruptions. Both systems may require an "all events tariff" which would shift cost overrun and flow interruption guarantees to the ultimate consumer. The potential consumer would stand ready to pay for the company's cost of service regardless of circumstances after a limited number of days of interruption. However, this issue is of fundamental importance requiring additional evaluation as to feasibility and legality. If possible, neither system may need public financing assistance. As a general rule, I, for one, have discouraged consideration of government assistance. Moreover, I am not convinced consideration has been given to all ways to mobilize the private sector for this kind of investment.

The trans-Alaska proposal assumes use of the existing Federal Maritime Administration loan guarantee program. Under this program the mortgage covering the tanker construction costs could be guaranteed up to 85% (\$1-1/3 billion).

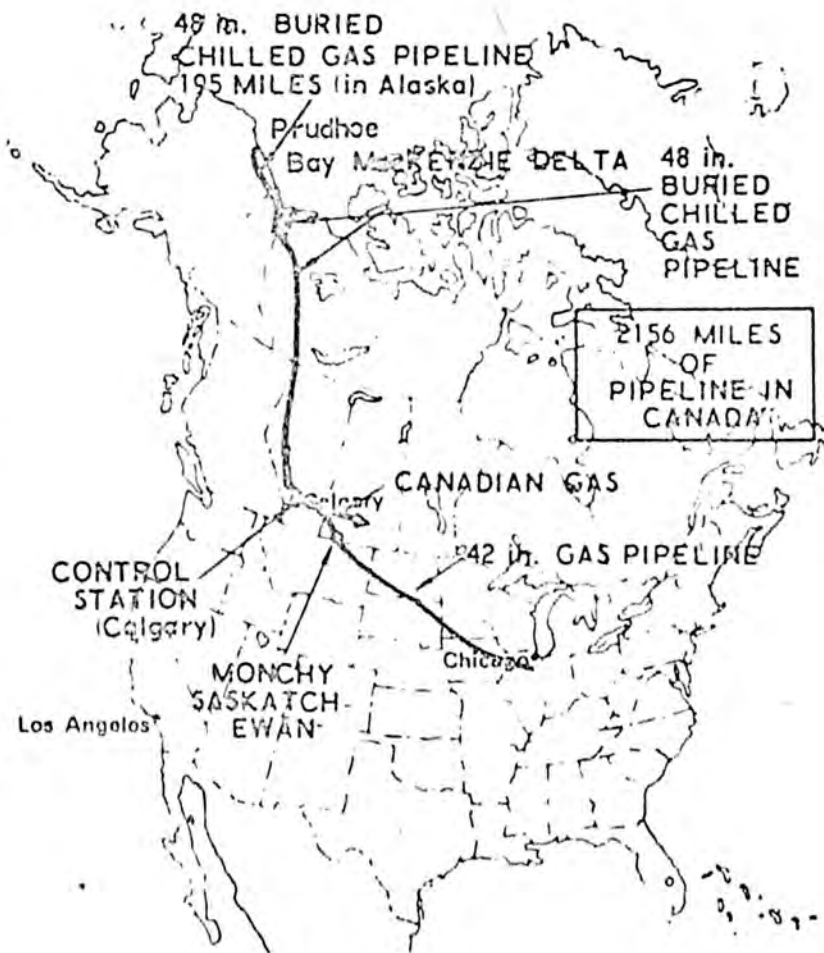
This concludes my initial assessment. We are pleased to answer your questions now and in the future. We join with you in appreciating the need to supply the Nation with additional natural gas, and as expeditiously as possible.

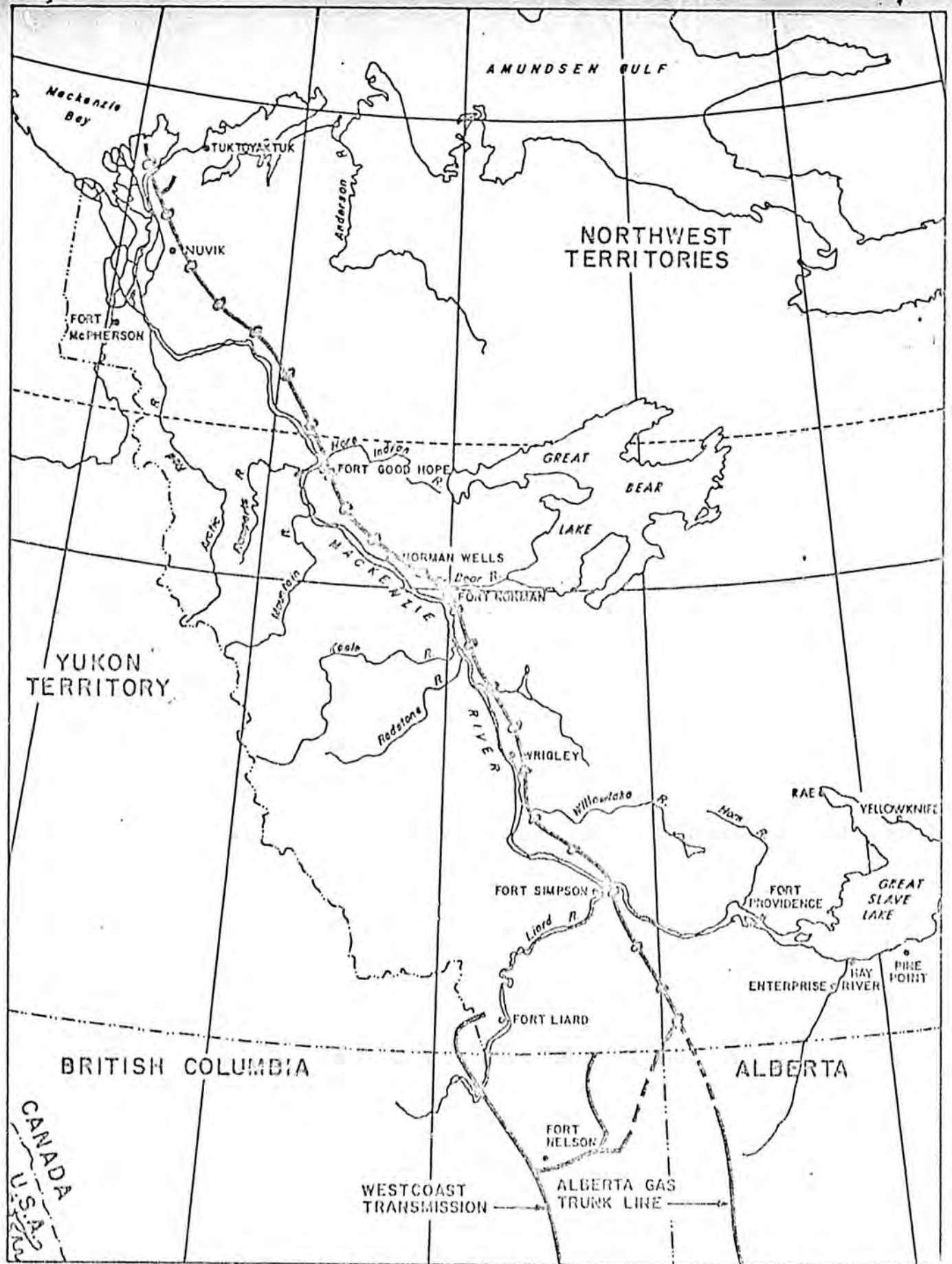
# Alternative Natural Gas Transportation Systems

## ALASKA - LNG



## ALASKA - CANADA





———— A.G.T.L. & WESTCOAST TRANSMISSION EXISTING SYSTEMS  
 - - - - - A.G.T.L. & WESTCOAST TRANSMISSION CONNECTING SYSTEMS  
 ..... PROPOSED FOOTHILLS ROUTE

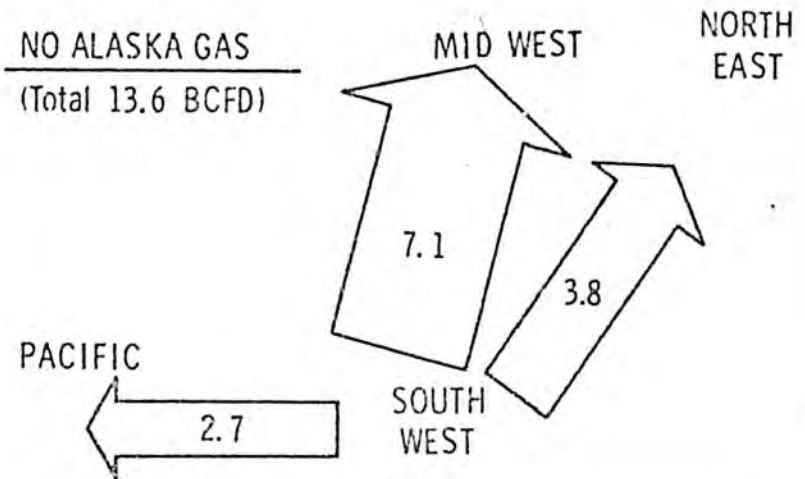
A.G.T.L. & WESTCOAST TRANSMISSION EXISTING SYSTEMS  
 A.G.T.L. & WESTCOAST TRANSMISSION CONNECTING SYSTEMS  
 PROPOSED FOOTHILLS ROUTE

# Displacement Concept

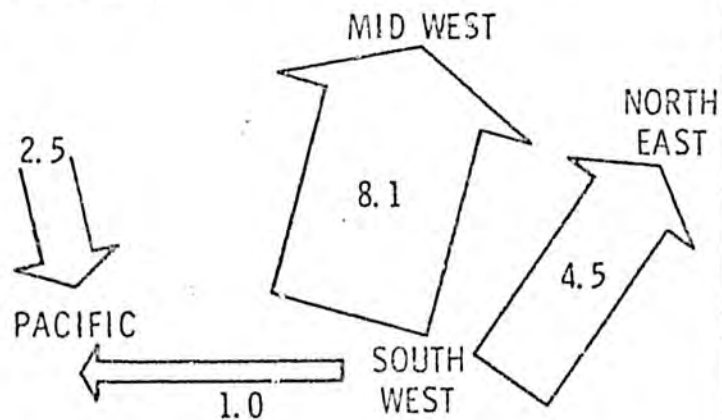
## HYPOTHETICAL EXAMPLES

REGION	SUPPLY BCF/day		
	LOWER 48	ALASKA	TOTAL
PACIFIC	2.7	0.8	3.5
MID WEST	7.1	1.0	8.1
NORTH EAST	3.8	0.7	4.5

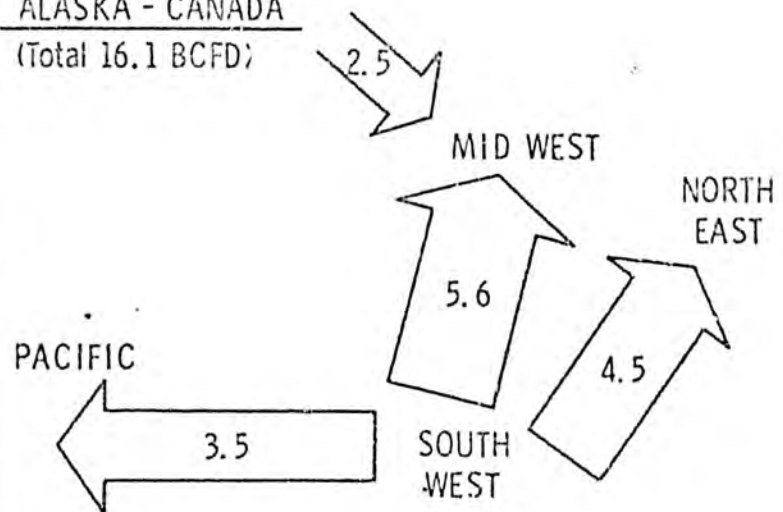
NO ALASKA GAS  
(Total 13.6 BCFD)



ALASKA - LNG  
(Total 16.1 BCFD)



ALASKA - CANADA  
(Total 16.1 BCFD)



*See pages*

STATEMENT BY JULIUS L. KATZ  
DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC  
AND BUSINESS AFFAIRS  
BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS  
OF THE HOUSE COMMITTEE ON  
INTERIOR AND INSULAR AFFAIRS  
OCTOBER 9, 1975

*U.S. House  
SUBCOMMITTEE  
on Interior & Insular  
Affairs*

Mr. Chairman:

I welcome this opportunity to appear before your committee to discuss the status of proposals for transporting natural gas from Alaska's North Slope to markets in the lower 48 states and to review the status of current negotiations with the Canadian Government on a transit pipeline treaty.

Following the discovery of substantial oil and gas resources in the Alaskan Prudhoe Bay area in the late 1960s, United States officials had a number of discussions with the Canadian Government regarding the possibility of constructing oil and gas pipelines from Alaska through Canada to the United States. We recognized the essential need to ensure that these new sources of energy supply were made available to American consumers as rapidly and economically as possible.

In late 1970, we made specific suggestions concerning the construction of pipelines to carry Alaskan oil and gas through Canada, including the formation of

a bilateral consortium of companies for this purpose. We also proposed negotiation of an agreement between the U.S. and Canada to govern the operations of such pipelines. Canadian officials replied that they saw no need for an inter-governmental agreement. They indicated that the terms and conditions governing such pipelines were set out in preliminary guidelines issued in August 1970 for construction of pipelines in northern territories. These guidelines were expanded in June 1972. In subsequent meetings, during the period when the Congress considered legislation to authorize construction of an oil pipeline across Alaska, Canadian officials maintained that there was no need for an inter-governmental agreement and that the "Guidelines for Northern Pipelines" provided sufficient guidance to commercial firms desiring to build such pipelines.

Canada's position that a bilateral accord to govern the operations of pipelines transiting Canada was unnecessary and the uncertainty about the timing and outcome of Canadian consideration of an application to construct an oil pipeline across Canada were significant factors in the U.S. decision in 1973 to move forward with approval of the Aleyeska pipeline. At the same time, it was clear that pipelines

across Canada could provide a viable alternative route for transporting natural gas supplies to southern markets. Thus, in the Trans-Alaska Pipeline Authorization Act of 1973 (P.L. 95-153, November 16, 1973), the Congress authorized and requested the President "to enter into negotiations with the Government of Canada to determine...:

(a) the willingness of the Government of Canada to permit the construction of pipelines or other transportation systems across Canadian territory for the transport of natural gas and oil from Alaska's North Slope to markets in the United States,...

(b) the need for intergovernmental understandings, agreements, or treaties to protect the interests of the Governments of Canada and the United States and any party or parties involved with the construction, operation, and maintenance of pipelines or other transportation systems for the transport of such natural gas or oil;

(c) the terms and conditions under which pipelines or other transportation systems could be constructed across Canadian territory;

(e) the quantity of such oil and natural gas from the North Slope of Alaska for which the Government of Canada would guarantee transit..."

The oil embargo in 1973 and the evident deterioration of Canada's oil and gas reserve position led the Canadian Government to decide to unify the Canadian oil market through construction of a pipeline that would permit oil produced in western Canada to be transported to eastern Canadian consumers. Canada also recognized the necessity to develop the substantial new reserves of oil and gas believed to exist in northern Arctic areas. In a statement to the Canadian Parliament on December 6, 1973, Prime Minister Trudeau said:

"Canadian natural gas is already supplying a substantial portion of our energy needs and some of those of the U.S.A. Enormous quantities of gas are available to be transported from the far north. A major development is the proposed gas pipeline up the Mackenzie Valley to move Alaskan gas to U.S.A. markets and at the same time, to make it possible to move Canadian northern gas to Canadian markets. While this project must, of course, be submitted to the usual regulatory proceedings and can not go ahead until it has been approved by responsible Canadian authorities, the government believes that it would be in the public interest to facilitate early construction by any means which do not require the lowering of environmental standards or the neglect of Indian rights and interests.

At this point, I might just say that I can see no reason why Canada could not give suitable undertakings as to the movement, without any discriminatory impediment, of

"Alaskan gas through a pipeline across Canada to United States markets provided all public interest and regulatory conditions are met in the building and operation of the pipeline. An undertaking of this sort would of course be reciprocal, with the same assurance being given to Canada regarding our oil and gas shipments through the United States."

Shortly afterward, during a meeting of senior Canadian and U.S. energy officials, we renewed past proposals for the negotiation of a pipeline agreement. Subsequent discussions confirmed Canadian interest in beginning negotiations and in the spring of 1974 the US proposed the opening of negotiations on a pipeline agreement. Because of the Canadian elections in the middle of the year, the negotiations were not initiated until November 1, 1974.

In our initial meeting in Ottawa it was apparent that neither the Canadian nor the U.S. Government was prepared at that time to take a position on alternative proposals for a natural gas pipeline from the Arctic. Thus, it was agreed that we should discuss a general,

reciprocal agreement covering all existing and future pipelines transiting Canada and the United States designed to provide a framework of reciprocal assurances with respect to security of throughput and non-discriminatory treatment.

In the negotiations thus far, we have reached agreement that the treaty should contain the following basic elements:

- reciprocity or symmetrical application to both parties;
- guarantee of throughput, by which public authorities in both countries would be prohibited from interfering with or impeding hydrocarbons moving in transit pipelines;
- non-discriminatory treatment, which would ensure that public authorities in both countries would be prevented from discriminating against transit pipelines with regard to taxes and other monetary charges;
- "in bond" treatment for hydrocarbons moving in transit pipelines;

- provisions for equitable sharing of pipeline capacity in the event of emergencies on a pre-determined basis; and
- provisions for protocols on specific pipeline projects..

In short, the basic purpose of the treaty would be to provide government-to-government assurances on unimpeded transmission of hydrocarbons and non-discriminatory treatment. However, Canada's constitutional framework differs in certain respects from our own. This difference in constitutional structure and practice, principally with respect to the taxing authority of the provinces, poses a potential problem regarding taxes which might be imposed on transit pipelines through Canada. As a practical matter, however, since we do not intend to limit the taxing authority of our state governments where Canada cannot limit the authority of its provinces, we do not expect this difference in constitutional practice to be a problem in fact. We believe the specific impact of state and provincial taxes on an Arctic pipeline can most effectively be addressed in the context of a specific protocol dealing with this particular pipeline. Necessarily, a general treaty would be limited to providing the full guarantee available to the federal governments of the two countries.

We expect to reach an referendum agreement with the Government of Canada on this pipeline treaty shortly. We would then propose to hold consultations on the text with the Congress and with interested parties before the treaty is formally signed.

Obviously, the major motivation behind the current negotiations, on both sides, is the need for both countries to move rapidly to a decision on the best route for moving natural gas from the Arctic to southern markets. The increasing shortage of natural gas in the U.S. and evidence that Canada's own natural gas supply situation is deteriorating make a prompt decision on a delivery system for this gas imperative.

One of the proposed delivery systems under consideration by regulatory bodies in both the United States and Canada involves a pipeline which would bring gas from the North Slope of Alaska down the Mackenzie River valley in Canada to the United States. This pipeline would also carry Canadian gas from the Arctic to southern markets. However, both Canada and the US have competing applications before their regulatory bodies and neither government has yet committed itself to either of the options open to it.

I wish to emphasize that the transit pipeline treaty we have been negotiating does not provide a complete answer for a specific pipeline project. However, it establishes the foundation of reciprocal assurances

regarding transit pipelines from which a more specific agreement can be negotiated. Obviously there is a close linkage between this general pipeline treaty and the type of agreement with Canada which would be required for a specific future pipeline project. We feel that the transit pipeline treaty is an important first step. By itself it provides significant government-to-government guarantees. Moreover, it sets the stage and provides a framework for future discussions with Canada when both countries have moved closer to a decision on the most appropriate route for transporting the substantial new energy resources in Arctic areas to consumers.

SCOMM

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January 14, 1976

Senator John Rader, Chairman  
Joint Gas Pipeline Impact Committee  
The Legislature of the State of Alaska  
Juneau, Alaska 99801

Dear Senator Rader:

Your Committee has asked me to address certain issues relative to the transportation of Alaska natural gas, assuming for the purpose of my analysis that there will be gas available for sale from the North Slope. 1/

I propose to set forth in this letter the conclusions that I have reached as a result of my research and my knowledge of the Federal Power Commission, together with certain alternatives which the State might wish to consider. To this letter I will append the legal analysis which leads to the conclusions expressed herein.

1/ You are aware of the possibility that natural gas production for sale may have a detrimental effect on the recovery of oil. Studies conducted by the Department of the Interior and by H.K. Van Poolen and Associates raise questions in this regard which are now being examined by the Committee. This issue is, I agree, of critical importance to State consideration of natural gas transportation issues, inasmuch as the State may find it necessary, for reasons of conservation, to limit natural gas production or require reinjection of associated natural gas for maintenance of reservoir pressure. Such conservation actions are, in my opinion, legally permissible if necessary to prevent waste, see pp. 85-94 of attached analysis, but might result in an indefinite postponement of a natural gas transportation system.

From the outset, I need to make clear my recognition, that State policy relative to natural gas will develop, as it should, through processes of government, and that these policy decisions will involve consideration of far more than questions of law and Federal policy. What I offer can be only a part of the whole which the State will consider as the State moves forward to a sound and productive policy of resource management. 2/

As a substantive starting point in my report to you, it is my judgment that the State should, from the standpoint of legal consequences, decide as quickly as possible the ultimate goals of State natural gas policy. If the State has a strong concern for a retention of a portion of Alaska gas for future Alaska needs, affirmative and aggressive State action will be necessary. Non-action by the State with respect to disposition and transportation of North Slope natural gas threatens permanent loss of the gas resources insofar as Alaska consumers are concerned; non-action creates a risk that natural gas produced in Alaska will not be available to fulfill future Alaska residential or industrial needs.

Let us assume that the El Paso, Trans-Alaska transportation route is authorized. Non-action by the State will result, sooner or later, in producer sales of eight-eighths of the natural gas stream in interstate commerce, either to an interstate pipeline, to distributors in the lower 48 states, or to direct users in the lower 48 states; and non-action by the state will result in the construction and operation of an interstate transportation system designed for, and financed on, the expectation of the flow of eight-eighths of the deliverable natural gas from the North Slope. If the State permits, by non-action, these developments, then certain legal consequences may be expected.

2/ I would ask it to be understood that my opinions do not reflect considerations outside my area of knowledge and training; I have no basis, for example, for advice on environmental or economic factors; nor can I gauge the will of the citizens of Alaska concerning economic growth and industrial development; nor can I estimate how strong will be the demand for revenue because of programs which the State may determine are necessary.

The issues which I address are, therefore, approached only from the relatively narrow standpoint of law and Federal regulation. I do not presume to prescribe what is "right" or "good" for the State. These determinations are peculiarly within the province of this Legislature, which will, I am sure, look to a much broader range of considerations, information, and analysis than are within my capabilities.

1. If producers market Alaska natural gas in interstate commerce, paying the State a one-eighth royalty in cash, the Federal Power Commission can assert jurisdiction over eight-eighths of Alaska production, and thereby attempt to prevent any later efforts by the producers, or by the State, to withdraw the State's one-eighth royalty share for an in-kind taking by the State for use in the State. (pp. 64-73)<sup>3</sup>

2. In the event of such a sale by producers to an interstate pipeline, and in the event of FPC denial of a request to withdraw State royalty gas, the only means for securing gas service in Alaska would be through a future demand by Alaska municipalities or distributors for service by the pipeline; such a request may be treated by the FPC, and lower 48 pipeline or distributor customers, as a request for new service which cannot lawfully be authorized. If the pipeline, at the time of the demand, is unable to render adequate service to its non-Alaska customers, or if grant of the Alaska demand would require to enlargement of pipeline transportation facilities, the Commission may be required, by law, to refuse demands for Alaska service -- even for residential and public service needs.

3. If Alaska can successfully claim -- contrary to the hypothesis in Paragraph 2 -- status as an existing customer, pipeline natural gas supplies would be shared by Alaska and non-Alaska customers on the basis of FPC curtailment priorities and allocation orders.

4. In the event of direct sale by producers to end users in the lower 48 states, or sale to distribution companies in the lower 48 states, there is no clear legal mechanism available to the State of Alaska to secure any portion of the natural gas produced in Alaska for future Alaska needs as they may develop.

Non-action by the State, in my judgment, creates serious risk that Alaska natural gas will not be available for future Alaska needs, even if the El Paso transportation proposal prevails. It is not just the

3/ Page references here and later in this letter are to the attached legal analysis.

potential industrial gas demand (which may or may not be a matter of State concern, dependent on the will of the citizenry with respect to industrial development) that is at risk. The needs of Fairbanks, and other communities, for residential service and service to schools, hospitals, and the like is also threatened.

The risk can be lessened by appropriate state action, as hereinafter discussed, if a trans-Alaska routing is authorized. If a trans-Canada routing is selected, whereby North Slope natural gas leaves Alaska north of the Arctic Circle, the State has no means of protecting its future gas needs. The routing question is, therefore, critical to the State -- at least in the context of future availability of Alaska gas for future Alaska needs. 4/

I am of the firm opinion that neither of the present proposals for transportation of North Slope natural gas offers a substantial guarantee that Alaska natural gas needs will be met. If either the El Paso or the Arctic Gas proposal is approved as presently submitted, the State could well find itself unable to draw upon its own gas resources to meet the future needs of the State.

The problems here are inherent in the nature of the applications and the Natural Gas Act: if the Arctic gas proposal prevails, there is no physical means to move gas from North Slope areas to the State's population centers; the Arctic gas routing will simply preclude gas movement within the State since the gas will leave the State north of the Arctic Circle. If, on the other hand, the El Paso proposal prevails on the basis of present filings with the FPC, the full natural gas stream will begin movement in interstate commerce, and even though it may be physically possible to withdraw gas where and when needed in Alaska, it may be legally impermissible to do so.

4/ Whatever the transportation route, natural gas production and transportation may reasonably be expected to contribute significant revenues and economic activity to the State. Accordingly, even if the transportation system which is Federally authorized does not lend itself to serving state natural gas needs, benefits to the State still might result from natural gas production, and transportation. A decision in this regard involves a balancing of economic, environmental, and political considerations which are beyond the scope of the requested analysis, and outside the scope of my knowledge and experience.

The State's present danger stems from the fact that certificates may issue, and interstate service may commence, without formal recognition of the State's needs. Interstate service unconditioned to Alaska's rights, creates grave problems concerning later attempts by the State to withdraw gas from the system -- problems which arise under Granite City Steel Co., v. FPC, 320 F2d 711 (C. A. D. C.. 1963) which suggests that gas customers in Alaska may not be added as pipeline customers if the pipeline is, at the time service to new customers is sought, then unable to meet the needs of existing customers; under Sec. 7(b) of the Natural Gas Act as interpreted by the Commission, which suggests that a partial diversion of the interstate natural gas stream will not be permitted without prior Commission authorization; and under Louisiana Public Service Commission v. FPC, 359 F2 524 (C. A. 5, 1966) cert. den'd. 385 U.S. 833, which holds that commingling of non-jurisdictional natural gas with jurisdictional natural gas results in a single gas stream which is wholly jurisdictional.

It does not follow, however, that Alaska is powerless to influence the movement of North Slope gas in a manner more nearly suited to the State's future gas needs than the proposals now pending. To the contrary, I believe there are reasonable courses of action which the State can pursue.

The State may exercise the option set forth in its oil and gas leases to take royalty gas in kind, and market this production separately from working interest gas; the State need not seek FPC authorization for royalty sales, and should limit the term thereof to the extent possible.

I believe that it would be most unwise, under present circumstances, to permit the producing companies which hold leases on State lands to market the State's royalty share of gas production. If marketing occurs, with the gas moving in interstate commerce, the problems summarized above -- and particularly the Sec. 7(b) abandonment problem -- stand as very real threats to later withdrawal of State royalty gas from the marketing arrangements made by the producers. Most simply put, if 8/8ths of the gas stream is committed to interstate commerce by delivery under an unconditional producer certificate of public convenience and necessity, withdrawal of the royalty 1/8th at a later date may require

FPC approval -- which may, or may not, be forthcoming. This is the lesson of FPC Docket N. C171-879, Superior Oil Company, Letter Order issued June 13, 1975. (pp 64-73).

This particular problem can be mitigated if the State exercises its option, prior to the delivery of any gas, to take its royalty share in kind, with appropriate notice to producer, purchaser, and FPC that the producer is without authority to market the State's natural gas.

The State should, therefore, negotiate for separate sale of its royalty gas on the best terms available, giving due consideration to a relatively short-term sale. The State should take the position that it is not subject to the Natural Gas Act, nor to the jurisdiction of the FPC, and that the State is therefore free to make sales for resale in interstate commerce (or in any other market), without certificate authority, and without restriction as to rates or terms of service. This position, though clouded by the Court decision in FPC v. Corp. Comm. of Oklahoma, 362 F. Supp. 522 (W.D. Okla., 1973) aff'd 415 U.S. 961 (1974) is, I believe, legally sound and legally sustainable.

State marketing of its royalty gas is not a complete answer to the basic problem. That gas must be transported, and the only available means of transport will be through the facilities of an interstate pipeline. The FPC can, therefore, exercise indirect control of royalty gas through its certification powers under Section 7 of the Natural Gas Act, even to the extent of denying the right of transportation if it is opposed to the end-use to which the gas will be put, or the price paid for the gas. See FPC v. Transcontinental Gas Pipeline Corp., 365 U.S. 1 (1961), and pp.3-9 of the attached analysis. Thus, it will still be necessary for the State to involve itself in transportation negotiations and see that FPC approval of transportation arrangements is obtained, even if the State markets its own gas by sale at the wellhead or sale downstream. The protection which the State must have is advance FPC approval of State withdrawal of its gas from interstate commerce, but this approval should be sought and obtained by the transporter in connection with its certificate applications and related tariff findings.

In suggesting these actions, I hold to the view that the State's power to call upon the gas resource when needed in the future can, in reasonable probability, be exercised if the State's rights and obligations are fully spelled out, fully presented to the FPC, and accepted by the FPC as an integral part of the transportation system which is certified by the FPC.

While all problems relating to future in-State use of State-owned gas may not be wholly solved by advance agreement, and advance FPC clearance, of specific production, transportation, and sales arrangements, it is my judgment that the problems are reduced to the levels of acceptable risk-taking if the FPC, prior to construction and operation of a transportation system, expressly conditions all necessary certificates of public convenience and necessity and pipeline tariffs to permit and approve such arrangements as are negotiated by the State with respect to its royalty gas.

The State may consider the enactment of legislation to hold State owned resources within the State unless such are surplus to the needs of the state.

Discussed in some detail in the appended legal analysis is a recent Texas statute which is designed to secure for the benefit of the State the resources which are publicly owned. The statute is prospective in operation, and simply requires that all State-issued oil and gas leases shall contain appropriate provisions to prohibit sale of natural gas produced from State-owned lands outside the State unless it is found that such gas is surplus to the needs of the State. (pp.79-85).

While the State clearly may not "embargo" natural gas through exercise of its regulatory powers, (pp.43-45) it may be argued that the State's powers incident to ownership of public lands are different from, and greater than, mere regulatory powers. Cannot the State decide to withhold its lands from development? if so, (and about this I can see little argument), does not this right include the lesser right to permit development only upon terms acceptable to the State as a property owner? (pp.15-17).

I do not offer an unqualified opinion that such legislation would withstand court challenge; I acknowledge that a challenge would probably be forthcoming, and that the legislation might fall as an undue burden on interstate commerce. Nonetheless, there is some chance of upholding protective legislation, and enactment could serve as a clear Legislative expression of Alaska's determination to retain a fair share of Alaska's resources. (pp.79-85).

The State may consider various means of encouraging conversion of natural gas to methanol, or encouraging extraction of all natural gas liquids, prior to movement of natural gas in interstate commerce.

If North Slope gas is converted to methanol before becoming committed to interstate commerce, the conversion facilities, the methanol itself, and the transportation of methanol would not be subject to FPC control. Since the natural gas would be produced and "consumed" (i.e., converted to something other than natural gas) within the State, the natural gas would never become subject to FPC jurisdiction.

Similarly, if ethane, propane, butane, and other liquids are removed from the natural gas stream prior to transportation or sale in interstate commerce, the extraction facilities, the liquids themselves, and the transportation of the liquids should not be subject to FPC control.

It is beyond the scope of my knowledge to explore the economic feasibility of these alternatives; nor can I judge whether the oil pipeline now under construction can, from an engineering standpoint, serve as a conduit for methanol or other liquids. I believe, however, that the State should be aware that a natural gas stream has enormous potential value other than its obvious value as a heat source. It would be imprudent not to explore all potential uses of the gas stream; particularly where conversion within the State, or liquids extraction within the State, diminishes the range of FPC controls, and where, as here, the use of liquids for generation of heat represents a waste of valuable raw material.

Encouragement of conversion or extraction may be given through legitimate State tax incentives or through dedication, on favorable terms, of State-owned gas to a conversion or extraction project. The most effective means of encouragement should be determined at the time full exploration is made of economic and engineering feasibility.

Legislative action may be considered with respect to extraction operations, but probably may not be considered with respect to a conversion project. The latter situation would almost surely require an impermissible degree of interference with interstate commerce, since any statute directing the flow of natural gas to a con-

version plant would, in actual operation, preclude movement of gas in interstate commerce. Such a restriction would not, in my judgment, withstand Court challenge.

Legislative direction that liquids extraction occur prior to movement of the residue gas in interstate commerce may, on the other hand, be a valid exercise of State regulatory powers to prevent waste. This issue is discussed in some detail in the attached legal analysis (24-100 ), and I conclude that mandatory extraction, if based on appropriate finding that extraction is necessary to prevent waste of a natural resource, and if properly applied to preclude the possibility of an unconstitutional confiscation, has a reasonable basis and can, therefore, be defended.

In addition to the foregoing alternatives relating to possible State action to retain a portion of the State's gas resources for State use, other, and different, alternatives exist.

What Actions Can the State Pursue to Achieve Benefit from the State's Gas Resources?

Until this point, we have focused on natural gas transportation issues; I suggest that there are other matters which deserve consideration as the State of Alaska moves toward resolution of its basic energy policies. These other matters are not strictly within the request made of me for legal analysis, and indeed some require far more exhaustive consideration before a firm recommendation can be made; I touch upon each briefly because they are germane to the general issues under discussion, and because some, or all, may emerge as part of an overall State strategy of resource management.

1. State leasing policies should be re-examined.

(a) The State is presently leasing on the basis of a one-eighth royalty. Other producing states, notably Texas and Louisiana, now demand, and receive, a one-fifth or one sixth royalty. Alaska should re-assess its bargaining position, its revenue needs, and whether the greater degree of control which in-kind royalty permits, justify leasing on terms other than those presently employed.

(b) Consideration should be given to the possibility that the leasing of State lands, or the withholding of state lands from leasing, is a valid instrument of State policy which can be used to assist in holding State resources for State needs; for example, can

leasing schedules be tied to changes in intrastate supply and demand? Can development be held until the State needs the resource? Here again revenue considerations and State desires regarding the optimum level of drilling and production activity must be weighed, but I suggest that one of Alaska's greatest strengths lies in its ownership of oil and gas bearing lands; thought should be given to the best use of that strength.

2. State taxing policies should be re-examined.

(a) The State presently provides for a production tax on natural gas of 4% of the gross value at the well; other producing states impose a much higher tax--for example, Texas exacts a severance tax of 7-1/2% of the market value of the gas when produced, and Louisiana imposes a basic severance tax of 7 cents/Mcf on natural gas. In considering whether revision of Alaska production taxes is appropriate, thought should be given to the Louisiana form: Louisiana's revenue levels are not controlled by the FPC, while Texas' are, at least to the extent that Texas gas is sold interstate. A further defect in the Texas structure lies in its requirement, in the final analysis, that Texas consumers bear a higher tax than out-of-state users; since the State tax is tied to value, intrastate sales at higher rates than interstate sales produce a higher tax bill for the intrastate producer than for the interstate producer.

(b) Alaska can consider the enactment of a franchise tax on interstate pipelines. Colonial Pipeline Company v. Traigle, 421 U.S. 100, decided April 28, 1975, upheld a Louisiana statute that imposed a franchise tax on a pipeline company that was admittedly engaged exclusively in interstate commerce.

In 1969, a Louisiana Court held that the commerce clause of the Federal Constitution was violated by a state tax "payable for the

privelege of carrying on or doing business... in this state." The Louisiana legislature then amended the offending provision by providing that the tax was levied upon "(t)he qualification to carry on or do business in this state in a corporate form". The Supreme Court of Louisiana upheld the tax as constitutional levy for priveleges enjoyed by corporations in the state carrying on business, interstate or local, in the corporate form. 289 So. 2d 93 (1974). The U.S. Supreme Court affirmed. The Court cited Memphis Natural Gas Company v. Stone, 335 U.S. 80 (1948), a case that sustained a similar franchise tax imposed by Mississippi on a foreign pipeline corporation exclusively engaged in interstate business. The Court quoted Justice Reed's opinion in the 1948 case: "This is a tax on activities for which the state, not the United States, gives protection and the state is entitled to compensation when its tax cannot be said to be an unreasonable burden or a toll on the interstate business". The "activities for which the state gives protection" included "protection of... maintaining, keeping in repair, and otherwise manning the facilities of the system," the Court said.

### Conclusion

As must be evident, it is my view that from the standpoint of legal consequence, the State should pursue an affirmative, aggressive course of enlightened self-interest if the present and future natural gas needs of the State are to be met. The State must decide what it wants, and then set out to achieve its goals.

My judgment is that the State may reasonably expect success in its negotiations. Consider the pressure points available to the State as bargaining levers:

1. Equity favors the State; it seeks nothing more than a share of the resources which it owns. Further, the State of Alaska alone bears a substantial environmental cost as North Slope resources are developed and transported; since this burden exists, an offsetting benefit should be made available to the people of Alaska.
2. The State has as-yet unused regulatory powers which can materially affect the flow of oil and gas.
3. The State has as-yet unused powers of ownership which can materially affect the flow of oil and gas.
4. The State has as-yet unused powers of taxation which can affect the price of oil and gas.
5. The State probably can retain some control of its royalty gas if the State takes effective action; by non-action the State stands to lose control of its royalty gas. The State's position on its royalty gas is of critical significance because it is doubtful that any North Slope transportation system can go forward without commitment of royalty gas to the system, either as part of system supply or as the subject of a continuing transportation agreement. The transportation system needs the royalty gas volumes to support claims of economic viability.

These factors lead me to believe that the State can bargain effectively.

I believe negotiations with both transportation groups are in order. The Arctic Gas proposal has encountered significant opposition, and the FPC staff has only recently concluded that the Arctic Gas group should consider an alternative routing to bring its line down the Alyeska corridor to Fairbanks, and then south eastward. This routing offers an opportunity for physical movement of North Slope gas to, or near, population centers through an Arctic Gas line, a possibility which did not exist so long as Arctic Gas proposed to move eastward out of the State while still within the Arctic Circle.

El Paso should obviously also be approached in definitive negotiations. It has historically supported the principal that a portion of the Alaska gas should be made available for Alaska usage and the El Paso proposal can serve State needs with fewer major revisions than Arctic Gas.

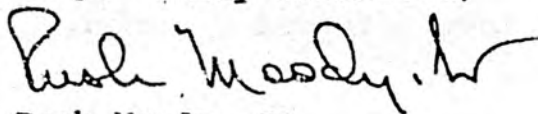
It is, therefore, appropriate for the State to open negotiations with both transportation proponents. It is time to ask, and obtain, positive answers to one basic question: How can Alaska retain the benefit of its natural gas resource under your proposal?

What must be made clear is that the Alaska Legislature and the State Administration, have affirmative duties to ensure, to the fullest possible extent, that the needs of Alaska are served. Others may, and should, consider private interests. But it must be unmistakably clear that Alaska will judge its present and future position on leasing, regulation, taxation, and royalty gas disposition with due regard to Alaska's present and future needs.

It seems to me that if Alaska can derive no benefit from natural gas produced within its borders in the sense of sharing in the use of the resource, then clearly Alaska can protect its citizen's rights only by looking to natural gas as a source of revenue. Every legitimate means of using gas to raise revenue should be explored. If, on the other hand, Alaska is permitted to share in the benefit of a secure and reliable source of natural gas for use as a non-polluting heat source and as a raw material feedstock, then Alaska need place less emphasis on direct revenue and more emphasis on cooperative development.

If men of good will make an intelligent effort at accommodation and understanding, there is no reason why the mutual problems of producer, transporter, and consumer cannot be solved in a manner which balances fairly their respective interests, and which also serves the interests of national and state government as well.

Respectfully submitted,



Rush Moody, Jr.

RM/ap

E. d and Frank

LEGAL ANALYSIS OF ISSUES  
RELATING TO  
NATURAL GAS TRANSPORTATION

Prepared for the Joint Gas Pipeline Impact Committee  
of the Legislature of the State of Alaska

Submitted by  
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I.

THE FEDERAL-STATE RELATIONSHIP

A. Federal Regulation of Natural Gas

1. General Description of Federal Authority.

Federal regulatory authority over natural gas arises from the Constitutional grant to Congress of the exclusive power "To regulate Commerce. . . among the several States." U.S. Const., Art. I, Sec. 8. Congressional exercise of its authority is reflected principally in the Natural Gas Act, 15 U.S.C. 717(a) et. seq.

The Natural Gas Act does not reflect Congressional intent to occupy the natural gas field to the full extent which the Commerce Clause of the Constitution would permit; rather, the Act contemplates only partial Federal regulation which is pre-emptive only within the limits of the Act. The Supreme Court, in Panhandle Eastern Pipe Line Co. v. Public Service Commission, 332 U.S. 507 (1947), has said:

[T]he essence of [appellant's] position, apart from standing directly on the commerce clause, is that Congress by enacting the Natural Gas Act has "occupied the field," i.e., the entire field open to federal regulation. . . .

"The exact opposite is the fact, Congress, it is true, occupied a field. But it was meticulous to take in only territories which this Court had held the states could not reach." 332 U.S. at 519 (footnote omitted).

The Court in Panhandle also emphasized that under Section 1(b) of the Gas Act:

"Three things and three only Congress drew within its own regulatory power, delegated by the Act to its agent, the Federal Power Commission. These were: (1) the transportation of natural gas in interstate commerce; (2) its sale in interstate commerce for resale; and (3) natural gas companies in such transportation or sale." 332 U.S. at 516.

The Courts have on several occasions rejected non-legislative attempts to expand the jurisdiction of the FPC beyond the bounds fixed by the Gas Act. In Mobil Oil Corp. v. FPC, the FPC contended that it had jurisdiction over the sale of the royalty owner's interest in a natural gas stream sold in interstate commerce. The FPC argued that such jurisdiction was necessary to protect the consumer against unreasonable demands by the royalty owner. Rejecting that argument, the Court said:

"The FPC is to be commended for attempting to further that objective, but it is not sufficient justification upon which to base an expansion of the Act to activities clearly not within its term. Congress did not give the FPC carte blanche to take whatever action it might consider appropriate infurtherance of this purpose. The FPC is limited by the provision establishing its jurisdiction, and we do not find in that provision, rooted as it is in a sale in interstate commerce, any basis for reaching out to cover the landowner's lease or its royalty payments." 149 U.S. App. D.C. 310, 317, 463 F.2d 256, cert. denied, 406 U.S. 976 (1972).

The Court reached a similar conclusion as to the limits of the Gas Act in another case of the same name, Mobil Oil Corp. v. FPC, involving the question of whether the FPC's jurisdiction over interstate transportation of natural gas gave it jurisdiction over the rate for transporting natural gas liquids. The Court said:

"The Commission cannot gain jurisdiction over an activity simply by characterizing it as a part of a "total transaction" of which another part happens to be subject to the FPC's control. The Commission has jurisdiction over sales of natural gas at the wellhead for resale in interstate commerce." 157 U.S. App. D.C. 238, 245, 483 F.2d 1238, 1248 (1973) (footnotes omitted).

Congress, by its limited grant of authority to the FPC under the Gas Act, undertook only to fill the hiatus created by lack of state authority constitutionally to regulate aspects of interstate sales and transportation of natural gas and did so with "unusual legislative precision." Panhandle Eastern Pipe Line Co. v. Public Serv. Comm'n., 332 U.S. 507, 516, 517 (1947).

The legislative history of the Gas Act is explicit on this point:

"The States have, of course, for many years regulated sales of natural gas to consumers in intrastate transactions. The States have also been able to regulate sales to consumers even though such sales are in interstate commerce, such sales being considered local in character and in the absence of congressional prohibition subject to State regulation. . . There is no intention in enacting the present legislation to disturb the States in their exercise of such jurisdiction. . . The basic purpose of the present legislation is to occupy this field in which the Supreme Court has held that the States may not act.

". . . The bill takes no authority from State commissions and is so drawn as to complement and in no manner usurp State regulatory authority." H.R. Rep. No. 709, 75th Cong., 1st Sess. 12 (1937) (citations omitted).

## 2. Detailed Description of Federal Regulation.

The Commission's power to regulate interstate transportation, sales for resale in interstate commerce, and

persons engaged in such transportation or sales is exercised through five basic mechanisms:

1. Rate regulation pursuant to Sections 4 and 5 of the Natural Gas Act.
2. Service regulation pursuant to Section 7 of the Act.
3. Curtailment regulation pursuant to Sections 1, 4 and 5 of the Act.
4. Import and export regulation pursuant to Section 3 of the Act.
5. Reporting and accounting regulation pursuant to Sections 6, 8, 9, 10, and 14 of the Act.

For the purposes of this analysis, attention is centered upon the service and import/export areas.

a. Section 7--Control Over Service and Facilities.

It is through Section 7 of the Natural Gas Act that the FPC exercises its greatest degree of control over natural gas sales, transportation and marketing.

Through the language of Sec. 7(c), the Commission controls the following activities:

1. All sales for resale in interstate commerce;
2. All transportation of natural gas in interstate commerce; and
3. All facilities needed to make a sale or effect a transportation.

This control is exercised through the power to grant, deny, or conditionally grant a "certificate of public convenience

and necessity" to one who proposes to engage in interstate sales or services. Without a certificate, the activity is unlawful.

Thus, before a producer may sell to an interstate pipeline, the producer must obtain a certificate from the Commission. Before an interstate pipeline may install facilities to receive gas from a producer, to transport gas, or to effect a sale to a customer, it must obtain a certificate from the Commission. Before an interstate pipeline may use its existing facilities to transport gas for someone else, it must obtain a certificate from the Commission. See, Atlantic Refining Company v. Pub. Serv. Comm. of N. Y., 360 U.S. 378 (1959); FPC v. Transcontinental Gas Pipe Line Corp., 365 U.S. 1 (1961); Illinois Natural Gas Co. v. Central Illinois Pub. Serv. Co., 314 U.S. 498 (1942).

The Commission's powers of certification are not exercised through strict application of readily determinable rules; while Commission action must not be arbitrary, and must have support in substantial evidence, "public convenience and necessity" is a shifting standard which has meaning only in terms of the incumbent commissioners' perception of the public interest. The Commission's actions in the certification area are largely discretionary. See, California Gas Producer's Association v. FPC, 383 F.2d 645 (C.A. 9, 1967); International Paper Co., v. FPC, 438 F.2d 1349 (C.A.N.Y., 1971) cert. denied 404 U.S. 827.

In this connection, the discussion in Henry v. FPC, 513 F.2d 395 (C.A.D.C., 1975) is particularly significant. In that

case the Court reviewed a Commission order which disclaimed jurisdiction over a coal gasification facility, but which asserted jurisdiction under Sec. 7 to certificate the movement of commingled artificial and natural gas. The court noted:

"Of particular and almost paramount significance for the subject under discussion is FPC v. Transcontinental Gas Pipe Line Corp., 365 U.S. 1, 81 S.Ct. 435, 5 L.Ed. 377 (1961), where the Court expressly held that the Commission's power under § 7 to consider matters of the public interest when deciding whether to issue a certificate for jurisdictional facilities extends generally to a consideration of "all factors bearing on the public interest," and specifically extends to matters that are excluded from the direct regulatory jurisdiction of the Commission. That case involved an application for the certification of the transportation by an interstate pipeline of gas to be sold directly by a Texas producer to a New York purchaser for use under boilers for the production of steam. The Court held that § 7(e) of the Act embraces FPC consideration, when passing on an application for certification, first, of the end use of the gas to be transported and its possible preemption of reserves to the detriment of domestic consumers-- though the FPC has neither general allocation authority nor jurisdiction to regulate direct sales to industrial consumers once the facilities are certificated; and second, of the prospect that the high price of the sale would be an upward lever on natural gas prices in general--even though the Commission had no jurisdiction over the underlying sale or any authority to regulate its price.

"Although Justice Harlan, joined by Justices Frankfurter and Stewart, dissented from another feature of the decision, he joined in the ruling now under discussion, and indeed put the matter so succinctly as to merit quotation. See 365 U.S. at 36-37, 81 S.Ct. at 453-454 (footnotes omitted):

"Basically, I think it was open to the Commission to decide whether the particular transportation service before it would tend to waste gas, unduly preempt pipeline capacity, or raise field prices. I think the Commission can properly assert this

more limited power as an incident of its transportation certificating powers. It is quite true of course that Consolidated Edison need not have resorted to the Federal Power Commission if the purchase transaction had been possible without the interstate transportation of the gas in jurisdictional pipelines, since this was not a purchase of natural gas for resale.

"However, it does not follow that the Commission had to blind itself to the effects of the purchase and use of the gas when its authority to certificate the transportation of the gas was invoked. To recognize that the transaction was, as a practical matter, impossible without the use of jurisdictional facilities for the interstate transportation of the purchased gas is to acknowledge that this transportation is an integral a part of the transaction as was the sale itself. Whether the adverse effect of the transaction be a waste of a scarce resource, or pre-emption of pipeline capacity, or a substantial boosting of field prices, the transportation is as responsible for the effects as is the original sale. I see no reason why the Commission must certify, as in accord with the "public convenience and necessity," transportation which tends materially to further such undesirable results which are within the area of the Commission's legitimate concern when it is considering the public convenience and necessity of certificating a jurisdictional sale.' (Emphasis added.)"

The Commission's powers under Sec. 7 of the Natural Gas Act do not end with the mere issuance or denial of a certificate of public convenience and necessity. Of perhaps equal significance are the provisions of Sec. 7(b) and 7(e) of the Act.

Under Sec. 7(e), the Commission can attach any conditions to a certificate that it finds are required by "the public convenience and necessity", and under Sec. 7(b), the Commission may require the continuance of a certificated

service until it determines that "the public convenience and necessity" will permit abandonment.

The conditioning power, and the abandonment power, each operate to supplant private contractual arrangements between producer and pipeline, and pipeline and customer. Atlantic Refining Co. v. Public Service Commission of N. Y., 360 U.S. 378 (1959); Sunray Mid-Continent Oil Co. v. FPC, 364 U.S. 137 (1960); United Gas Pipe Line Co. v. FPC, 385 U.S. 83 (1966).

b. Section 3--Imports and Exports of Natural Gas.

Under Sec. 3 of the Act, Commission approval must be obtained for any natural gas import into or export from the United States. The Commission is to approve such import and export applications unless it finds that the proposal "will not be consistent with the public interest." The Commission is empowered to prescribe terms and conditions to any import or export if such are found to be "necessary or appropriate."

The generalities of Sec. 3 have seldom been construed and applied by the Commission or the Courts, but it is reasonable to conclude at this time that the Commission has the power, and probably the inclination, to treat import/export cases substantially the same as Sec. 7 certification cases.

Distrigas Corp. v. FPC, 495 F.2d 1057 (C.A.D.C. 1974).

Accordingly, the discussion under subsection (a) immediately above is applicable to the import/export power and need not be restated.

## B. State Control of Natural Gas

### 1. State Regulatory Powers

Since the earliest days of oil and gas production the states have promulgated conservation legislation designed to regulate the production of oil and gas. There have been innumerable court challenges to such legislation; however, the courts have generally approved conservation legislation on one of three theories: (a) it is within the police power of the state to pass legislation protecting the correlative rights of owners of land within a common source of supply of oil and gas; (b) it is within the police power of the state to safeguard the public interest in oil and gas by preventing waste of such natural resources of the state; and (c) the state may exercise its police power to prevent or abate surface nuisances resulting from the production of oil and gas. The states have adopted a broad variety of conservation statutes generally granting a state agency the authority to regulate such matters as well spacing, proration of production, plugging of abandoned wells, and compulsory pooling and unitization. See e.g., Summers, Oil and Gas § 106; Williams and Meyers, Oil and Gas Law, §§ 940-948.

The Supreme Court of the United States has made it clear that state conservation legislation is a valid exercise of the state's police power even though the oil or gas is intended

to be, or is in fact, immediately placed into interstate commerce:

"Plaintiff contends that the Act and proration orders operate to burden interstate commerce in crude oil and its products in violation of the commerce clause. It is clear that the regulations prescribed and authorized by the Act and the proration established by the commission apply only to production and not to sales or transportation of crude oil or its products. Such production is essentially a mining operation and therefore is not a part of interstate commerce even though the product obtained is intended to be and in fact is immediately shipped in such commerce. Oliver Iron Co. v. Lord, 262 U.S. 172, 178. Hope Gas Co. v. Hall, 274 U.S. 284, 288. Foster Packing Co. v. Haydel, 278 U.S. 1, 10. Utah Power & Light Co. v. Pfof, supra. No violation of the commerce clause is shown."

Champlin Refining Co. v. Corporation Commission, 286 U.S. 210, 235 (1932). See also Thompson v. Consolidated Gas Utilities Corp., 300 U.S. 55, 77 (1937).

It may be helpful to note the types of conservation statutes and administrative orders which have been upheld by the courts as valid exercises of State power to prevent waste and protect correlative rights:

(a) Well Spacing: see, Brown v. Humble Oil & Refining Co., 126 Tex. 296, 83 S.W.2d 935, motion for reh. overr'd. 126 Tex. 314, 87 S.W.2d 1069 (1935); Patterson v. Stanolind Oil & Gas Co., 182 Okla. 155, 77 P.2d 83, app. dismd., 305 U.S. 376 (1939); Hawkins v. Texas Co., 146 Tex. 511, 209 S.W.2d. 338 (1948); Oxford Oil Co. v. Atlantic Oil & Producing Co., 22 F.2d 597 (5th Cir.); cert. den. 277 U.S. 585 (1928).

(b) Proration of Production: see, Henderson Co. v. Thompson, 300 U.S. 258 (1937); Thompson v. Consolidated Gas Utilities Corp., 300 U.S. 55 (1937); Bandini Petroleum Co. v. Superior Court, 284 U.S. 8 (1931); Texas v. Donoghue, 302 U.S. 284 (1937).

(c) Plugging of Abandoned Wells: see, Commonwealth v. Trent, 117 Ky. 34, 77 S.W. 390 (1903); Gant v. Oklahoma, 150 Okla. 86, 6 P.2d 1065, app. disp'd. 284 U.S. 594 (1932); Guffey v. Stroud, 16 S.W.2d 527 (Tex.Comm.App. 1929, opinion adopted) Atkinson v. Virginia Oil & Gas Co., 72 W.Va. 707, 79 S.E. 647 (1913); Martel v. Hall Oil Co., 36 Wyo. 166, 253 P. 862, 255 P. 3 (1927); Clarke v. Blue Licks Springs Co., 184 Ky. 827, 213 S.W. 222 (1919).

(d) Compulsory Pooling and Unitization: see, Hunter Co. v. McHugh, 202 La. 97, 11 So.2d 495, app. disp'd., 320 U.S. 222 (1943); Crichton v. Lee, 209 La. 561, 25 So.2d 229 (1946); Superior Oil Co. v. Foote, 214 Miss. 857, 59 So.2d 85, error overr'd., 59 So.2d 844 (1952); Palmer Oil Corp. v. Phillips Petroleum Co., 204 Okla. 543, 231 P.2d 997, app. disp'd., 343 U.S. 390 (1952).

(e) Restrictions on Use: Ohio Oil Co. v. Indiana, supra; Henderson Co. v. Thompson, supra; Herkness v. Irion, 278 U.S. 92 (1928); Walls v. Midland Carbon Co., supra, Thompson v. Consolidated Gas Utilities Corp.; supra.

(f) Secondary Recovery and Gas Recycle: Champlin Refining Co. v. Corporation Comm., supra; Railroad Comm'n of Texas

v. Manziel, 361 S.W.2d 560 (Tex.Sup.Ct. 1962); Corzelius v. Harrell, 143 Tex. 509, 186 S.W.2d 961 (1945); Syverson v. North Dakota State Industrial Comm'n, 111 N.W.2d 128 (N.D.Sup.Ct. 1961); Jackson v. State Corp. Comm'n, 186 Kan. 6, 348 P.2d 613 (Kan.Sup.Ct. 1960). See, Bandini Petroleum Co. v. Superior Court, supra; Brown v. Humble Oil Refining Co., supra; Henderson Co. v. Thompson, supra; Ohio Oil Co. v. Indiana, supra; Commonwealth v. Trent, supra; Shannon v. Shaffer Oil & Refining Co., 51 F.2d 878 (10th Cir. 1931).

The question of whether state oil and gas conservation statutes and regulations can be applied to leases of Federal lands has been decided in the affirmative by Texas Oil and Gas Corp. v. Phillips Petroleum Corp., 277 F.Supp. 366 (W.D. Okla.); aff'd, 406 F.2d 1303, cert. denied, 396 U.S. 829 (1969). Plaintiffs owned oil and gas leases on Federal lands in Oklahoma, which leases were executed pursuant to the Federal Mineral Leasing Act, 30 U.S.C. § 181 et seq. By way of request to quiet title, plaintiffs sought to challenge an order of the Corporation Commission of the State of Oklahoma whereby the reservoir underlying plaintiffs' leases were forced into a pool for purposes of production.

In holding that the leases were subject to regulation by the State of Oklahoma, the Court explained as follows:

"Article IV, Section 3, Clause 2 of the United States Constitution provides:

'Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States;\*\*\*.'

"This clause does not place the exclusive control of the federal public domain in the United States Government. It only confers this power on Congress and leaves to Congress the determination of when and where and to what extent this power will be exercised. *United States v. Hatahley*, (10 Cir. 1955). 220 F.2d 666, reversed on other grounds, 351 U.S. 173, 76 S.Ct. 745, 100 L.Ed. 1065 (1956). Therefore, we must look to the acts of Congress and specifically those relied upon by the Plaintiffs as above set out to ascertain if the Congress has undertaken to exercise exclusive control over federal lands which have been leased by the Government for oil and gas mining purposes.

"Nothing in these cited statutes (nor the entire Act itself) specifically indicates that Congress has undertaken to reserve unto itself exclusive control over federal lands leased for oil and gas development to the exclusion of the States.

"Section 187 does provide that no lease issued under the said Act shall be assigned or sublet except with the consent of the Secretary of the Interior, and authorizes the Secretary of the Interior to promulgate rules for the prevention of undue waste and that the lease shall contain a provision that such shall be observed. However, said Section further provides at the end thereof that: 'None of such provisions shall be in conflict with the laws of the state in which the leased property is situated.' This language is not aimed at putting the lands under the exclusive control of the Federal Government to the exclusion of the States. Contrary to the position of the Plaintiffs, the Federal Mineral Leasing Act of 1920, as amended, seems to leave to the States the power to exercise State police power over Federal oil and gas leases. For instance, Title 30, United States Code, Section 189 of said Act provides:

'Nothing in said sections shall be construed or held to affect the rights of the States or other local authority to exercise any rights which they may have, including the

right to levy and collect taxes upon improvements, output of mines, or other rights, property, or assets of any lease of the United States.'

"Furthermore, the authorities treating with the matter of exclusive control of federal lands by the Federal Government clearly and definitely hold that State law and the State police power extends over the federal public domain unless and until Congress has determined to deal exclusively with the subject. *State of Colorado v. Toll*, 268 U.S. 228, 45 S.Ct. 505, 69 L.Ed. 927 (1925); *McKelvey v. United States*, 260 U.S. 353, 43 S.Ct. 132, 67 L.Ed. 301 (1922); *International Bridge Company v. People of the State of New York*, 254 U.S. 126, 41 S.Ct. 56, 65 L.Ed. 176 (1920); *Omachevarria v. State of Idaho*, 246 U.S. 343 38 S.Ct. 323, 62 L.Ed. 763 (1918); *United States v. Hatahley*, supra.

"But whereas the Congress may not desire to assume exclusive control over the federal lands it may desire to prescribe certain limited controls. From an examination of the said Federal Mineral Leasing Act the Court concludes that the Congress has not undertaken to assume exclusive control of federal mineral lands under the Act but it has imposed two significant controls which must be satisfied before the State police power in the area of conservation may ultimately attach. One is that a federal mineral lessee may not assign his lease without the consent of the Federal Government. 30 U.S.C. § 187. Another is that a pooling or communitization agreement involving federal and non-federal lands must be approved by the Federal Government. 30 U.S.C. § 226(j). . . ." *Id.*, pp. 368-369.

The result in Texas Oil and Gas Corp. is consistent with Wallis v. Pan American Petroleum, 384 U.S. 63 (1966), wherein the Supreme Court ruled that state law governs transactions between private parties with respect to an oil and gas lease validly issued under the Mineral Leasing Act. The Mineral Leasing Act is, of course, generally applicable to

federal lands in the State of Alaska. Cf., Udall v. Tallman, 389 U.S. 1 (1965); Standard Oil Co. of California v. Hickey, 317 F.Supp. 1192 (D. Alaska); aff'd 450 F.2d 493 (9th Cir. 1971).

## 2. State Ownership Rights

The rights of a State as an owner of property should be no less than the rights of the Federal government as an owner of property; in this contest, the Supreme Court has held:

"The power of Congress to dispose of any kind of property belonging to the United States 'is vested in Congress without limitation'. . . 'For it must be borne in mind that Congress not only has a legislative power over the public domain, but it also exercises the powers of the proprietor therein. Congress may deal with such lands precisely as an ordinary individual may deal with. . . property. It may sell or withhold them from sale.' Article 4, Section 3, Cl. 2 of the Constitution provides that 'The Congress shall have power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States.' The power over the public land thus entrusted to Congress is without limitations. And it is not for the Courts to say how that trust shall be administered. That is for Congress to determine."

Alabam v. Texas, Rhode Island v. Louisiana, 347 U.S. 272 (1954) at 273-274, citations omitted.

The Supreme Court of California has said:

"In the absence of Constitutional limitations, and there is none here, the Legislature is free to dispose of the state's. . . lands in any way deemed by it from time to time to be for the public interest."

South San Joaquin Irrig. Dist. v. Neumiller, 42 P.2d 64 (1935). See also Ashwander v. Tenn. Valley Authority, 297 U.S. 288 (1936).

State powers arising from property ownership are probably thus more extensive than State regulatory powers. While the latter are subject to Constitutional limitations relating to the supremacy of Federal law, and control of interstate commerce, ownership powers are arguably not so limited. See U.S. v. California, 281 F.2d 726 (C.A. 9, 1960), where the Court said:

"If the State had seen fit to impose conditions upon issuance or upon transfer of property it has wholly created, that is the state's prerogative so long as its demands are not arbitrary or discriminatory. The federal government has no power to command the state in this area. It has no power to direct that property be created by the state for the purpose of federal seizure." 281 F.2d at 728, emphasis supplied.

I would not imply that State ownership powers are totally without limits. In the Neumiller opinion, supra, it was said that the State's actions must not be "arbitrary" or "discriminatory." I would judge that the Courts may well proceed substantially in accord with the Ashwander discussion.

"The constitutional provision [Art., 4, Sec. 3, Cl.2] is silent as to the method of disposing of property belonging to the United States. That method, of course, must be an appropriate means of disposition according to the nature of the property, it must be one adopted in the public interest as distinguished from private or personal ends, and one may assume it must be consistent with the foundation principles of our dual system of government and must not be contrived to govern the concerns reserved to the States."

297 u.s., at 388. Language such as this may be construed to mean that a State may not exercise its ownership to "contrive" to "govern the concerns reserved" to the Federal government; that is to say that Federal supremacy may still be a controlling doctrine when aligned against State ownership actions repugnant to a Federal interest.

### 3. State Powers of Taxation

A brief summary of certain generally accepted principles of state taxation may serve as parameters for discussion of specific issues:

(a) The taxing power may be exercised solely for public purposes.

(b) Uniformity and equality of rates and valuation between similarly situated parties is generally required by state law although distinctions based upon classification of property rights, business endeavors and the like, are permissible if not palpably arbitrary or capricious.

(c) Extreme flexibility in state taxation is the rule, but due process, equal protection and other federal constitutional rights or prerogatives can be effective limitations.

(d) Taxing schemes that burden (by discrimination or otherwise) interstate commerce, or have even incidental regulatory effects, are suspect.

(e) Tax structures that on their face conflict with federal constitutional interests or areas of federal preemption will nearly always be invalidated, but a similar and constitutionally valid effect might be achieved indirectly.

(f) Since the invalidation of a taxing statute results in total and irrevocable loss of several years' revenues, a conservative approach is preferable.

(g) Tax statutes are strictly construed against the taxing authority.

(h) The current trend in public policy is to permit state and local tax jurisdictions greater latitude in the face of spiraling local fiscal needs.

The specific tax questions which we have considered are as follows:

A. What are the limits of the power of a state to impose severance taxes?

1. Amount: The only apparent limitations on the amount of a tax are the due process and equal protection clauses of the 14th Amendment. However, even these limitations may be questioned in light of Magnano Co. v. Hamilton, 292 U.S. 40 (1934), wherein a state tax on oleomargarine, which had a destructive effect on the oleomargarine industry, was upheld against due process attacks.

"Except in rare and special instances, the due process of law clause...is not a limitation upon the taxing power conferred upon Congress by the Constitution...and no reason exists for applying a different rule against a state...That clause is applicable to a taxing state...only if the act be so arbitrary as to compel the conclusion that it does not involve an exertion of the taxing power, but constitute in substance and effect, the direct exertion of a different and forbidden power, as for example, the confiscation of property...Nor may a tax within the lawful power of the state be judicially stricken down under the due process clause simply because its enforcement may or will result in restricting or even destroying particular occupations

or businesses...unless....its necessary interpretation and effect be such as to plainly demonstrate that the form of taxation was adopted as a mere disguise, under which there was exercised, in reality, another and different power denied by the Federal constitution to the State."

292 U.S. at 44-45.

See also, Veazie Bank v. Fenno, 75 U.S. 533 (1869); Lehnhausen v. Lake Sho e Auto Parts Co., 410 U.S. 356 (1973).

2. Property Ownership considerations:

a. Generally, a state may levy a tax upon the severance of natural resources regardless of the ownership of the fee to the realty. There are, however, several special situations in which ownership by the United States or ownership or production by Indians could impose a ban to certain applications of such a tax.

b. No severance tax may be levied in a state where the property from which the minerals are severed is considered to be within the exclusive jurisdiction of the federal government by virtue of Article 1, Section 8, Clause 17 of the United States Constitution. Humble Pipeline Co. v. Waggoner, 376 U.S. 369 (1964). Such lands are those purchased from

a state for certain purposes (for example, military bases): "Purchase" has been held to include acquisition by gift, Humble Pipeline Co. v. Waggoner, supra, and Mississippi Power Fuel Corp. v. Cocreham, 382 F. 2d 929 (1967) cert. denied, 390 U.S. 1014 (1968). The determinative factors are: (i) acquisition from a state; (ii) for specific purposes; (iii) by purchase or gift. Indeed, absent special waiver or prior reservation by the state of power to tax a state may levy only income or gross receipts taxes with respect to these lands. 4 U. S. C. A. §104 - 110 (the "Buck Act").

Most federal lands including national forests and Indian lands, are generally not subject to exclusive federal jurisdiction; therefore, private leases may be subjected to severance taxes. International Paper Co. v.

County of Siskiyou, 515 F. 2d 285 (9th Cir. 1974); Wilson v. Cook, 327 U.S. 474 (1946).

c. Severance taxes apparently may not be levied where Indians are producing gas from Indian lands. In Moses v. Kinnear, 490 F. 2d 21 (9th Cir. 1973), the Court, in construing 28 U.S.C.A. §1341, said, "The United States has a special interest in its ward Indians, with respect to which the government 'has charged itself with moral obligations of highest responsibility and trust' Seminole Nation v. U.S., 316 U.S. 310 (1942). This 'special interest' has manifested itself in the form of a federal policy to protect Indians and Indian property from state taxation... 'State laws generally are not applicable to tribal Indians on an Indian reservation except where Congress has expressly provided that state law shall apply. It follows that Indians and Indian property on an Indian reservation are not subject to state taxation except by virtue of express authority conferred upon the state by act of Congress." McCalanhan v. Arizona State Tax Commission, 411 U.S. 164 (1973). (See also, cases collected in footnote 5 to text of Agua Caliente Ban of Mission Indians v. County of Riverside, 442 F. 2d 1184 (9th Cir. 1971),

cert. denied, 405 U.S. 933 (1972), rehearing denied, 405 U.S. 1033 (1972), rehearing denied, 409 U.S. 901 (1972), where Indian lands are said to be federal instrumentalities).

Under these rules, Indian producers from Indian lands should be exempt from severance taxes. It has been held, however, that non-Indian lessees of Indian property may be subjected to state taxes since such taxation is not a tax upon Indian property per se, United States v. Detroit, 355 U.S. 466 (1958). Note, however, that the view has been expressed that the prohibition of a direct tax also bars an indirect tax. See, Dissenting opinion, Agua Caliente Band of Mission Indians v. County of Riverside, supra.

3. Federal Instrumentalities: A state-imposed severance tax would be invalid if applied to property, instrumentalities, or agents of the United States, and clearly the tax could not be assessed against the federal government as a mineral lessee or producer. McCullough v. Maryland, 4 Wheat. 316 (1819); United States v. Detroit, supra.

4. Taxes levied only on natural gas: A state is not required to tax the severance of all minerals equally. A tax levied only upon the severance of natural gas, or levied upon natural gas at a rate different from that imposed upon the severance of other natural resources, will usually be free of federal constitutional problems, Charleston Federal Savings and Loan Association v. Alderson, 324 U.S. 182 (1945).

B. Can a very high severance tax be imposed, coupled with some form of rebate or tax credit to Alaskan users, or would such be struck down as a burden to interstate commerce?

1. Direct Rebates or Credits: Any plan under which a producer is given severance tax rebate for sales of reserves to intrastate users, where interstate commitments do not entitle the producer to substantially similar rebates, will be struck down as clearly discriminatory against interstate commerce. "In each case, it is our duty to determine whether the statute under attack, whatever its name may be, will in its practical operation work discrimination against interstate commerce." Best and Co. v. Maxwell, 311 U.S. 454, 455-456 (1940). See also Pennsylvania v. West Virginia, 262 U.S. 553 (1923). A tax levied only upon lessees of federal lands would of course be discriminatory and palpably arbitrary. International Paper Co. v. County of Siskiyou, supra; Phillips Chemical Co. v. Amos Independent School District, 361 U.S. 376 (1960) rehearing denied, 362 U.S. 937 (1960).

2. Indirect rebates or credits: A taxing statute under which deductions or credits for the cost of the severance tax are allowed against unrelated taxes that are born primarily by Alaskan residents, will probably be valid

if carefully constructed. Even if such tax credit should be held invalid, the severance tax itself ought not be affected. Thus the effect of invalidation would be to increase the burden on Alaskan residents and increase revenues.

Example: Alaska could grant a deduction or credit against its state income tax for expenses of a consumer of natural gas which are attributable to "passed-on" severance taxes. The producer would pay the severance tax to the state. The consumer would in effect reimburse the producer through a commensurate increase in the purchase price of the gas, perhaps being billed separately for the cost to the producer of the severance tax. The consumer would be made "whole" by the credit against the state income for the cost to him of ultimately bearing the severance tax. If the Alaskan income tax liabilities of the producers/consumers for interstate sales were such that a deduction or credit for "passed-on" severance taxes would be of small value, then, in effect, only interstate gas would bear the cost of severance taxes.

A simpler approach would be to lower by the amount of the anticipated revenues from the severance tax the rate of an unrelated tax which is now borne primarily by Alaskan residents. The overall effect of such reduction would be to lower the burden of residents.

C. How, and in what forms, can a state tax an interstate pipeline?

1. Franchise taxes: It is clear that a state may levy and collect franchise taxes even on a purely interstate pipeline, if such taxes are reasonable and non-discriminatory, i.e. payable by all corporations of the same legally valid classification (see subparagraph 111. (d) below) doing business in the state. Colonial Pipeline Co. v. Traigle, 421 U.S. 10 (1975); Memphis Gas Co. v. Stone, 335 U.S. 80 (1948). The tax must be properly apportioned, or based solely on in-state pipeline property (and not on commodities actually in commerce; i.e., the gas being transported), in order to be reasonable and non-discriminatory. Methods of apportionment and valuation are not within the scope of this memorandum. However, the primary consideration is that Alaska tax only that portion of the pipeline's activities which are attributable to endeavors within the state.

2. Ad Valorem taxes: It is equally clear that the pipeline and accompanying right-of-way may be subject to a property tax, even though the pipeline carries gas in purely interstate commerce.

3. Income taxes: The state income tax may also be imposed upon an interstate business, provided that a proper allocation formula is employed, Northwestern States Portland Cement Co. v. Minnesota, 358 U.S. 450 (1959).

4. Separate classification for tax purposes of natural gas pipeline: While a state may subject an interstate gas pipeline operating within its borders to its general tax laws as indicated above, the state may wish to place a separate tax on such business which is not applicable to other businesses within the state. A separate tax will be valid as long as its purpose is to regulate the business, and the amount of the tax is reasonably limited to the costs of such regulation. However, where the purpose of the tax is to produce revenue, the classification of the business into a separate category from all other businesses must be justified both under state law requirements that taxation be equal and uniform and under equal protection clause of the federal constitution.

As far as the equal protection clause of the federal constitution is concerned, the Supreme Court has displayed a consistently lenient attitude toward the states' powers to single out specific types of businesses for separate taxation. See, e.g. Independent Warehouses, Inc. v. Schule, 331 U.S. 70 (1946) (upholding annual franchise or license tax applicable only to commercial storage facilities, where only one such facility existed in the taxing municipality); New York Rapid Transit Corporation v. New York, 303 U.S. 573 (1938) (Upholding taxation of public utilities at higher rate than was imposed upon business generally); Illinois Cent. R. Co. v. Minnesota, 309 U.S. 157 (1940) (gross receipts tax levied on railroads but not other business).

Thus a tax should have a reasonable chance of surviving an attack on Constitutional grounds as long as it is applicable generally to all corporations similarly situated throughout the state (e.g., all corporations doing business in the state whose business consists of operating a natural gas pipeline) even if, at the time in question, there is only one corporation in the state which falls within the category of corporations subject to the tax. See Independent Warehouses, Inc. v. Schule, supra. However, we have found no decision in which not only was a single corporation subject to the statute, but that corporation was engaged exclusively in interstate commerce. It may be that the combination of the classification of the single business along with the effect on interstate commerce would cause a court to invalidate such a tax. If such a tax were upheld a court might find that the amount thereof must bear some reasonable relationship to the value of the privilege being granted, and that the principles of Magnano Co. V. Hamilton, supra Part 1 (a), which did not involve a taxpayer involved solely in interstate commerce, are not applicable.

On balance, we believe that such a tax would probably withstand constitutional attacks, but that a more reliable subject of a high tax rate is the severance tax.

D. If gas reserves are contractually committed to an interstate pipeline, and dedicated to interstate service through an FPC certificate, can the value of the reserves be taxed as an asset of the pipeline?

While a state, under the strictures of Article 1, Section 10 of paragraph 2, of the United States Constitution, may not levy a tax on an item of property by reason of its exportation, a tax levied generally upon all property is nevertheless valid unless the property is "in commerce". See 71 Am. Jur. 2d, State and Local Taxation, Sections 117-121 and the authorities discussed therein. Moreover, it is believed that gas would not be "in commerce" until it begins to move in commerce and that a contractual right to withdraw could never be deemed "in commerce". See Kosydas v. National Cash Register Co., 417 U.S. 62 (1974); Cornell v. Coyne, 192 U.S. 418 (1904).

A state may classify property in multiple categories for taxation purposes and such classification will be upheld absent a finding of "palpable arbitrariness". Alaska might provide that an FPC certificate creates a separate property interest in real property or minerals, which interest would then be subject to an ad valorem tax. For an example of a separate estate in non-severed resources, see, International Paper Co. v. County of Siskiyou, supra (standing timber. By attributing taxable value to the con-

tractual right to the reserves, it seems likely that value of the reserves to the holders of the legal title thereof would be commensurately reduced. If both interests in the reserves are considered as separate estates in the real property, it will probably be necessary to tax them at the same rate. If, however, the pipeline's contractual right to purchase the reserves can be considered an "intangible" property right under Alaskan law, it may be possible to tax such right at a higher rate, since there is authority which approves of differing tax rates for tangibles and intangibles. See Randolph v. Simpson, 410 F. 2d 1067 (5th Cir. 1969) (Intangibles taxed at lower rate than tangibles).

It seems clear that such intangibles would have a "situs" in Alaska within the rule of Wheeling Steel Corporation v. Fox, 298 U.S. 193 (1936), that intangibles may be taxed at other than the owner's domicile if such intangibles have become an integral part of some "local business".

E. Can a State require payment of a tax in any form other than money? For example, could a state impose a 4% tax on severed minerals and require delivery of 4% production in kind?

No; see 31 U.S.C.A. §392, (Supp. 1965), the predecessor of which was held constitutional in Guaranty Trust Co. of New York v. Henwood, 307 U.S. 247 (1939).

Section 392 reads in relevant part as follows:

"All coins and currencies of the United States... shall be legal tender for all debts, public and private, public charges, taxes...." (emphasis added)

4. The power of the State to construct and operate a pipeline.

(a) May the State of Alaska create a State instrumentality to (1) purchase North Slope gas, (2) transport such gas by pipeline to Southern Alaska, (3) make resales of gas along the route and at the southern terminus to intrastate users, and resell the surplus for delivery in interstate commerce?

(b) If such were done, which aspects, if any, would be subject to Federal regulation, by whom, and to what extent?

(c) Could such a state-owned entity obtain rights-of-way over Federal lands, by condemnation or otherwise?

A. Power of a State to Own and Operate a Pipeline System.

There are no apparent legal impediments precluding enactment of legislation authorizing the creation of a State instrumentality to purchase, transport and resell North Slope gas.

The texts often describe a general rule that states have no power to authorize municipal corporations to engage in business of a private nature. 12 McQuillin, Municipal Corporations §36.01 et seq. (1970 Revised Vol.); 56 Am. Jur. 2d, Municipal Corporations, etc. §210 (1971) 64 C.J.S., Municipal Corporations §1842 (1950). This "rule" is based upon a series of 19th Century cases which apply the doctrine that the power of taxation possessed by governmental bodies is limited to taxation for a public purpose. See e.g. Loan Association v. Topeka, 87 U.S. (20 Wall) 655 (1874), Parkersburg v. Brown, 106 U.S. 487 (1882) (bonds issued to encourage establishment of manufacturing plants held invalid). However, even in the Topeka case the Supreme Court recognized the possibility that a municipality could engage in such activities if funds were available from a non-tax source.

"If these municipal corporations, which are in fact subdivisions of the State, and which for many reasons are vested with quasi legislative powers, have a fund or other property out of which they can pay debts which they contract, without resort to taxation, it may be within the power of the legislature of the

State to authorize them to use it in aid of projects strictly private or personal but which would in a secondary manner contribute to the public good."

Over the years, the "rule" that municipal corporations may not engage in business of a private nature, as a result of everbroadening concepts of public purpose. For example, by 1937, public programs to assist in the establishment of manufacturing plants was found to be sufficiently related to the public interest to withstand constitutional challenges. See Albritton v. Winona, 178 So 799, (Miss., 1938), app. dismissed 303 U.S. 627 (1938). Similarly, the public ownership of a yard for the sale of wood, coal and other fuels which, during the 19th century, was private business in which municipalities were not permitted to engage, In Re Opinion of Justices, 30 N.E. 1142 (Mass., 1892), was, by 1917, a public purpose for which taxes could be levied without violating the 14th Amendment to the Constitution. Jones et al. v. Portland, 245 U.S. 217 (1917).

The question of what is a "public purpose" has long been recognized as a question which is susceptible to local differences. The Supreme Court has indicated that in considering such matters great deference must be given to legislative and state court determinations. Jones et al. v. Portland, 245 U.S. 217 (1917); Green v. Frazier, 253 U.S. 233 (1920); and Carmichael v. Southern Coal Co., 307 U.S. 495 (1937).

The question of Constitutional authority for a state-owned natural gas pipeline system should be easily resolved. There can be little doubt that natural gas pipelines perform a public purpose. Indeed, the grant to privately-owned pipeline companies of the power of eminent domain must necessarily be grounded upon their public nature. The authority of municipalities to own and operate electric utilities and gas distributions systems, absent state statutory or constitutional restrictions, has long been clear. See e.g. 12 McQuillin Municipal Corporations, 3rd Ed. (1970) §35.04. The authority of the Federal Government to own and operate wholesale power systems has similarly been sustained. Tennessee Electric Power Company v. TVA, 306 U.S. 118 (1939) Aswander v. TVA, 297 U.S. 288 (1936).

The statutes of at least two states authorize state-owned natural gas pipeline systems. La. Rev. Statutes §30.557 et seq.; Miss. Code 1942 Annotated §5950.

The nature of the Alaskan project is such that it is feasible to construct only a single facility to bring North Slope gas to market. Since the deliverability required to make the line feasible will far exceed anticipated intrastate demand, it is inevitable that the bulk of the gas delivered through the system will be sold interstate. The question this suggests is whether, assuming the state ownership of a pipeline facility is generally permissible, such

ownership is permissible where the vast majority of the gas is destined for ultimate consumption outside of the state. No reported case addresses this issue. However, if the State can argue that its ownership of the facilities is necessary to assure service to its citizens, it should be able to argue that the service to interstate markets is merely incidental to the performance of services for its citizens.

B. Federal Regulation of Natural Gas Pipeline Companies.

Federal regulation of natural gas pipeline companies is accomplished primarily under the Natural Gas Act, 15 U.S.C. §717 et seq. and the Natural Gas Pipeline Safety Act, 49 U.S.C. §1671, et seq. Under the Natural Gas Act the Federal Power Commission has plenary jurisdiction to regulate natural gas pipeline companies which transport or sell for resale gas in interstate commerce. The Natural Gas Pipeline Safety Act provides for the establishment and enforcement of Federal minimum safety standards for natural gas pipelines.

As discussed in greater detail in Part II of this analysis, the construction and operation of pipeline facilities by a state instrumentality would probably be exempt from regulation by the FPC under the Natural Gas Act. As noted in that discussion, the operative sections of the Natural Gas Act are phrased in terms of regulation of "natural gas companies". The relevant terms under the Natural Gas Act,

i.e. "natural gas company", "person", "corporation", and "municipality" when read together would seem to exclude state-owned pipeline systems from the definition of "natural gas company" and thus from FPC regulation. 15 U.S.C. §717a, but see, FPC v. Corporation Commission of the State of Oklahoma, 362 F.Supp. 522 (W.D. Okla. 1973), aff'd 415 U.S. 961 (1974).

Although a literal reading of the Natural Gas Act would seem to preclude FPC jurisdiction over state-owned pipeline facilities, the assertion of such jurisdiction cannot be ruled out. Indeed, in view of (1) the willingness of the Court in the Oklahoma case essentially to ignore the definitions, in order to find that the Corporation Commission was a "person" which could be sued by the FPC under the Natural Gas Act, (2) the existence of two competing applications before the FPC at this time to construct pipeline facilities to bring North Slope gas to the United States, including one application involving a line through the State of Alaska, presumably along or close to the route which a State system would traverse, (3) the natural inclination of regulatory agencies to attempt to protect their own jurisdiction, and (4) the economic interest of the pipelines proposing to build systems to attach North Slope gas, it seems unlikely that the State would be able to construct and operate its facilities without litigating the issue of FPC jurisdiction.

Assuming that the FPC does not have jurisdiction over the facilities, the most significant Federal regulation would be pursuant to the Natural Gas Pipeline Safety Act, 49 U.S.C. §1671 et seq. Under the Act, the Secretary of Transportation is authorized to establish minimum Federal safety standards for the transportation of gas and for pipeline facilities. The standards apply to the design, installation, inspection, testing, construction, operation, extension, replacement and maintenance of such facilities and are set out at 40 C.F.R. §190.1 et seq. Each person engaging in the transportation of gas or who owns or operates pipeline facilities is required to comply with the applicable safety standards and to file and comply with a plan of inspection and maintenance. 49 U.S.C. §1677. Unlike the Natural Gas and Mail Act, the term "person" in the Pipeline Safety Act specifically includes states and municipalities. 49 U.S.C. §1671. The Act provides an exemption for certain pipeline facilities and the transportation of gas not subject to FPC jurisdiction. To qualify however the safety standards and practices applicable to the facilities must be regulated on essentially the same basis as under the Act. The state agency must submit an annual certification that (1) it has regulatory jurisdiction over the pipeline facilities or transportation, (2) has adopted and is enforcing each of the Federal safety standards applicable to such facilities and transportation (3) has the authority to require record maintenance reporting an

inspection substantially as provided under the Pipeline Safety Act, and (4) that state law provides for the enforcement of safety standards by way of injunctive and monetary sanctions substantially the same as provided under the Pipeline Safety Act. The Pipeline Safety Act provides both civil penalties (not to exceed \$1,000 per day for each violation or \$200,000 for a related series of violations) and the authority to obtain injunctive relief to restrain violations of the Act including the restraint of transportation of gas or the operation of a pipeline facility. 49 U.S.C. §1678, 1679. States are authorized to establish a more stringent safety standard applicable to intrastate facilities but are precluded from doing so with respect to interstate transmission facilities. 49 U.S.C. §1672. United Gas Pipe Line Company v. Terrebonne Parish Police Jury, 319 F.Supp. 1138 (D.C. La. 1970) aff'd 445 F.2d 301 (5th Cir. 1971).

Unless Alaska creates an agency with jurisdiction to regulate and enforce safety standards for the transportation of natural gas within the state, which agency would have the authority over the proposed state-owned pipeline, the pipeline would be subject to regulation by the Secretary of Transportation. If the State adopts such a regulatory scheme, the regulatory authority of the Secretary of Transportation would probably be ousted.

C. Methods by Which the State Could Obtain Rights-of-Way Over Federal Lands.

As an initial matter, it should be noted that the law seems clear that the rights of a state to obtain property by condemnation could not be used to obtain such rights-of-way over federal land. In Utah Power and Light Co. v. U.S., 243 U.S. 389 (1917) the U.S. Supreme Court noted that the Federal Government has the full power under the Constitution "to protect its lands, to control their use and to prescribe in what manner others may acquire rights in them". 243 U.S.C. 404. The Court went on to state that:

"state laws, including those relating to the exercise of eminent domain, have no bearing upon a controversy such as is here present, save as they may have been adopted or made applicable by Congress."

I have found no indication that Congress has authorized the condemnation of Federal lands by states for pipeline rights-of-way. If the State determines to construct its own pipeline system, it could probably obtain right-of-way over Federal lands under the provisions of the Mineral Leasing Act, and several other Federal Statutes.

The basic statutory provisions authorizing rights-of-way for pipeline through Federal lands are contained in the Mineral Leasing Act 30 U.S.C. §185. Under the Act

"Rights-of-way through any Federal lands may be granted by the Secretary of the Interior or appropriate agency head for pipeline purposes for the transportation of oil, natural gas, synthetic liquid or gaseous fuels, or any refined product produced therefrom to any applicant possessing

the qualifications provided in Section 181 of this title in accordance with this section. 30 U.S.C. §185(a).

Although it is not clear that a State agency would be "an applicant possessing the qualifications provided in Section 181" it seems unlikely that the right to acquire rights-of-way would be denied to it. Section 181 provides that rights-of-way may be granted to

". . . citizens of the United States, or to associations of such citizens, or to any corporation organized under the laws of the United States, or of any State or Territory thereof, or in the case of coal, oil, oil shale, or gas, to municipalities. Citizens of another country, the laws, customs or regulations of which deny similar or like privileges to citizens, or corporations of this country, shall not by stock ownership, stock holding, or stock control, own any interest in any lease acquired under the provisions of this chapter."

Under the Act, a right-of-way may be obtained through all lands owned by the United States except those "lands in the National Park System, lands held in trust for an Indian or Indian Tribe, and lands on the Outer Continental Shelf".

30 U.S.C. §185(b)(1). It should be noted that there is separate statutory authorization for oil and gas pipeline rights-of-way through National Wildlife Refuges. 16 U.S.C. §668(d), and Indian Reservations 25 U.S.C. §321. General provisions authorizing the grant of oil and gas pipeline rights-of-way through national parks, are not apparent, nor do the specific statutory provisions relating to the National Parks within Alaska authorize such rights-of-way. If the proposed pipeline must cross national park lands,

separate congressional authorization of the rights-of-way would be required.

## II.

### PERMITTED AND PROHIBITED STATE ACTIONS

As we have seen in Section I, certain aspects of natural gas production, transportation, and marketing are subject to Federal control, while others lie within the sphere of State control. What happens when Federal and State interests conflict? The potential for conflict is well illustrated in FPC v. Transcontinental Gas Pipe Line Corp., 365 U.S. 1 (1961), where it was said:

"When Congress initially enacted the Natural Gas Act in 1938, all the indications were that Congress intended the States to be the primary arbiters of conservation problems. The 1938 Act was based on a 1936 report rendered by the Federal Trade Commission and the section in that report devoted to conservation stresses the powers of state bodies to adopt corrective measures. The final recommendation of the Federal Trade Commission in regard to conservation contemplated primary state authority, with federal agencies being relegated to a reporting function. This recommendation formed the basis for § 11 of the Act as ultimately passed and that section reveals a secondary role for the Commission in this regard.

"However, in 1940, the Commission reported its dissatisfaction with the limited scope of § 7. The 1938 version of § 7 restricted the Commission's jurisdiction to certification of transportation into areas where the market was already being served by another natural gas company; if a pipeline wished to extend service into virgin territory, the Commission had no power to act. The Commission felt that this limitation barred it from considering "the broad social and economic effect of the use of various fuels" in a § 7 proceeding, Kansas Pipe Line & Gas Co., 2 F.P.C. 29, 57, and, in its 1940 Annual Report, the Commission urged that the restriction be deleted in order that conservation considerations might be weighed.

The Commission implemented its recommendation by submitting to Congress a proposed amendment to § 7 with the restrictive language eliminated, and an amendment substantially similar to the one drafted by the Commission was enacted in 1942.

" . . .

"There is a broader principle here which also stands in opposition to respondents' contentions. When Congress enacted the Natural Gas Act, it was motivated by a desire 'to protect consumers against exploitation at the hands of natural gas companies.' Sunray Mid-Continent Oil Co., v. Federal Power Commission, 364 U.S. 137, 147, 80 S.Ct. 1392, 1398, 4 L.Ed.2d. 1623. To that end, Congress 'meant to create a comprehensive and effective regulatory scheme.' Panhandle Eastern Pipe Line Co. v. Public Service Commission, 332 U.S. 507, 520, 68 S.Ct. 190, 197, 92 L.Ed. 128. See Public Utilities Commission of Ohio v. United Fuel Gas Co., 317 U.S. 456, 467, 63 S.Ct. 369, 375, 87 L.Ed. 396. It is true, of course, that Congress did not desire comprehensive federal regulation; much authority was reserved for the States. But, it is equally clear that Congress did not desire that an important aspect of this field be left unregulated. See Panhandle Eastern Pipe Line Co. v. Public Service Commission, supra. Therefore, when a dispute arises over whether a given transaction is within the scope of federal or state regulatory authority, we are not inclined to approach the problem negatively, thus raising the possibility that a 'no-man's land' will be created. Compare Guss v. Utah Labor Relations Board, 353 U.S. 1, 77 S.Ct. 598, 603, 1 L.Ed.2d 601. That is to say, in a borderline case where congressional authority is not explicit we must ask whether state authority can practicably regulate a given area and, if we find that it cannot, then we are impelled to decide that federal authority governs.

In this case, the dispute is over the "economic" waste of gas which has been committed to transportation in interstate commerce outside the producing State. The Commission has not attempted to exert its influence over such "physically" wasteful practices as improper well spacing and the flaring of unused gas which result in the entire loss of gas and are properly of concern to the producing State; nor has the Commission attempted to regulate the "economic" aspects of gas used within the producing State. Respondents contend that, even in this posture, the Commission has usurped the functions of state regulating bodies but we cannot agree.

In the 1936 Federal Trade Commission Report, upon which respondents so heavily rely, there was some mention of control of the end use of gas and, as we have said, this report was strongly oriented towards state regulation. However, as the Court of Appeals pointed out, the primary emphasis was on physical waste of gas within the producing State and the reference to end use probably contemplated the use of gas in gasoline extraction and the manufacture of carbon black. 271 F.2d at page 947. There is no indication that the Federal Trade Commission or Congress was thinking in terms of state-controlled "economic" conservation of gas committed to interstate commerce. Moreover, it is questionable whether any State could be expected to take the initiative in enforcing this type of "economic" conservation. A producing State might wish to prolong its gas reserves for as long as possible but producing States have no control over the use to which gas is put in another State. See Michigan-Wisconsin Pipe Line Co. v. Calvert, 347 U.S. 157, 74 S.Ct. 396, 98 L.Ed. 583, Com. of Pennsylvania v. State of West Virginia, 262 U.S. 553, 43 S.Ct. 658, 67 L.Ed. 1117; State of Oklahoma v. Kansas Natural Gas Co., 221 U.S. 229, 31 S.Ct. 564, 55 L.Ed. 716. Consuming States may control the end use of gas, Panhandle Eastern Pipe Line Co. v. Michigan Public Service Commission, 341 U.S. 329, 71 S.Ct. 777, 95 L.Ed. 993, but the deficiencies of this system in the present context are apparent--unless all States cooperate in enforcing a common regulation, the producer may pick a State which is sufficiently anxious for this scarce resource that it will take gas irrespective of the use. Therefore, it appears that, consistent with the congressional purpose of leaving no "attractive gap" in regulation, we must conclude that the "end-use" factor was properly of concern to the Commission.

We have, therefore, a system of dual regulation but one which the Court recognizes has no hard and fast lines of demarcation. Since the areas of present and future Federal-State conflict cannot be mapped with precision, it would perhaps be instructive to look at a number of specific issues to see which State actions may be permissible, and which State actions are probably prohibited.

1. The State may not embargo the movement of gas in interstate commerce through the exercise of conservation powers. The Supreme Court has consistently struck down state legislation designed to prohibit or limit the exportation of oil and gas to other states even where the state alleges that the supply of gas is no longer sufficient to meet the state's needs and that the legislation is necessary to conserve the resources of the state:

"We turn now to the principal issue, whether a State wherein natural gas is produced and is a recognized subject of commercial dealings may require that in its sales and disposal consumers in that State shall be accorded a preferred right of purchase over consumers in other States, -- when the requirement necessarily will operate to withdraw a large volume of the gas from an established interstate current whereby it is supplied in other States to consumers there. Of course, in the last analysis, the question is whether the enforced withdrawal for the benefit of local consumers is such an interference with interstate commerce as is forbidden to a State by the Constitution. The question is an important one; for what one State may do others may, and there are ten States from which natural gas is exported for consumption in other States. Besides, what may be done with one natural product may be done with others, and there are several States in which the earth yields products of great value which are carried into other States and there used. But, notwithstanding the importance of the question, its solution is not difficult. The controlling principles have been settled by many adjudications, -- some so closely in point that the discussion here may be relatively brief.

"By the Constitution, Art. I, § 8, cl. 3, the power to regulate interstate commerce is expressly committed to Congress and therefore impliedly forbidden to the States. The purpose in this is to protect commercial intercourse

from invidious restraints, to prevent interference through conflicting or hostile state laws and to insure uniformity in regulation. It means that in the matter of interstate commerce we are a single nation -- one and the same people. All the States have assented to it, all are alike bound by it and all are equally protected by it. Even their power to lay and collect taxes, comprehensive and necessary as that power is, cannot be exerted in a way which involves a discrimination against such commerce. Ward v. Maryland, 12 Wall. 418, 430; Welton v. Missouri, 91 U.S. 275, 280; Webber v. Virginia, 103 U.S. 344, 350; Coe v. Errol, 116 U.S. 517, 525-526; Guy v. Baltimore, 100 U.S. 434, 442-443; Robbins v. Shelby County Taxing District, 120 U.S. 489, 498.

"Natural gas is a lawful article of commerce and its transmission from one State to another for sale and consumption in the latter is interstate commerce. A state law, whether of the State where the gas is produced or that where it is to be sold, which by its necessary operation prevents, obstructs or burdens such transmission is a regulation of interstate commerce, -- a prohibited interference. West v. Kansas Natural Gas Co., 221 U.S. 229; Public Utilities Commission v. Landon, 249 U.S. 236, 245; United Fuel Gas Co. v. Hallanan, 257 U.S. 277; Dahnke-Walker Milling Co. v. Bondurant, 257 U.S. 282, 290-291; Lemke v. Farmers Grain Co., 258 U.S. 50; Western Union Telegraph Co. v. Foster, 247 U.S. 105; Minnesota v. Barber, 136 U.S. 313; Brimmer v. Rebman, 138 U.S. 78. The West Virginia act is such a law. Its provisions and the conditions which must surround its operation are such that it necessarily and directly will compel the diversion to local consumers of a large and increasing part of the gas heretofore and now going to consumers in the complainant States, and therefore will work a serious interference with that commerce."

Pennsylvania v. West Virginia, 262 U.S. 553, 595-597 (1923);

and see Haskell v. Kansas Natural Gas Co., 224 U.S. 217

(1912); West v. Kansas Natural Gas Co., 221 U.S. 229 (1911).

2. The State may not establish a natural gas pricing structure for gas sold for resale in interstate commerce. Any attempt by a State to establish minimum or maximum prices for gas produced in the State but sold in interstate commerce would be invalidated by the courts. The decision in F.P.C. v. Corporation Commission of Oklahoma, 362 F.Supp. 522 (W.D. Okla.), aff'd 415 U.S. 961 (1974), establishes beyond question that the States cannot directly or indirectly affect the price of gas sold in interstate commerce:

"The State has no authority, either directly or indirectly, to fix the price at which natural gas is sold in interstate commerce. The Supreme Court stated in Northern Natural Gas Co. v. State Corporation Commission of Kansas, 1963, 372 U.S. 84, 83 S.Ct. 646, 9 L.Ed.2d 601 that:

...[O]ur inquiry is not at an end because the orders do not deal in terms with prices or volumes of purchases, cf. Dayton-Goose Creek R. Co. v. United States, 263 U.S. 456, 478, 44 S.Ct. 169, 172, 68 L.Ed. 388. The Natural Gas Act precludes not merely direct regulation by the States of such contractual matters...

The federal regulatory scheme leaves no room either for direct state regulation of the prices of interstate wholesales of natural gas, Natural Gas Pipeline Co. v. Panoma Corp., 349 U.S. 44, 75 S.Ct. 576, 99 L.Ed. 866, or for state regulations which would indirectly achieve the same result. pp. 90-91, 83 S.Ct. p. 650.

"In Phillips Petroleum Co. v. Wisconsin, supra, it was argued that Peerless and Phillips Petroleum Co. v. Oklahoma, 1950, 340 U.S. 190, 71 S.Ct. 221,

95 L.Ed. 204, established that the states could regulate interstate sales, and, therefore, such sales were not within the gap which the Natural Gas Act was intended to fill. The Supreme Court, however, was of a different view:

Those cases upheld as constitutional state minimum price orders, justified as conservation measures, applying to sales of natural gas in interstate commerce. But it is well settled that the gap referred to is that thought to exist at the time the Natural Gas Act was passed, and the jurisdiction of the Commission is not affected by subsequent decisions of this Court which have somewhat loosened the constitutional restrictions on state activities affecting interstate commerce, in the absence of conflicting federal regulation. [Citation omitted] The Federal Power Commission did not participate in the Cities Service and Phillips Petroleum cases, the appellants there did not assert a possible conflict with federal authority under the Natural Gas Act, and consequently we expressly refused to consider at that time 'whether the Gas Act authorizes the Power Commission to set field prices on sales by independent producers, or leaves that function to the states...'

"Shortly after the decision in Phillips the Supreme Court was called upon in Natural Gas Pipeline Co. v. Panoma Corporation, 1955, 349 U.S. 44, 75 S.Ct. 576, 99 L.Ed. 866 to review the validity of certain minimum price orders of the Oklahoma Corporation Commission. The Supreme Court of Oklahoma had affirmed the orders, reasoning that they were primarily conservation measures, rather than pricing regulations, and that it was immaterial that they would have an incidental effect on prices. Natural Gas Pipeline Co. v. Corporation Commission, et al., 1954, Okl. 272 P.2d 425. The United States Supreme Court reversed, holding that the case was controlled by Phillips, supra. Holding essentially that Peerless was no longer authority for states to regulate interstate natural gas prices, the High Court stated:

We disagree with the contention of the appellees that Cities Service Gas Co. v. Peerless Oil

and Gas Co., 340 U.S. 179, 71 S.Ct. 215, 95 L.Ed. 190, and Phillips Petroleum Co. v. Oklahoma, 340 U.S. 190, 71 S.Ct. 221, 95 L.Ed. 204, are applicable here. In those cases we were dealing with constitutional questions and not the construction of the Natural Gas Act. The latter question was specifically not passed upon in those cases. p. 45, 75 S.Ct. p. 576.

"In Federal Power Commission v. Transcontinental Gas Pipeline Corp., 1961, 365 U.S. 1, 9-20, 81 S.Ct. 435, 5 L.Ed.2d 377, it was held that the Federal Power Commission, through its certification power, could prevent the waste of gas committed to its jurisdiction. In so holding, the Court noted a distinction between 'economic waste' and 'physically wasteful practices'. The former involves a general monitoring of natural gas supply through manipulations of rate structure and determinations of gas use priorities, while the latter involves such matters as improper well spacing and the flaring of unused gas. The regulation of 'economic waste' is properly within the jurisdiction of the Federal Power Commission, leaving the state authority to regulate 'physically wasteful practices,' so long as such do not interfere with Federal jurisdiction.

"In Northern Natural Gas Co. v. State Corporation Commission of Kansas, 1965, 372 U.S. 84, 83 S.Ct. 646, 9 L.Ed.2d 601, the Kansas Corporation Commission had issued orders which required an interstate pipeline company to purchase natural gas ratably from all wells connecting to its pipeline system. The United States Supreme Court reversed an affirmance of the order by the Kansas Supreme Court. In so doing, the High Court held that a purpose, 'however legitimate to conserve natural resources, does not warrant direct [or indirect] interference by the States with the price[s] of natural gas wholesales in interstate commerce.' [Italics ours] The orders were struck down because they necessarily impaired the ability of the Federal Power Commission to regulate comprehensively and effectively the transportation and sale of natural gas and to achieve the uniformity of regulation which was the objective of the Natural Gas Act.

"The problem in Northern Natural, supra, as here, was:

...not as to the existence or even the scope of a State's power to conserve its natural

resources; the problem is only whether the Constitution sanctions the particular means chosen by...[the state] to exercise the conceded power if those means threaten effectuation of the federal regulatory scheme.  
[Emphasis supplied]

"The Defendant also relies upon Section 1(b) of the Natural Gas Act, 15 U.S.C. § 717(b), which states in part that the provisions of the Act 'shall not apply...to the production and gathering of natural gas.' Accordingly, Order No. 93,381, paragraph 19, states that:

All we do is prohibit the production of gas under circumstances which we find will produce waste; and to prevent that waste, we will order wells to be shut in. Our Order and our regulatory action is complete before any sale takes place.

"The state courts, which were reversed in Panama and Cities Service, had relied upon identical rationale in upholding state minimum price orders. The Oklahoma Supreme Court had observed in affirmance that 'the sale is made before any movement of any kind starts and before any thing in the nature of interstate commerce occurs.' *supra*, 272 P.2d at 431. Similarly, the Kansas Supreme Court had observed the order of the Kansas Commission 'fixed a minimum price to be paid for gas before cessation of production.' 180 Kan. 454, 304 P.2d 528 at 535.

"In the case at bar, the Defendant seeks to do precisely what the United States Supreme Court held that the Kansas Corporation Commission could not do. Here, as there, a certain price level must be satisfied as a condition precedent to production. The High Court said in the Northern, *supra*, case, 'It has been consistently held that 'production' and 'gathering' are terms narrowly confined to the physical acts of drawing the gas from the earth and preparing it for the first stages of distribution.' The Defendant is not concerned herein with the mere physical problem of production; it is concerned with the price of the sale." *Id.*, pp. 538-540.

3. A State may not accomplish by indirection that which is prohibited through direct action. The courts have not been hesitant to disregard a state contention that a statute

or regulation was designed to promote conservation where the court determines that the state's real intent was otherwise. A good example of this is the attempt by the State of Texas to force interstate pipelines to purchase ratably from all producers in a field. The Common Purchaser Act of 1931 compelled the purchase of gas from all producers in the field, and was held unconstitutional in Texoma Natural Gas Co. v. Railroad Commission, 59 F.2d 750 (W.D. Tex. 1932).

The State of Texas then attempted to accomplish the same goal by indirection through the issuance of proration orders.

Proration orders designed to prevent waste have been held to be a constitutional exercise of the state's police power.

In this instance, the interstate pipelines owned their own gas wells and were able to satisfy the needs of the pipeline through their own production. The result of the proration orders was to so decrease the amount of production from all wells, including the pipeline-owned wells, that the pipeline was forced to purchase from other producers in order to fill the pipeline. The State contended that the action was necessary to prevent correlative rights of owners in a common reservoir -- approximately 20% of the gas in the reservoir was owned by persons who had no market other than the interstate pipelines, and the only way these owners could prevent drainage would be to produce oil and gas for which there was no market. However, the Supreme Court ruled that the State's action was an impermissible interference with interstate

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"...We assume that the prohibition of any wasteful conduct, whether primarily in behalf of other owners of gas in the common reservoir, or because of the public interests involved, is consistent with the Constitution of Texas and that of the United States, and that to prevent waste production may be prorated. We assume, also, that the State may constitutionally prorate production in order to undue drainage of gas from the reserves of well owners lacking pipe line connections. If proration were lawfully applied for any such purposes, the fact that thereby other private persons would incidentally and gratuitously obtain important benefits would present no constitutional obstacle. And the fact that plaintiffs' gas is to be sold in interstate commerce would not preclude such exercise of the State's power. Compare Champlin Refining Co. v. Corporation Commission, 286 U.S. 210, 235.

"But the sole purpose of the limitation which the order imposes upon the plaintiffs' production is to compel those who may legally produce, because they have market outlets for permitted uses, to purchase gas from potential producers whom the statute prohibits from producing because they lack such a market for their possible product. Plaintiffs' operations are neither causing nor threatening any overground or underground waste. Every well owner in the field is free to produce the gas, provided he does as appears, physically free to provide himself with a market and with transportation and marketing facilities. There is no basis for a claim that his right, or opportunity, will be interfered with by a disproportionate taking by any one of those who may legally produce."

Thompson v. Consolidated Gas Utilities Corp., supra, at pp. 76-77. (Footnotes omitted).

The prohibition on attempted State direct action which conflicts with the Federal regulatory scheme is also reflected in Northern Natural Gas Co. v. Kansas Corp. Comm., 372 U.S. 84 (1963), where the Supreme Court ruled invalid an order of the Kansas State Corporation Commission requiring

an interstate pipeline to purchase gas ratably from all wells in each field within the State where the pipeline's facilities were located. The Court held that while the proration of production was a legitimate exercise of the State's police power, the means chosen conflicted with the federal regulatory scheme:

"The danger of interference with the federal regulatory scheme arises because these orders are unmistakably and unambiguously directed at purchasers who take gas in Kansas for resale after transportation in interstate commerce. In effect, these orders shift to the shoulders of interstate purchasers the burden of performing the complex task of balancing the output of thousands of natural gas wells within the State, cf. Miller Bros. Co. v. Maryland, 347 U.S. 340 - a task which would otherwise presumably be the State Commission's. Moreover, any readjustment of purchasing patterns which such orders might require of purchasers who previously took unratably could seriously impair the Federal Commission's authority to regulate the intricate relationship between the purchasers' cost structures and eventual costs to wholesale customers who sell to consumers in other States. This relationship is a matter with respect to which Congress has given the Federal Power Commission paramount and exclusive authority. See Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 610. The prospect of interference with the federal regulatory power in this area is made even more acute by the fact that criminal sanctions imposed by state statute for noncompliance fall upon such purchasers and not upon the local producers. Therefore, although collision between the State and federal regulation may not be an inevitable consequence, there lurks such imminent possibility of collision in orders purposely directed at interstate wholesale purchasers that the orders must be declared a nullity in order to assure the effectuation of the comprehensive federal regulation ordained by Congress."

Justice Harlan, dissenting with two other Justices, noted that enforcement of proration orders through the pipelines was the most efficient way to accomplish the State's

purpose, and argued that any threat to federal regulation from such an order was no different than that resulting from other valid conservation measures. Justice Harlan also argued that all conservation legislation constituted an interference with interstate commerce; therefore, the ultimate effect of the majority's ruling would be to invalidate all conservation powers of the states.

"The ratable take orders here were intended as conservation measures -- to protect the correlative rights of producers taking gas from a common source of supply by preventing drainage from underproduced wells to overproduced wells. It has always been recognized that the States possess the power to conserve scarce resources such as natural gas and to prevent unfair and discriminatory production of this resource by some wells at the expense of others. See, e.g., Patterson v. Stanolind Oil & Gas Co., 305 U.S. 376; Lindsley v. Natural Carbonic Gas Co., 220 U.S. 61; Ohio Oil Co. v. Indiana, 177 U.S. 190. It is difficult to imagine any exercise of this conservation power that would not carry with it the possibility of affecting the costs incurred by those who purchase gas from producers. Regulations requiring the casing of wells, prohibiting the use of pumps, restricting production to a certain percent of a well's 'open flow,' imposing a particular gas-oil ratio, controlling drilling operations and pipeline pressure, prescribing the permissible spacing of wells, and enforcing pooling or unitization may reduce the amount of gas available for sale by a particular producer (at least in the short run) and thus force a purchaser to buy from it or someone else probably at greater cost. Yet it has never been suggested that such state measures are for the reason invalid.

"Indeed, the most direct interference with the availability of gas for interstate sale is the 'allowable' order. It places a ceiling on the amount of gas that may be produced by a particular well during a given period of time and inevitably makes pipelines

spread their demand among many wells. Obviously its possible effect on cost is precisely the same as that which may be caused by a ratable take order, for the two orders are merely variations of the same regulatory measure; both are designed to prevent the disproportionate taking of gas from some wells to the disadvantage of others.

"In Champlin Refining Co. v. Corporation Comm'n, 286 U.S. 210 (1932), this Court sustained, against a challenge under the Commerce Clause, a state allowable order. Since the States had the power to issue such an order at the time the Natural Gas Act was passed, nothing in that Act can now be considered to withdraw it. This is so because it is beyond dispute that when Congress enacted the Natural Gas Act in 1938 it did not intend to deprive the States of any regulatory powers they were then deemed to possess under the Constitution. Rather, the Act was intended only to fill the 'gap . . . thought to exist at the time the Natural Gas Act was passed' by providing for federal regulation of those aspects of the natural gas business that the States were at that time believed to be constitutionally incapable of regulating. Phillips Petroleum Co. v. Wisconsin, 347 U.S. 672, 684, 685-687. As was specifically stated in the House Committee Report, the Act 'takes no authority from State commissions, and is so drawn as to complement and in no manner usurp State regulatory authority.' H.R. Rep. No. 709, 75th Cong., 1st Sess., p. 2.

"If an allowable order is now valid, what is the distinction between such an order and the ratable take orders in the present case? The Court points to no difference in terms of effect on cost structure, but only to the fact that the orders here are directed at purchasers and not producers. For reasons already discussed, supra, pp. 100-102, this difference is illusory.

"Quite apart from the absence of any significant difference between the possible general cost ramifications of an allowable and a ratable take order, the very facts of the case before us demonstrate the folly of determining whether or not the jurisdiction of the Federal Power Commission has been invaded on the basis of general possibilities unsupported by specific data. Appellant is paying a higher price for gas to Republic than to any other producer in the Kansas Hugoton Field. If appellant could reduce its take from Republic wells without contractual liability, the over-all cost of its

gas purchases would in all likelihood decrease. Surely such a beneficial effect on appellant's cost structure is not inconsistent with the purposes of the Natural Gas Act. And we have no way of knowing the extent to which the same is true of other Kansas purchasers. The lurking danger of collision with federal regulation that the Court fears may be completely nonexistent. Yet on this insecure foundation the Court builds a rule that, if consistently applied, may well destroy the conservation powers of the States. And this "in the name of an Act expressly intended to preserve existing state powers." Id., pp. 103-106. (Footnotes omitted).

The most important aspect of Justice Harlan's pessimistic outlook for the future is his recognition that the states' traditional control over conservation can be eroded under the preemption doctrine. While a particular conservation statute or regulation may not be held unconstitutional as an interference with interstate commerce, that same statute or regulation may be invalid if it conflicts with an area preempted by the Federal government. This is illustrated again by reference to F.P.C. v. Corporation Commission of Oklahoma, supra, wherein the District Court discusses the fact that state regulations establishing minimum prices for the sale of natural gas in interstate commerce were originally upheld by the Supreme Court as valid conservation matters. However, in the wake of the Phillips case wherein the Court determined that the FPC had jurisdiction over producers the attempts by the states to set minimum prices were held invalid in light of conflicting federal regulation. Thus, it must be concluded that Congress could act to preempt any state control over production and that such legislation would probably be constitutional.

4. The State May Not Effectively Block Construction of an Interstate Pipeline by Denying Permission to Cross State Lands.

The power of eminent domain granted to an interstate natural gas pipeline is found in Sec. 7(h) of the Natural Gas Act, 15 U.S.C. § 717(f), which is as follows:

"When any holder of a certificate of public convenience and necessity cannot acquire by contract, or is unable to agree with the owner of property to the compensation to be paid for, the necessary right-of-way to construct, operate, and maintain a pipe line or pipe lines for the transportation of natural gas, and the necessary land or other property, in addition to right-of-way, for the location of compressor stations, pressure apparatus, or other stations or equipment necessary to the proper operation of such pipe line or pipe lines, it may acquire the same by the exercise of the right of eminent domain in the district court of the United States for the district in which such property may be located, or in the State courts. The practice and procedure in any action or proceeding for that purpose in the district court of the United States shall conform as nearly as may be, with the practice and procedure in similar action or proceeding in the courts of the State where the property is situated: Provided, that the United States district courts shall only have jurisdiction of cases when the amount claimed by the owner of the property to be condemned exceeds \$3,000."

As can be seen from the foregoing quote, Sec. 7(h) makes no reference to public or state owned lands; moreover, there appear to be no reported cases which specifically address the issue of whether Sec. 7(h) provides the authority to condemn state owned lands.

It has been determined that the power of eminent domain under the Federal Power Act, 16 U.S.C. § 814, includes

the power to condemn state owned property. In State of Missouri ex rel. v. Union Electric Light & Power Co., 42 F.2d 692 (C.D. Mo. 1930), 'the State of Missouri brought an action to enjoin construction of a hydroelectric project which had been approved by the FPC. The State alleged that construction of the project would result in the accumulation of a large body of water which would submerge "both public and private property, including the courthouse and the jail in the village of Linn Creek, a large number of school districts, and at sundry points inundate the public highways." In response to the State's allegation that the utility company could not appropriate land already dedicated to public use the Court stated as follows:

"9. While it is well settled that the Legislature may authorize the taking of property already devoted to a public use, it is equally well established that a general delegation of the power of eminent domain does not authorize the taking of property already devoted to a public use, 'unless it can clearly be inferred from the nature of the improvements authorized or from the impracticability of constructing them without encroaching upon such property that the legislature intended to authorize such a taking.' 10 R.C.L. § 169; Western Union Telegraph Co. v. Pennsylvania R.R. Co., et al., 195 U.S. 540, 25 S.Ct. 133, 49 L.Ed. 312, 1 Ann. Cas. 517. In this connection it cannot be questioned but that the Congress had the power to confer the right of eminent domain upon the defendant Union Electric Light & Power Company. 10 R.C.L. § 167.

"In the instant case the Congress must have contemplated this identical situation; hence the requirement of notice. Moreover, the proposed improvements could not be accomplished, except through the exercise, if necessary, of eminent domain against property already

dedicated to public use. To deny the right of eminent domain as against this public property would not only defeat the functions of the national government, but would run contrary to the obvious intent of the Congress as expressed in the Water Power Act. *Stockton, Attorney General v. Baltimore & New York R.R. Co.* (C.C.) 32 F.9; 20 C.C. § 90, P. 602; *Vermont Hydro-Electric Corporation v. Dunn et al.*, 95 Vt. 144, 112 A. 223, 12 A.L.R. 1495; *Imperial Irrigation Co. v. Jayne*, 104 Tex. 395, 138 S.W. 575, Ann. Cas. 1914B, 322." Id., at p. 698.

While this case appears to be the only one to have ever addressed the issue at hand, it is clearly consistent with other cases holding that the federal government can condemn state lands:

"The power of eminent domain is essential to a sovereign government. If the United States has determined its need for certain land for a public use that it is within its federal sovereign powers, it must have the right to appropriate that land. Otherwise, the owner of the land, by refusing to sell it or by consenting to do so only at an unreasonably high price, is enabled to subordinate the constitutional powers of Congress to his personal will. The Fifth Amendment, in turn, provides him with important protection against abuse of the power of eminent domain by the Federal Government.

"While in its early days the Federal Government filed its condemnation cases in the state courts, this Court, in Kohl v. United States, 91 U.S. 367, disposed of the idea that this was necessary. In that case, which has become the leading case on the federal power of eminent domain, Mr. Justice Strong also said:

'It has not been seriously contended during the argument that the United States government is without power to appropriate lands or other property within the States for its own uses, and to enable it to perform its proper functions. Such an authority is essential to its independent existence and perpetuity. These cannot be preserved

if the obstinacy of a private person, or if any other authority, can prevent the acquisition of the means of instruments by which alone governmental functions can be performed. The powers vested by the Constitution in the general government demand for their exercise the acquisition of lands in all the States..." United States v. Carmack, 329 U.S. 230, 236-237 (1946).

It is noteworthy that the Natural Gas Act did not provide interstate pipelines with the power of eminent domain until the Act was amended in 1947 to add Section 7(h). The legislative history of the 1947 amendment makes it clear that Congress intended to confer on interstate pipelines the same power of eminent domain as contained in the Federal Power Act:

"In some States the right of eminent domain is expressly denied to companies which may have qualified under the Natural Gas Act. For instance, in the State of Arkansas the State constitution provides that a foreign corporation shall not have the power to condemn private property- (Constitution of Arkansas 1874, as amended, art. 12, sec. 11). The State of Wisconsin grants the right of eminent domain to only those gas companies which are Wisconsin corporations.-(Wisconsin Statutes, 1945, ch. 32.02(6)). Nebraska grants the right of eminent domain to gas pipe line companies distributing gas within the State (Nebraska Rev. Stat., 1943, \_\_\_\_).

"Therefore, the Congress of the United States in carrying out its constitutional authority to regulate interstate commerce should correct this deficiency and omission in the Natural Gas Act by the passage of Senate bill 1028 which confers the right of eminent domain upon those natural gas companies which have qualified under the Natural Gas Act to carry out and perform the terms of any certificate of public convenience and necessity acquired from the Federal Power Commission under the act.

\* \* \*

"It has also been suggested that the granting of the right of eminent domain is a matter peculiarly within the

legislative and constitutional purview of the States and that it is proper that such rights should rest with the States in order that the States may therefore be in a position to require a natural-gas pipeline company entering the State to serve the people of that State as a condition to obtaining the right of eminent domain. This argument defeats the very objectives of the Natural Gas Act. Under the Natural Gas Act, the Federal Power Commission is given exclusive jurisdiction to regulate the transportation of natural gas in interstate commerce, the sale in interstate commerce of natural gas for resale for ultimate public consumption for domestic, commercial, industrial, or any other use, and natural gas companies engaged in such transportation or sale. The Commission, through its certificate power, is authorized to grant certificates of convenience and necessity for the construction of interstate natural-gas pipe lines from points of supply to certain defined and limited markets. If a State may require such interstate natural-gas pipe lines to serve markets within that State as a condition to exercising the right of eminent domain, then it is obvious that the orders of the Federal Power Commission may be nullified.

"As stated above, it is within the constitutional authority of Congress to regulate interstate commerce. In the performance of that constitutional authority, it is proper for the Congress to furnish proper and necessary protection of the free flow of interstate commerce. S. 1028 is designed for that purpose with respect to the movement of natural gas in interstate commerce and the sale in interstate commerce of natural gas for resale for ultimate public consumption, and is identical to congressional protection granted under the Federal Power Act with respect to licensees under that act for the construction, maintenance, or operation of any dam, reservoir, diversion structure, or the works appurtenant or necessary thereto.

"S. 1028 does not invade or interfere with the right of the States to impose any proper regulation upon intrastate activities, since its application is limited to exclusive interstate operations with respect to which the States may not constitutionally legislate." Roach and Gallagher, Natural Gas Act Legislative History, Part II, pp. 886-888. (Emphasis added.) And see, Nichols on Eminent Domain, supra, pp. 5-272; Doggett "Exercise of the Power of Eminent Domain As Authorized By the Natural Gas Act," 1969 Eminent Domain Inst. 33, 38.

It must be assumed that Congress was aware of the State of Missouri v. Union Electric Light & Power Co., supra, when it amended the Natural Gas Act to give interstate pipelines the same power of eminent domain as contained in the Federal Power Act:

"It is interesting to note that the procedural and jurisdictional portions of the new subsection were copied verbatim (with minor insignificant exceptions) from the section of the Federal Power Act which grants to hydro-electric licensees the power to condemn property for dams and related facilities. The importance of the similarity of language lies in the fact that the pertinent section of the Power Act had been on the statute books since 1920 and had been interpreted numerous times by the courts. Under well-recognized rules of construction, by adopting substantially the same language at a later time, Congress must be presumed to have put its stamp of approval on the prior decisions. It cannot be denied that Congress was aware of the similarity of language, because the House Committee Report contained a letter from the chairman of the Federal Power Commission specifically calling attention to the fact." Doggett, supra, pp. 37-38 (Footnotes omitted).

Consequently, one must conclude that an interstate pipeline would have the power to condemn state lands if necessary to fulfill the obligations of its certificate of public convenience and necessity.

5. The State May Not Block Construction of an Interstate Pipeline by Assertions of Police or Zoning Powers.

The courts have determined that § 717f(h) is a constitutional exercise of congressional power. Tennessee Gas Transmission Co. v. Thatcher, 180 F.2d 644, cert. denied 340 U.S. 829 (1950). Moreover, the courts have consistently

enjoined municipalities from enforcing zoning ordinances which prohibit the construction of interstate pipelines within the city limits. After concluding that the Natural Gas Act had not totally preempted the states' exercise of police power over natural gas pipelines, the court in Transcontinental Gas Pipe Line Corp. v. Borough of Milltown, 93 F.Supp. 287 (D.N.J. 1950), concluded that the municipality's zoning ordinance could be sustained only if reasonable, justifiable and not an undue burden on interstate commerce. The municipality argued, to no avail, that the ordinance was reasonable because the pipeline could be rerouted around the town:

"The defendant stands only upon the suggestion of its mayor that other routes are available, which is corroborated by another witness. Neither is qualified to testify as to the engineering feasibility of the transportation of natural gas with relation to the installation of the pipe line or the maintenance and operation thereof. The only efficacy of this testimony rests in the statements that the pipe line could be otherwise routed. This is almost axiomatic for as one of the defendant's witnesses on cross examination admitted a pipe line can be laid practically anywhere, including the side of the Empire State Building if expense is of no consideration.

"On the other hand the plaintiff has shown logical, efficient and economical reasons for following the right-of-way of the Public Service Electric and Gas Company in this particular congested industrial portion of this state. By doing so it insures a minimum of inconvenience to, and destruction of, property of others.

"In a somewhat similar situation dealing with the condemnation of land for pipe line purposes the court in the case of Williams v. Transcontinental Pipe Line Corp., supra, stated:

'The claim is merely that, in the exercise of its rights, the defendant should have run its line across the property of some one else, or crossed petitioners' property at a different place.

'It is obvious that such a contention must fail. If a landowner, merely by showing that it would be possible for a utility line or highway to avoid crossing his property, could compel the condemnor to relocate its line, no power line, railroad, pipe line, or highway could ever be located properly to serve the public. The determination of what property is needed to accomplish the public purpose for which the right of eminent domain is given must of necessity rest primarily with the agency charged with carrying out the public work. There may be cases where the condemnor so abuses its discretion or acts in such bad faith in locating its line that the court would be justified in intervening; but usually no Judge would take upon himself the burden of deciding the best location for a utility line.' 89 F.Supp. 488-489.

"This reasoning is equally applicable to this plaintiff, although it was not necessary for it to exercise its right of eminent domain in the instance under question here. The fact remains that the mere claim by defendant that its ordinance requires plaintiff to locate its pipe line in an alternative route, suggested as available, does not fortify it with power to impede the plaintiff in the prosecution of its legal objective in the field of interstate commerce. Such an attempt to obstruct interstate commerce under guise of an assertion of exercise of the police power must fail." Id., p. 295. (Footnotes omitted)

Nor can the State assert, successfully, a supervening interest in public safety; the State has no power to control safety standards for interstate natural gas pipelines. The Natural Gas Pipeline Safety Act, 49 U.S.C. § 1671 et seq., provides that:

"§ 1672(a) \* \* \*

(b) Not later than twenty-four months after August 12, 1968, and from time to time thereafter, the Secretary

shall, by order, establish minimum Federal safety standards for the transportation of gas and pipeline facilities. Such standards may apply to the design, installation, inspection, testing, construction, extension, operation, replacement, and maintenance of pipeline facilities. ~~Standards affecting the design, installation, construction, initial inspection, and initial testing shall not be applicable to pipeline facilities in existence on the date such standards are adopted.~~ Whenever the Secretary shall find a particular facility to be hazardous to life or property, he shall be empowered to require the person operating such facility to take such steps necessary to remove such hazards. Such Federal safety standards shall be practicable and designed to meet the need for pipeline safety. In prescribing such standards, the Secretary shall consider -

- (1) relevant available pipeline safety data;
- (2) whether such standards are appropriate for the particular type of pipeline transportation;
- (3) the reasonableness of any proposed standards; and
- (4) the extent to which such standards will contribute to public safety.

Any State agency may adopt such additional or more stringent standards for pipeline facilities and the transportation of gas not subject to the jurisdiction of the Federal Power Commission under the Natural Gas Act as are not incompatible with the Federal minimum standards, but may not adopt or continue in force after the minimum Federal safety standards referred to in this subsection become effective any such standards applicable to interstate transmission facilities."

The act has been construed as preempting any state or local control over pipeline safety regulations with respect to interstate natural gas pipelines. United Gas Pipe Line Co. v. Terrebonne Parish Police Jury, 319 F.Supp. 1138 (D.C.La.), affirmed 445 F.2d 301 (5th Cir. 1971).

6. If the State Initially Elects to Take Its Royalty in Value Rather Than In Kind, The State Probably Could Not Thereafter Withdraw the Royalty Share From Interstate Commerce Without FPC Approval. Section 7(b) of the Natural Gas Act provides as follows:

(b) No natural-gas company shall abandon all or portion of its facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities, without the permission and approval of the Commission first had and obtained, after due hearing, and a finding by the Commission that the available supply of natural gas is depleted to the extent that the continuance of service is unwarranted, or that the present or future public convenience or necessity permits such abandonment.  
15 U.S.C. §717 (b)

Under this language, once a producer or pipeline commences jurisdictional service, it cannot thereafter terminate the service, without abandonment authorization from the Commission. United Gas Pipe Line Company v. FPC, 385 U.S. 83 (1966). This is true whether or not there are valid contractual agreements with respect to the service.

Unless and until the State has exercised its right to take gas in kind, the producer owns and is legally entitled to dispose of all gas in interstate commerce. His obligation to the State is to pay royalties in value, such being calculated on the basis of a percentage of the value of the production obtained from the lease. In at least the conventional situation where royalty is paid in value, the

payment of royalty has been held by the Courts to be a non-jurisdictional transaction. Mobil Oil Corporation v. FPC, 463 F.2d 256 (D.C. Cir. 1972). In that case the Court stated that an economic interest in the proceeds of sale unaccompanied by authority to determine the incidents of sale does not make one a seller. 463 F.2d at 262.

If the producer undertakes to sell all of the gas produced from the lease and is issued a certificate authorizing the sale of all of the gas from the lease, the producer may not be able to thereafter release the royalty gas for a taking in kind. Superior Oil Company, Docket No. CI71-879 (Letter Order issued 6/13/75). In Superior, the State of Texas had the right under its leases to take its royalty gas in kind. Initially the gas was sold by Superior Oil Company under Certificates of Public Convenience and Necessity issued by the Federal Power Commission. When the State decided to commence taking its royalty gas in kind, it notified the Federal Power Commission asserting, among other things, that an FPC Order issued February 11, 1975 in Docket G-5354, et al, had authorized the State to take its gas in kind. The Commission responded that "the February 11, 1975, Order did not authorize either Superior or the State of Texas to divert natural gas from interstate commerce" and advised the State that:

"before any natural gas produced from the leases dedicated under Superior's contract dated May 7, 1971, as amended June 25, 1974, with Natural Gas Pipeline Company of America can be diverted from interstate commerce Superior must file for and receive abandonment authorization from this Commission in accordance with requirements from Section 7 (b) of the Natural Gas Act and the Commission's regulations thereunder. Any action by the State of Texas which would require Superior to take action inconsistent with said Act and regulations would be in violation of the Supremacy Clause Doctrine (Northern Natural Gas Company v. State Corporation Commission of Kansas, 372 U.S. 84)."

While it is therefore clear that the Commission will take the position that abandonment authorization is required before a State can exercise its right to take royalty gas in kind after delivery of the full gas stream in interstate commerce has once commenced, the validity of the Commission's assertions has not yet been ruled upon by a Court. The issues involved are: (1) the extent to which the certification and abandonment requirements of Section 7 of the Natural Gas Act can be construed as permitting, or indeed requiring, a natural gas company to continue to dispose of property where it has no contractual or legal rights (other than such rights as may be created by the Natural Gas Act) to do so; and (2) the extent to which a royalty owner may be bound by agreements made and actions taken by its lessee. Similar issues are, however, before the Courts at this time. See e.g., Southland Royalty Company, et al. v. FPC (5th Cir. Case No. \_\_\_\_\_, filed July \_\_, 1975).

The first case to present these issues to the Commission was El Paso Natural Gas Company v. Perry R. Bass,

et al., 48 FPC 1269, Opinion No. 638 (1972). In that case Bass had leased out certain acreage to Shell Oil Company retaining a 1/8th overriding royalty convertible to a 50% working interest on payout. The agreement expressly provided that during any period that both parties had working interests either party could take its gas in kind and that nothing contained in the agreements could be construed as giving Shell the right to sell or otherwise dispose of Bass' share of the gas without express authorization to do so. Shell entered into agreements to sell gas from the properties to El Paso. During the period prior to payout all of the gas from the lease was, in fact, sold to El Paso pursuant to certificates of public convenience and necessity issued by the Commission. On discovering that payout had occurred, Bass exercised its right to convert its overriding royalty to a working interest, and entered into agreements for the sale of its gas to Natural Gas Pipeline Company of America. El Paso filed a complaint and sought a Declaratory Order requiring Bass to obtain Section 7(b) abandonment authorization before diverting any gas to Natural. The Commission concluded that El Paso's right to purchase gas from the lease could rise no higher than Shell's right to sell. Since the lease agreements precluded Shell from selling gas attributable to Bass' working interest without permission and Shell had only purported to sell "gas from its properties" the Commission

concluded that neither party could be heard to say that the contract between Shell and El Paso impaired the pre-existing rights of Bass to take and dispose of its gas.

In Bass, the Commission seemed to recognize that sales of gas by a producer under the Natural Gas Act would not destroy pre-existing rights of other parties to the gas. With respect to rights to gas acquired after a producer has commenced jurisdictional sales, the Commission in a series of cases has made clear that those rights may be subject to and restricted by the abandonment provisions of the Natural Gas Act. See, for example, Blair-Vreeland, \_\_\_\_\_ FPC \_\_\_\_\_, Opinion No. 724 (March 18, 1975) reh. denied, Opinion No. 724-A (May 14, 1975); Mitchell Energy Corporation, \_\_\_\_\_ FPC \_\_\_\_\_, Opinion No. 733 (June 11, 1975); United Gas Pipe Line Co. v. Billy J. McCombs, et al., \_\_\_\_\_ FPC \_\_\_\_\_, Opinion No. 740 (August 20, 1975) reh. denied, Opinion No. 740-A (November 7, 1975). In each of those cases, the new interest owner acquired his rights from a producer which had previously made jurisdictional sales from the properties. Since, in each case, the rights were acquired after the property had become dedicated to interstate commerce, the conclusion that the property remained dedicated in the hands of the new owners is not necessarily inconsistent with the holding in Bass.

There is one recent case, however, which is clearly inconsistent with Bass; See El Paso Natural Gas Co., et al.,

\_\_\_\_ FPC \_\_\_\_\_, Opinion No. 737 (July 11, 1975) reh. denied, Opinion No. 737-A (September 3, 1975), on appeal sub nom, Southland Royalties Co. vs. FPC, 5th Cir. Case No. \_\_\_\_\_ filed July \_\_, 1975, referred to here as the "Southland" case. Southland involved the question of the rights of certain mineral interest owners to dispose of gas after termination of leases. In 1925, Gulf Oil Corporation had acquired a fifty-year lease to the properties. Gulf developed oil and gas reserves on the property and sold gas produced from the properties to El Paso in transactions subject to FPC jurisdiction. On July 14, 1975 Gulf's lease expired. The question of the right of the mineral interest owners to possession of the properties was adjudicated in State court proceedings. Gulf Oil Corp. v. Southland Royalty Co., 496 S.W.2d 547 (1973). The mineral interest owners who, on expiration of the lease, were entitled to possession of the property and all gas produced therefrom, agreed to sell that gas to an intrastate pipeline company.

In response to petitions for declaratory order filed by El Paso and Texaco, Inc., the Commission concluded that all gas produced from the properties remained dedicated to interstate commerce notwithstanding the termination of the leases. The Commission held that the leasees, owners, and the operators of the plant in which the gas was processed, all must obtain abandonment authorization prior to disposing of the gas to other purchasers. The Commission stated

"Because of the termination of the fifty-year leases the leaseholders, Gulf et al., lose their leases and their rights pass to Southland, et al. in one case and to Goldsmith, et al. and Texaco in the other case. Of course we have determined that gas may not be withdrawn from interstate commerce by the assignment of leases from one lessee to another." Cumberland Natural Gas Company, 34 FPC 132 (1965); Blair-Vreeland, FPC \_\_\_\_\_, Opinion No. 724, Docket No. CI 74-331, March 18, 1975. But we do not rest our conclusion on these cases, but on the principle established by Section 7(b) that 'service' may not be abandoned without our permission. Thus it makes no difference whether a lease is transferred or terminates, the obligation of service imposed upon the dedicated gas continues. As said in Hunt v. FPC, 306 F.2d 334, 342 (C.A.5, 1962), rev'd on other grounds, 376 U.S. 515 (1964), the duty to continue to serve is like an ancient covenant running with the land." Opinion 737 mimeo at 6.

On rehearing, the Commission stated that

"Here, however, we are solely concerned with the service commenced by Gulf to El Paso in interstate commerce. Under Section 7(b) of the Natural Gas Act this service may not be abandoned without the permission of the Commission. Nor, as we said in Opinion No. 737, can this service be discontinued by transfer to a successor interest. For the practical purposes of the Act it makes no difference whether the successors happen to be assignees, purchasers or reversionary interests. While the contractual right to control and sell the reserves herein involved has passed from Gulf to the various mineral interests, this does not mean that under the Natural Gas Act the gas flowing in interstate commerce may be diverted to the intrastate market. As said in Huber Corp. v. FPC, 236 F.2d 550, 558 (C.A. 3, 1956), Congressional power to regulate interstate commerce in natural gas includes authority to regulate abandonment of sales." Opinion 737-A mimeo at 2.

In its initial opinion in Southland, the Commission distinguished the Bass case describing the latter as involving a situation in which only a part of the interest (i.e., Shell's

interest) in the property was dedicated to interstate commerce. By contrast, it concluded that Gulf had dedicated all of the reserves from the properties. On rehearing, the Commission again attempted to distinguish Bass, emphasizing that in Bass, the sale agreement "pointedly made it clear that Shell was only selling gas from its interests in the properties involved". Opinion 737-A mimeo at \_\_\_\_\_. However, to the extent that Bass might not be distinguishable, the Commission stated:

"To the extent, however, that Bass can be said to stand for the proposition that the service initiated by the leaseholder based upon certain gas reserves covered by the lease can be terminated without Commission approval, it is overruled. It should be noted that Bass did not involve the shift of gas reserves from interstate to intrastate commerce and did involve the public interest in the encouragement of farmouts, and these circumstances, in part, explain the result in Bass." Opinion 737-A mimeo at 3.

In responding to arguments that the Commission's holding unconstitutionally deprived the mineral interest owners of property without due process of law, the Commission responded that since the leases contemplated that the lessors would develop and sell oil and gas produced from the properties, the lessees were bound by the legal consequences of such sales.

". . . the essence of the argument appears to be that we are in error in holding that the leaseholders, Gulf, et al., had power to encumber the property with the result that the mineral leaseholders are forced to enter into an interstate sale against their will. We assume that in 1925, when the leases were made the lease owners did not contemplate that the Natural Gas Act would

be enacted with a provision that service might not be abandoned without approval of the Commission. They clearly did contemplate that the leaseholders would drill for oil and gas and sell oil and gas to outside parties, and there was no reason that these sales could not be in interstate commerce, and may have had a duty to do so under the facts in law at that time. After the Natural Gas Act was enacted in 1938 and the Phillips case was decided in 1954 the interstate sales of gas became subject to FPC jurisdiction. The leaseholders who had a duty to exploit the wells were the appropriate parties to seek FPC certification. Upon the commencement of interstate sales under FPC certification, the sales became imbued with the public interest. The law of Texas preserved for the leaseowners their property interests, and we do not change this, but Section 7(b) of the Act will not permit the abandonment of interstate sales without our authority once such sales have commenced. The mineral lease owners who entered into a lease that permitted the leaseholders to make interstate sales are not deprived of this property by being required to permit such sales to continue, and they will be compensated under the just and reasonable rates promulgated under the Natural Gas Act." Opinion 747 mimeo at 4.

In view of the Commission letter order in Superior Oil, supra and its decision in Southland, it seems most probable that the FPC will assert that abandonment authorization must be obtained if the State of Alaska allows lessees of state property to commence sales of gas in interstate commerce and thereafter seeks to take a portion of the gas in kind. It is conceivable that the agreements between the producer and the purchaser could be structured to bring the transaction within the rationale of the Bass decision, but in view of the Commission's recent arguments and holding in Southland, it seems likely that Bass has been

overruled and that the Commission will require the producer to obtain abandonment authorization notwithstanding such agreements.

7. While the issue is not free of doubt, the State probably may sell for resale or transport natural gas in interstate commerce without F.P.C. authorization. The operating sections of the Natural Gas Act by their terms apply to the regulation of transactions involving natural gas companies. For example, ~~Section 7(c) of the Natural Gas Act~~ which requires certification of any transportation or sale provides as follows:

"(c) No natural-gas company or person which will be a natural-gas company upon completion of any proposed construction or extension shall engage in the transportation or sale of natural gas, subject to the jurisdiction of the Commission, or undertake the construction or extension of any facilities therefor, or acquire or operate any such facilities or extensions thereof, unless there is in force with respect to such natural-gas company a certificate of public convenience and necessity issued by the Commission authorizing such acts or operations: . . . 15 U.S.C. §717f(c). (emphasis added)

Similarly, Section 7(b) of the Act provides that

"no natural-gas company shall abandon all or any portion of its facilities subject to the jurisdiction of the Commission, or any service rendered by means of such facilities, without the permission and approval of the Commission first had and obtained. . . ." 15 U.S.C. §717f(b).

Similarly, Sections 4 and 5 of the Act which provide for regulation of rates charged for jurisdictional sales and

services, are by their terms applicable to rates and charges of "natural-gas companies".

The term "natural-gas companies" is defined in Section 2 of the Natural Gas Act to mean a "person engaged in the transportation of natural gas in interstate commerce or the sale in interstate commerce of such gas for resale". 15 U.S.C. §717a(6). The term "person" is defined to include "an individual or a corporation". The term individual is not defined in the Act, however, "corporation" is defined as including "any corporation, joint stock company, partnership, association, business trust, organized group of persons, whether incorporated or not, receiver or receivers, trustee or trustees of any of the foregoing, but shall not include municipalities as hereinafter defined". 15 U.S.C. §616a(2) Municipality is then defined to mean "a city, county, or other political subdivision or agency of a State". 15 U.S.C. §717a(3)

This series of definitions leads to the conclusion that the sale of gas by a state agency (if not by the State itself) is not subject to the jurisdiction of the Federal Power Commission. In the only reported case of which we are aware, the Commission after reviewing the above-quoted series of definitions stated

"[f]rom this it is clear that municipalities cannot be 'natural-gas companies' as that term is used by the Act. We are not, therefore, vested with jurisdiction to regulate municipalities, even though they are engaged in the

sale of natural gas to interstate pipeline companies." Panhandle Eastern Pipe Line Company v. City of Rolla, Kansas, 26 FPC 736 (1961).

In that case, the issue involved was the rate which should be paid by Panhandle to Rolla for gas produced from natural gas units in which the townsite of Rolla was included.

Panhandle was the operator of the unit and under the unitization agreement was obligated to pay Rolla a "proportionate share of the runs from said well at the minimum price established by order of the Kansas Corporation for natural gas in the Hugoton Field of Kansas" 26 FPC at 737 (emphasis in original).

The language of the Act and the Commission's holding in Panhandle suggests that one alternative under which the State could allow interstate sales to commence without precluding later diversion of the gas to intrastate markets if circumstances then demanded would be for the State to exercise its right to take gas in kind, ab initio. Even if the State sold the gas initially to an interstate pipeline company, under the language above-discussed, the sale would appear to be nonjurisdictional and abandonment authorization would not be a precondition to later diversion of the gas to an intrastate market. The agreements between the state and the interstate pipeline company would, of course, have to permit such diversion. It must be remembered, however, that the pipeline would still require FPC certificates for

necessary facilities, and FPC certificate authority to perform interstate transportation services. Thus the Commission would be in a position of exercising indirect control of State transactions cf. FPC v. Transcontinental Gas Pipeline Corp., 365 U.S. 1 (1961).

Despite the apparent clarity of the definitions, and the holding in Panhandle, there is no assurance that the Commission would not assert jurisdiction over the transactions particularly if it viewed such jurisdiction as necessary to prevent diversion of gas from the interstate to the intrastate market. In one case, the Courts have concluded that a state agency is a "person" within the meaning of at least one section of the Natural Gas Act. Federal Power Commission v. Corporation Commission of the State of Oklahoma, 362 F.Supp. 522 (W.D. Oklahoma, 1973) aff'd 415 U.S. 961 (1974). That case involved the validity of a minimum price order issued by the Oklahoma Corporation Commission relating to the wellhead price of natural gas. The Federal Power Commission contended that the orders impinged upon the FPC's jurisdiction, and were an unconstitutional burden on interstate commerce and used to enjoin enforcement of the order. Under Section 20 of the Natural Gas Act the Commission is authorized to bring suit

"whenever it shall appear to the Commission that any person is engaged or about to engage in any acts or practices which constitute or will constitute a violation of the provisions

of this Act, or of any rule, regulations, or order thereunder. . . to enjoin such acts or practices and to enforce compliance with this Act or any rule, regulation, or order thereunder. . . " 15 U.S.C. §717s(a).

The Oklahoma Commission argued, among other things, that as an agency of the state it is immune from suit under Section 20. The Court concluded that the Oklahoma Commission's orders were unconstitutional, and that the Oklahoma Commission was not immune from suit. To accomplish this result, the Court emphasized the difference between the use of the words "means" and "includes" in defining terms under the Natural Gas Act. It viewed the word "means" as a verb of limitation and the terms "includes" as a verb of enlargement. Since the term "person" is defined as including an individual or a corporation, it reasoned that the term is not limited to individuals and corporations. Thus it argued that

"an 'agency of the state' is excluded from the definition of 'corporation' but is not excluded from the word 'person' . . . Whether the defendant Oklahoma Corporation Commission is a non-individual 'person' against which the Plaintiff may proceed, is to be determined by the 'legislative environment'." 362 F.Supp. 544.

The Court then reviewed two cases, one involving taxes on "persons" selling intoxicating liquors, the other involving the meaning of a "person" entitled to sue under Section 7 of the Sherman Act. The Court made no attempt to discuss the legislative history of the Natural Gas Act.

The District Court's opinion in the Oklahoma Corporation Commission case was affirmed on appeal to the Supreme Court without opinion. However, Mr. Justice Rehnquist, joined by Justices Stewart and Powell, dissented solely on the grounds that the Oklahoma Commission was not a "person" which could be sued under Section 20 of the Natural Gas Act.

"I do think the convoluted statutory construction of the District Court withstands analysis. The Federal Power Commission is given statutory authority to sue any 'person,' defined in the Act to include an 'individual' or a 'corporation'. While use of the word 'include' would in some circumstances permit suits against 'persons' who could not fairly be classified as either 'individuals' or 'corporations', the term hardly can be said to cover an agency with corporate characteristics which is nevertheless specifically excluded from the definition of 'corporation'". 415 U.S. at 967.

In a footnote, Justice Rehnquist noted that an examination of the use of the term "person" in other sections of the Act clearly indicates that regulatory agencies were not intended to fall within that definition. Among the sections he noted as examples in which "person" clearly could not be defined to include a state regulatory agency was the definition of "natural gas company".

"Furthermore, in the same section, 'natural gas company' is defined to mean a 'person engaged in the transportation of natural gas in interstate commerce of such gas for resale.' (emphasis added) Obviously, inclusion of a state regulatory body within the definition of 'person' in that section would be meaningless." 415 U.S. at 967.

Justice Rehnquist also noted that under Section 19 of the Act any "person, State, municipality, or State commission" aggrieved by the Commission order may apply for a rehearing. He reasoned that if States, State commissions, or municipalities were included within the term "person" the specific inclusion of those terms in Section 19 would be superfluous.

8. Again, while the issue is not free of doubt, it is arguable that the State may, in its capacity as the owner of natural gas, retain State-owned gas for instate use through appropriate leasing provisions. As previously noted, the general rule is that a State may not restrict or interfere with the sale of gas in interstate commerce. Pennsylvania v. West Virginia, 262 U.S. 553 (1923); Oklahoma v. Kansas Natural Gas Company, 221 U.S. 229 (1911); and Northern Natural Gas Company v. State Corporation Commission of Kansas, 372 U.S. 84 (1963).

The Federal courts have invalidated: (1) state attempts to regulate the price of gas sold in interstate commerce, whether directly, FPC v. The Corporation Commission of Oklahoma, 362 F.Supp. 522 (W.D. Okla.), aff'd 415 U.S. 961 (1974), Cities Service Gas Company v. State Corporation Commission, 355 U.S. 391 (1958), Natural Gas Pipeline of America v. Panna Corp., 340 U.S. 44 (1955); or indirectly Northern Natural Gas Co. v. State Corporation Commission of Kansas, 372 U.S. 84 (1963); (2) attempts to require an interstate pipeline company to make sales or connections

for sales within a state where no FPC certification has been granted, Illinois Natural Gas Co. v. Central Illinois Public Service Co., et al., 314 U.S. 498 (1942); (3) attempts to require state approval for the transfer of facilities by companies subject to the jurisdiction of the Federal Power Commission, Cabot Corp., et al. v. Public Service Commission of West Virginia, 332 F.Supp. 370 (S.D. West Virginia 1971); (4) efforts by municipalities to preclude construction of interstate pipeline facilities through the use of zoning ordinances, Transco Gas Pipeline Corp. v. Borough of Milltown, 93 F.Supp. 287 (D.N.J. 1950); New York State Natural Gas Corp. v. Town of Elma, 182 F.Supp. 1 (W.D.N.Y. 1960) and (5) orders requiring interstate pipeline companies to take ratably from all wells connected to its systems in a field, Northern Natural Gas Co. v. State Corporation Commission of Kansas, 372 U.S. 84 (1963).

While the above-cited cases would most certainly prohibit any attempt by the State of Alaska to directly or indirectly restrict interstate access to natural gas produced within the State, it is not clear that Alaska cannot restrict such access with respect to state royalty gas and, perhaps, other gas produced from state leases. The most recent session of the Texas Legislature passed a statute designed to achieve the latter result. V.A.T.S. Article 5382F. The statute made it unlawful for certain state agencies and

officers empowered to execute oil, gas and mineral leases on the various categories of state lands, to execute any such leases which did not contain provisions that none of the natural gas or casinghead gas produced from the mineral estate could be sold or contracted for sale for ultimate use outside the State of Texas unless and until the Texas Railroad Commission found that such gas was not needed for certain designated purposes within the State. Although the statute clearly affects and restricts interstate access to natural gas produced in Texas, it is not clear that the restriction is constitutionally invalid. As discussed below, the nature of state activity in executing oil, gas and mineral leases is proprietary, not governmental. In Foster-Fountain Packing Co. v. Haydel, 278 U.S. 1 (1928) the Court held unconstitutional a Louisiana statute which would have prohibited interstate shipment of shrimp from which the head and hulls had <sup>not</sup> been removed but would have allowed such shipment after the shrimp had been hulled and de-headed. The purpose of the Act was to cause a shift in the shrimp processing industry from Mississippi to Louisiana. The Court had no trouble concluding that the statute violated the commerce clause of the Constitution.

". . . Interstate commerce includes more than transportation; it embraces all of the component parts of commercial intercourse among States. And a state statute that operates directly to burden any of its essential elements is invalid. Dahnke-Walker Company v. Bondurant, 257 U.S. 282, 290. Shefer v. Farmers Grain Co., supra, 199. A State

is without power to prevent privately owned articles of trade from being shipped and sold in interstate commerce on the ground that they are required to satisfy local demands or because they are needed by the people of the state. Penna. v. West Virginia, 262 U.S. 553, 596. Oklahoma v. Kansas Nat. Gas Co., 221 U.S. 229, 255." 278 U.S. at 10-11.

The Court indicated, however, that on the basis of cases such as Geer v. Connecticut, 161 U.S. 519 which holds that a state owns and has a right to control all of the game and fish within its boundaries, Louisiana could have retained all of the shrimp for consumption and use within the state.

". . .As the representative of its people, the State might have retained the shrimp for consumption and use therein. But, in direct opposition to conservation for intrastate use, this act permits all parts of the shrimp to be shipped and sold outside of the state." 278 U.S. at 13.

In a separate concurring opinion Mr. Justice Reynolds stated "

"Manifestly, Louisiana has full power absolutely to forbid interstate shipments of shrimp taken within her territory. These crustaceans belong to her and she may appropriate them for the exclusive use and benefit of citizens. If the state should conclude that the best interests of her people require all shrimp to be canned or manufactured therein before becoming part of interstate commerce, nothing in the Federal Constitution would prevent appropriate action to that end. This would not interfere with any right guaranteed to an outsider. How wildlife may be utilized in order to advantage her own citizens is for the producing State to determine." 278 U.S. at 15.

In an earlier case, the Court had concluded that the state of New Jersey could constitutionally prohibit the transportation of water outside the State. Hudson Water Co. v. McCrdor, 209 U.S. 340 (1908). The stated purpose of the Act was to

preserve New Jersey's fresh water for the benefit of New Jersey citizens. The Court upheld the statute on the theory that the state, on behalf of its people, owned rights to all of the water in question and could prohibit its interstate transportation.

While these cases certainly do not suggest that States may regulate interstate access to natural gas in general, they may suggest that the more limited control of access to those minerals which are actually owned by the State may be a permissible form of state action. An argument can be made that a State, as owner of the minerals, has as much right to develop and dispose of those minerals, whether in intrastate or interstate commerce as does an individual. That a state may choose to develop its resources by leasing them to others, need not necessarily destroy its right to dictate their disposal, particularly, where the state has retained such a right in the leases themselves.

The Courts have consistently held that governmental bodies in dealing with their lands have essentially the same latitude as similarly situated individuals. For example in United States v. General Petroleum Corporation, 73 F.Supp. 225 (S.D.Cal., 1946) a case involving the right of the Secretary of Interior to establish the minimum value for royalty gas (the lease so permitted in certain circumstances), the Court stated:

"In resolving the foregoing issue it must be remembered that the government's role is taken to be no different from that of any private lessor

or proprietor, for while the Kettleman Hills lands involved are public mineral lands, and as such until their disposition are under supervision and control of Congress, the government as to such lands acts in a proprietary capacity, and treats with them in the same way as does a private landowner. Regardless of the type of lease Congress might authorize, a lease executed in accordance with what it has authorized becomes a private contractual matter and is to be interpreted according to the general rules of law respecting contracts between individuals. And regardless of what Congress has authorized, unless the authorized provision is mandatory, it may not be 'read in' if the Secretary omitted to include it." 73 F.Supp. at 234 (footnote omitted).

In determining the validity of the Texas Relinquishment Act of 1925, V.A.T.S. Art. 5367 et seq., the Supreme Court of Texas noted that

"A sale or lease by the state is subject to the same rules of law that are applied to ordinary business or commercial leases."  
Greene v. Robison, 8 S.W.2d 655, 662 (Tex. S.Ct. 1928)

The reported cases where State "embargo" actions were held invalid all dealt with situations in which the State was attempting to regulate the manner in which its citizens or citizens of other States may carry on transactions in interstate commerce. Insofar as the recent Texas statute (V.A.T.S. Article 538v) purports to restrict only the disposition of gas from State-owned lands, and to do so only in the context of newly-executed lease agreements, it may be distinguishable. While it cannot be said with assurance that the Act is valid, there is at least a chance that it would be upheld.

9. The State may, for valid conservation reasons,  
protect oil and gas deposits from physical waste by pre-  
scribing reasonable regulations governing production. The  
State of Alaska may have primary interest in conservation  
legislation with respect to regulations which would require  
the reinjection of all or a portion of, natural gas in order  
to maintain proper reservoir pressure. This issue will be  
of principal importance if it develops that the failure to  
reinject a sufficient portion of gas to maintain reservoir  
pressure will cause a loss of gas drive in the reservoir and  
a resulting loss of oil reserves otherwise recoverable.

Under the traditional principles of law discussed  
earlier, it would appear that the State of Alaska can, by  
regulation, require the recycle of gas in order to prevent  
waste. In this regard, the very early proration statutes  
and/or regulatory orders had as their basic purpose the  
prevention of waste due to loss of reservoir pressure, as  
may be seen from the description in Champlin Refining Co.  
v. Corporation Commission of Oklahoma, supra:

"Crude oil and natural gas occur together or  
in close proximity to each other, and the gas in a  
pool moves the contents toward the point of least  
resistance. When wells are drilled into a pool  
the oil and gas move from place to place. If some  
of the wells are permitted to produce a greater  
proportion of their capacity than others, drainage  
occurs from the less active to the more active.  
There is a heavy gas pressure in the Oklahoma City  
field. Where proportional taking from the wells  
in flush pools is not enforced, operators who do

not have physical or market outlets are forced to produce to capacity in order to prevent drainage to others having adequate outlets. In Oklahoma prior to the passage of the Act, large quantities of oil produced in excess of transportation facilities or demand therefor were stored in surface tanks, and by reason of seepage, rain, fire and evaporation enormous waste occurred. Uncontrolled flow of flush or semi-flush wells for any considerable period exhausts an excessive amount of pressure, wastefully uses the gas and greatly lessens ultimate recovery. Appropriate utilization of gas energy is especially important in the Oklahoma City field where, because of the great depth of the wells, the cost of artificially recovering the oil would be very high." Id., p. 228.

Also see, Bandini Petroleum Co. v. Superior Court, 284 U.S.

8 (1931); Brown v. Humble Oil & Refining Co., 126 Tex. 296,

83 S.W.2d 935, motion for reh. overr'd, 126 Tex. 314, 87

S.W.2d 1069 (1935); Henderson Co. v. Thompson, supra;

Ohio Oil Co. v. Indiana, 177 U.S. 190 (1900); Commonwealth v.

Trent, 117 Ky. 34, 77 S.W. 390 (1903); Shannon v. Shaffer

Oil & Refining Co., 51 F.2d 878 (10th Cir. 1931).

The subject of gas recycle is generally regarded as indistinguishable from other secondary recovery operations such as waterflooding. See e.g., Williams & Meyers, supra § 204.5; Methvin, Secondary Recovery Operations: Rights of the Non-Joiner, 42 Tex. L.Rev. 364 (1963-64).

Williams & Meyers note that fluid injection is generally regulated by the states and may not be undertaken without approval of the appropriate state regulatory agency, and quote as an illustration Rule 701 of the North Dakota Industrial Commission:

"Permit for Injection of Gas, Air or Water

"Where correlative rights of all operators are protected and waste will not occur:

"(a) The injection of gas or air or water into any reservoir for the purpose of maintaining reservoir pressure, for secondary recovery operations or for water disposal, shall be permitted only by order of the Commission after notice and hearing. Orders approving the application will not be made within 15 days of the filing of the application unless the written consent of all persons entitled to notice is filed with the Commission within such time. . . ." Id., pp. 58-59.

An order by the North Dakota Commission permitting water injection despite the objection of certain owners in the unit was sustained by the Supreme Court of North Dakota, where the Court held that the parties who refuse to join into a voluntary unitization and pressure maintenance program should not be allowed to frustrate legitimate conservation efforts. Syverson v. North Dakota State Industrial Commission, 111 N.W.2d 128 (N.D. Sup. Ct. 1961); accord, Arnstad v. North Dakota State Industrial Commission, 122 N.W.2d 857 (N.D. Sup. Ct. 1963). The Syverson case was among the cases quoted with approval by the Supreme Court of Texas in affirming orders of the Railroad Commission of Texas which likewise approved a

permit for waterflooding over the objection of a lease owner who objected to the order. Railroad Commission v. Manziel, 361 S.W.2d 560, 570 (Tex.Sup.Ct. 1962):

"These authorities, in principle, support our view that it was the purpose of the Legislature in adopting our conservation laws that in any oil or gas field the Commission should have power, even the duty, to prevent undue drainage of oil across lease lines. The Commission has two primary duties in the administration and control of our oil and gas industry. It must look to each field as a whole to determine what is necessary to prevent waste while at the same time countering this consideration with a view toward allowing each operator to recover his fair share of the oil in place beneath his land. In carrying out these duties, there has devolved upon the Commission the power to promulgate rules, orders and regulations that control the industry, and such are issued pursuant to the police power of the state, and that power may invade the right of the owner of the land to the oil in place under his land as long as it is based on some justifying occasion, and is not exercised in an unreasonable or arbitrary manner. See: Brown v. Humble Oil and Refining Co., 126 Tex. 269, 83 S.W.2d 935, 87 S.W.2d 1069, 99 A.L.R. 1107, 101 A.L.R. 1393 (1935).

"The rules of ownership are of prime importance, but in this consideration the rights of one do not exceed the rights of another. As to oil and gas, the surface proprietors within the field have the coequal right to take from the common source of supply. It follows from the nature of oil and gas that the use by one of his power to seek to convert a part of the common reservoir to actual possession may result in an undue portion being attributed to one of the possessors of the right to the detriment of the other. Hence, it is within the Commission's power to protect the vested rights of all the collective owners, by securing a just distribution, and to reach the like end by preventing waste.

"There is no dispute as to the necessity of injecting larger amounts of water into the reservoir to prevent waste in the field, . . . ." Id., pp. 571-572.

The Railroad Commission's orders in Manziel were issued pursuant to its powers under Articles 6029 and 6008b Tex.Civ.Stat. The former provides the Commission the power to make and enforce rules to prevent waste, and the latter specifically authorizes the Commission to approve voluntary unitization and secondary recovery operations:

"Article 6029: The Commission shall make and enforce rules, regulations or orders for the conservation of crude petroleum oil and natural gas and to prevent the waste thereof, including rules, regulations or orders for the following purposes: . . . ."

"Article 6008b, § 1: Subject to approval of the Railroad Commission of Texas \* \* \* persons owning or controlling production, leases, royalties, or other interests in separate properties in the same oil field, gas field, or oil and gas field, may voluntarily enter into and perform agreements for the following purposes:

"(A) To establish pooled units necessary to effect secondary recovery operations for oil or gas, including those known as cycling, recycling, repressuring, water flooding, and pressure maintenance and to establish and operate cooperative facilities necessary for said secondary operations; . . . "

As stated above, gas recycle is generally indistinguishable in theory from other secondary recovery operations, and the Manziel case appears to be one of the few cases to address the question of whether the state may order the undertaking of secondary recovery in order to prevent waste.

961 (1945) is worthy of mention. The facts of the case are summarized by the Supreme Court of Texas as follows:

"The Bammel Field was classed primarily as a gas field, and covered about 3200 acres. The Bammel Field was practically all under lease to Harrell in 1939, when he applied to the Railroad Commission for a permit to install a recycling plant. Under authority from that body, the operations were begun by drilling production wells around the periphery of the field and two injection wells in the center. The gas was taken from the production wells through the recycling plant, where the liquid hydrocarbons were extracted; then the dry gas was pumped back into the producing sand through the injection wells. The recycling plant had a capacity of thirty-five million cubic feet of gas per day, but because of an unavoidable loss of two million cubic feet per day, only thirty-three million cubic feet were reinjected into the reservoir. This continuous process had the effect of pushing the wet gas from the center of the field toward the

edges where it could be produced and processed, the purpose being to extract practically all of the valuable liquids from the gas and leave only dry gas in the reservoir, with the only drop in pressure being that entailed by the daily loss of two million cubic feet of the gas. Harrell intended to forego producing the dry gas for light and fuel purposes until the recycling process had progressed to a point where it would no longer be economically feasible. In fact, the reinjected dry gas fingered out unevenly into the wet gas area, and a certain amount of blending of the wet and dry gas took place.

"In October of 1941 leases belonging to Harrell on approximately four per cent of the field lapsed, and Corzelius acquired control of this acreage. He drilled one well thereon and began production in January of 1942, supplying gas to two distributing corporations owned by him, through a pipe line from the well to Houston. This was the first time that any permanent withdrawals had been made from the field to supply a light and fuel market, and to the time of trial it was the only outlet to a market. The average daily market demand amounted to four or five million cubic feet. By a relatively simple process, Corzelius extracted a portion of the liquids from the gas he produced before delivering it to the pipe line. This process did not recover as great a percentage of the liquids as did the recycling process.

"Harrell applied to the Railroad Commission for an order prohibiting permanent withdrawals from the field until the conclusion of the recycling process; and in the alternative he asked that withdrawals be prorated. Upon a hearing the Commission found that production up to twenty million cubic feet daily would entail no appreciable waste. Therefore withdrawals up to that amount were authorized. This order was extended from time to time. After several futile attempts to obtain mandatory relief from the Supreme Court (see Harrell v. Thompson, 140 Tex. 1, 165 S.W.2d 81), Harrell filed this suit in the form of an appeal from the above-mentioned order and the various extensions thereof." Id., p. 970.

On appeal the Court of Civil Appeals enjoined Corzelius from further production. Following that decision the Commission

effectively mooted the issue by vacating its earlier order and issuing a new order regarding production of gas in Bammel Field. Thus, the order complained of was no longer effective and no one appealed from the subsequent order, which included, inter alia, the following requirement:

"(4) That all gas produced from the Bammel Field shall be processed for its liquid hydrocarbons and condensates therein efficiently extracted and the residue gas either returned to said sand from which it was produced or utilized for light and fuel and other lawful uses as provided by Article 6008, Revised Civil Statutes of Texas, as amended. Provided, however, that not more than 20,000,000, cubic feet per day of the allowed production from the same Bammel Field shall be utilized for light and fuel and other lawful purposes." Id., p. 971.

Despite the fact that the case was moot, the Supreme Court ruled that the Court of Appeals had erred, reversed the Court of Civil Appeals' decision, and dismissed the case, so as not to leave any doubt as to whether the Commission could regulate production in Bammel Field.

In sum, there are a number of cases which extend the states' power to enact conservation laws and regulations to secondary recovery operations, including gas recycle. These cases are premised on the well established principle that a state may exercise its police powers to prevent the physical waste of oil and gas. It is therefore arguable that the State of Alaska can require the reinjection of all gas so long as it can be shown that such action is necessary to prevent waste of oil in the reservoir. This is clearly the implication of Henderson Co. v. Thompson, 300 U.S. 258

The leading case is Wells v. Midland Carbon Company, 254 U.S. 300 (1920). Wyoming had enacted a statute which provided that:

"The use, consumption or burning of natural gas taken or drawn from any natural gas well or wells, or borings from which natural gas is produced for the products where such natural gas is burned, consumed or otherwise wasted without the heat therein contained being fully and actually applied and utilized for other manufacturing purposes or domestic purposes is hereby declared to be a wasteful and extravagant use of natural gas and shall be unlawful when such gas well or source of supply is located within ten miles of any incorporated town or industrial plant." Wells at 309.

In addition, Section 2 of the statute prohibited "the use, sale or other distribution of natural gas, the product of any well owned, leased or managed by any person, for the purpose of manufacturing or producing carbon or other resultant products from the burning or consumption of such gas, without the heat therein being fully and actually utilized for other manufacturing purposes or domestic purposes". Wells at 310.

The statute was attacked on the grounds that (i) the statute transcended the police power of the State of Wyoming, in that its purpose and effect was not to regulate and conserve natural gas but to prohibit the use thereof; (ii) the statute made a discrimination between owners having equal rights, and thereby violated Article I, §10 of the United States Constitution and the Fourteenth Amendment thereof; (iii) the law deprived the companies of their property by the ruin of their business, and (iv) the statute imposed the obligation of pre-existing contracts.

(1937), wherein the Supreme Court of the United States upheld a Texas statute prohibiting the use of sweet gas in the production of carbon black. Although the State did not prohibit production from the wells in question, the effect was the same because there was no other market for the sweet gas at that time.

10. It is probable that the State may be able to require that a producer of natural gas extract liquid hydrocarbons from the gas before the gas enters an interstate pipeline.

No cases have dealt with the precise issue here under consideration, and accordingly an unconditional opinion cannot be given. There is, however, an abundance of authority recognizing that a State may validly regulate production of oil and gas by virtue of the police power inherently possessed by the State. Summers, The Law of Oil and Gas, § 106 (1927). These authorities are set out above in the discussion of the general power of a State to control production of oil and gas.

The cases dealing with questions most closely related to the one at hand were decided by the United States Supreme Court in 1920 and 1937. Those cases dealt with the authority of a State to regulate and/or prohibit the use of natural gas for the manufacture of carbon black.

The leading case is Walls v. Midland Carbon Company, 254 U.S. 300 (1920). Wyoming had enacted a statute which provided that:

"The use, consumption or burning of natural gas taken or drawn from any natural gas well or wells, or borings from which natural gas is produced for the products where such natural gas is burned, consumed or otherwise wasted without the heat therein contained being fully and actually applied and utilized for other manufacturing purposes or domestic purposes is hereby declared to be a wasteful and extravagant use of natural gas and shall be unlawful when such gas well or source of supply is located within ten miles of any incorporated town or industrial plant." Walls at 309.

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The United States Supreme Court held that while the prohibition contained in the statute is upon the use or consumption of the natural gas, and not the production thereof, the statute was constitutional. Unfortunately, the Supreme Court's opinion is dedicated to a detailed analysis of the facts, and the opinion cites little authority and few principles of law in reaching its decision.

The Court stated that while it was clear that carbon black has many uses and great utility, this fact is of incidental importance.

"The determining consideration is the power of the State over, and its regulation of a property in which others besides the companies may have rights in and which the State has an interest to adjust and preserve, natural gas being one of the resources of the State. And in this consideration it is more important to consider not for what a particular owner uses the gas, but the proportion of his use to that of others, or it may be, the prevention of the use by others. . . ." Walls at 319.

The Court also said that Wyoming was not "required by the Constitution of the United States to stand idly by while these resources were disproportionately used, or used in such a way that tended to their depletion, having no power of interference." Walls at 324.

The decision in Walls was re-affirmed in Henderson Company v. Thompson, 300 U.S. 258 (1937). Again, the Supreme Court's opinion cited little authority, its decision resting upon a finding that the facts demonstrated that the legislature had acted reasonably.

In Henderson, the plaintiff attacked the validity of orders entered by the Railroad Commission of the State of Texas pursuant to a statute prohibiting the use of "sweet gas" for the manufacture of carbon black. Sweet gas was defined by ~~the statute as any~~ natural gas containing more than one and one-half grains of hydrogen sulfide per 100 cubic feet, or more than 30 grains of total sulphur per 100 cubic feet of gas, or "gas which in its natural state is found by the Commission to be unfit for use in generating light or fuel for domestic purposes." Henderson at 260, n.1. Once again a claim was made that the statute violated the equal protection clause of the Fourteenth Amendment, as well as that the statute violated the due process and contract clauses of the United States Constitution. . . . claims

The Supreme Court cited Walls for the proposition that "the needs of conservation are to be determined by the Legislature." Henderson at 264. While the plaintiff conceded this, it urged that in the absence of waste, the legislature of the State of Texas lacked the power to regulate production, since in that State the law gives the owner of land title to the gas in place and to that which may migrate to formations under his land. The Court rejected this argument, stating:

"One principal established by the Walls case is that the Legislature may, for the purpose of conserving natural resources, regulate their production and use. The findings of the district court in this case

support the reasonableness of the present statute on that basis. It is also urged that there is this vital difference in the facts: that in the Panhandle field [Texas] the challenged prohibition will not prevent waste, or conserve the supply of sweet gas, since the sweet gas, if not used, will drain into the sour gas area, because of the lower pressures there. Moreover, it is insisted that, unlike the Walls case, there is here in the record convincing evidence that the use of sweet gas in the manufacture of carbon black is not wasteful. Our decision in that case rested upon no particular theory of the nature of the carbon black industry. It was based simply upon the determination that the statute in question was not shown to have been an arbitrary exercise of legislative power." Henderson at 267 (emphasis added).

Thus, there is authority from the United States Supreme Court that a State may, under its police powers, regulate the use, as well as the production, of oil and gas for purposes of conservation. The State has discretion in deciding what is wasteful production and use. However, in both Walls and Henderson, the Court took great effort in discussing the facts to demonstrate that the legislature had not acted unreasonably in prohibiting the use of the gas for the manufacture of carbon black. And in each case the States of Wyoming and Texas were able to demonstrate that the statutes involved were reasonably related to conservation measures.

It is arguable that, under the authority of Walls and Henderson, a State could require that liquid hydrocarbons be removed from any natural gas produced as long as it reasonably could be demonstrated that such a requirement

would prevent waste or otherwise would be in the interest of conservation. For example, if it could be demonstrated that the dry gas (after the liquids had been removed) was of sufficient B.T.U. content to generate enough heat for its needed uses, and that the extracted liquids themselves could then be used as an energy source, or as a valuable raw material or feedstock, waste is prevented (and conservation is thereby served) - that is, more total utility is derived from the gas produced than if the liquids were not so extracted. Obviously, the questions of whether conservation will be served and waste prevented, are scientific, fact questions which will have to be answered by qualified experts, and accordingly the power to require extraction should be vested by the Legislature in the State's conservation agency where decisions may be reached with appropriate protection of the rights of all.

The Walls case has been cited many times by Courts for the proposition that a state has complete authority to regulate the use, as well as the production, of natural gas. One case cites Walls in stating that "its [the gas] extraction and use is subject to regulation, or even complete restriction or suppression, by the state." Herkness v. Irion, 11 F.2d 386, 388 (E.D. La. 1926).

One Texas case was found wherein the Supreme Court of Texas upheld the general authority of the Railroad Commission to regulate the production of oil and gas through

proration and other orders. One of the orders entered by the Railroad Commission directed "that all of the gas from the Bammel Field shall be processed for its liquid hydrocarbons and condensates therein efficiently extracted and the residue gas either returned to said sand from which it was produced or utilized for light and fuel and other lawful uses. . . ." Unfortunately, this order was not attacked in the Courts, and therefore the Texas Supreme Court never ruled on the enforceability of the order. However, the Court was aware of the order and made clear that the Railroad Commission did have the power to regulate the manner of production in the Bammel Field. Corzelius v. Harrell, 186 S.W.2d 961, 971 (Tex. 1945).

SCOMMM

#13:6

**EXXON** COMPANY, U.S.A.  
POST OFFICE BOX 440 · ANCHORAGE, ALASKA 99510

PRODUCTION DEPARTMENT

December 9, 1975

Joint Gas Pipeline Impact Committee  
Alaska State Legislature  
425 G Street, Suite 750  
Anchorage, Alaska 99501

Attention: Mr. Eric Eckholm

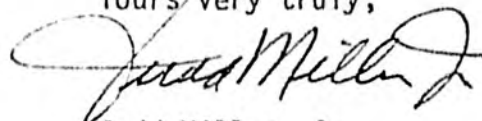
Gentlemen:

There are enclosed for the Committees information the responses of Exxon Company, U.S.A., to the questions submitted with your letter of November 19, 1975.

We did not receive the questions until November 24, 1975, and as you have been advised, the time required in preparing answers prevented us from delivering the answers by the December 8 date.

I plan to make a statement in behalf of our company during the hearing on December 10, 1975.

Yours very truly,



Judd Miller, Jr.  
Division Manager

CC's to: Committee Members

QUESTIONS CONCERNING THE PRUDHOE BAY  
NATURAL GAS RESERVOIR  
AND RELATED MATERIALS

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(REQUESTED BY ALASKA STATE LEGISLATURE JOINT GAS  
PIPELINE IMPACT COMMITTEE - RECEIVED 11/24/75)

QUESTION: 1. (a) What discount rate does your firm use in evaluating field development investment of the sort envisaged in the Prudhoe Bay Area?

ANSWER: The overall evaluation of any new investment must consider the "cost of capital", the risk, the changing levels and mix of investments, inflationary pressures, future prices, taxes and other governmental and regulatory constraints. The "cost of capital" not only varies between companies in an industry, but also varies for a particular company, such as Exxon, as a function of the changing business environment. An investor is not only interested in the past and present return made by a corporation, but more particularly on the prospects for a level of future return which will reward his risk in an investment.

It has been widely recognized by several financial institutions, energy companies, and government agencies, that the private sector's capital requirements for petroleum investments over the 1970-1985 period will be three to four times the amount required in the last 15 years. In 1974, or more than a year ago, the Chase Manhattan Bank, in its paper, "The Profit Situation", stated the following:

"...In the United States alone, the petroleum industry's financial needs will exceed half a trillion dollars.

Raising that much money will represent an enormous task .. Part of it can be borrowed but at least three-fourths will have to be generated internally from profits and capital recovery. Nearly half must be obtained from profits alone and, profits will have to grow much faster than in the past. The rate of return on invested capital will need to range between 15 and 20 percent."

Also, in early 1975, Ezra Solomon has testified in connection with the FPC hearing on Docket No. RM 75-14 as follows:

...Thus my conclusion on the rate of return question is that the appropriate rate for new investment dedicated to expanding our oil and gas production capacity should now lie in the range of 17-18 percent a year on DCF after-tax basis."

The above quoted returns reflect averages, for the industry and the wide range of investment decisions. Therefore, it is clear that a specific discount rate is a constantly changing target and clearly subject to many variables that range within a band of expectations. However, it is obvious that the 10 percent before-tax rate used in the Aerospace report is clearly inadequate and inappropriate for economic evaluation of any petroleum industry investments in Alaska.

It is essential to realize that the returns quoted above are on total expenditures, and not incremental investments such as development costs of Prudhoe. When only the incremental development costs are used, the acceptable rate of return must be much higher, especially since the exploration costs which are neglected occur many years before the project is brought on stream. As an example, Exxon has been exploring in Alaska since the 1950's, has drilled many dry holes, but has generated no revenue to date. The profit on the Prudhoe Bay venture must bear some of the earlier failures and the long delays before any cash flow is generated.

It is also important to realize that the return for a particular investment opportunity must be adjusted for the specific degree of risk involved. Operating experience in a remote, Arctic environment is very limited and consideration must be given to the probability that costs could be considerably higher than forecast. In this instance, there is also uncertainty in produce prices, investment and operating costs, and taxes.

Consideration of these factors leads to the conclusion that the rate of return at Prudhoe Bay must be substantially higher than the return required on average investments. This is necessary to recoup exploration costs, both past, present and future, and to yield earnings sufficient to attract the capital required to conduct an active exploration program in a high risk environment such as Alaska.

Therefore, in summary, consideration in investment considerations must include the following:

- (1) The overall cost of capital to the individual corporation, considering its overall investment mix, capital structure, long-term debt, and the need for an adequate return by the corporate investor.
- (2) The Prudhoe Bay project involves an abnormal amount of uncertainty and risk.
- (3) Any analysis of only the Prudhoe Bay development costs as opposed to total cost, requires a higher return to justify the total venture.

QUESTION: 1 (B) If more than one rate is used, indicate the reasons and the circumstances appropriate to each rate.

ANSWER: As noted in 1(A), projects judged to have substantial risk require higher returns to offset the risk and justify the investment.

QUESTION: 2. (A) Are there any circumstances under which a requirement to reinject all gas produced could lead to a reduction in the rate of oil recovery, or in the ultimate recovery?

ANSWER: Exxon's reservoir performance studies, which are based on "reasonably expected circumstances", show that produced gas can be reinjected without causing a reduction in the rate of oil recovery or in ultimate oil recovery.

QUESTION: 2. (b) If so, explain those conditions and estimate the amount of reduction.

ANSWER: Based on our current knowledge of the reservoir, and expected reservoir performance, this question is not applicable - see response to Question 2.(A).

QUESTION: 2.(C) Are there circumstances under which the reinjection of gas could be more costly than production of gas for sale?

ANSWER: Reinjection is an expensive and unnecessary step where gas markets are available. When gas is reinjected, it must be produced a second time and the added gas injection and gas producing costs are substantially higher than the cost of producing the gas directly to sale.

QUESTION: 3. (A) The Aerospace study states (p. 3-30) that gas compression for reinjection will require 5 percent of the gas as fuel. Is this a reasonable estimate?

ANSWER: The fuel estimate of 5 percent of the gas compressed for reinjection is reasonable. However, additional fuel will be required for oil and gas production.

It should be pointed out that our answer to this and all subsequent questions related to the Aerospace and Gruy studies are based upon a cursory review of those studies. A more detailed review of the studies with those who performed the study is needed to be sure we understand the study.

QUESTION: 3. (B) How does this compare with the field consumption of gas to be expected under the assumption of maximum production for sale?

ANSWER: The gas at Prudhoe Bay will ultimately be sold. The question is really one of timing. Fuel associated with gas sales should be comparable regardless of timing. If gas sales are delayed, additional fuel will be required for reinjection and production the second time. Gruy's study would indicate the additional fuel required for gas injected is 5 percent of 5.9 Tcf or 295 Bcf of gas. We believe this figure is understated because our studies indicate the produced and reinjected gas would exceed the 5.9 Tcf estimated by Gruy.

Fuel requirements for oil production are highly uncertain because they are dependent on final reservoir management plans. These plans will be updated and improved upon as the field is produced and production behavior is

observed and evaluated. nevertheless, fuel will be required for oil production whether gas sales are early or late.

QUESTION: 3. (C) Neglecting the gas used as compression fuel, is there any reason why all the reinjected gas could not eventually be recovered?

ANSWER: The recovery of gas reserves will depend upon the abandonment pressure which will be affected by the economic environment. A percentage of the reinjected gas or its equivalent will be recovered.

QUESTION: 3. (D) Assuming that all gas was reinjected, at what point do you estimate the total quantity of gas reinjected would equal the total recoverable gas reserves contained in the reservoir?

ANSWER: We are not sure we understand the question. If no outside gas is injected, the injected gas will come from the recoverable reserve and will never exceed that available. Based on reasonable assumptions of producing conditions, we believe that the total volume of gas reinjected will not equal the total recoverable gas reserves contained in the reservoir prior to depletion of the oil reserves.

QUESTION: 3. (E) Would this quantity (less that consumed in reinjection) actually be recoverable at that point? If more or less, why?

ANSWER: As noted in 3 (B), a percentage of the injected volumes or its equivalent will be recoverable dependent upon the economic abandonment pressure for the field.

QUESTION: 4. (A) Are the cost figures used in the H. J. Gruy model (Aerospace, p. 3-23 and Gruy, p. 10) reasonable?

ANSWER: The cost parameters summarized on p. 3-23 are expressed in 1975 dollars and on that basis are reasonable. However, inflation will substantially affect actual costs and should be taken into consideration. For example, during 1974 drill bits increased 29%, pumps 43%, tubular steel 52%, and certain other items such as valves and fittings were up over 100% in cost. Furthermore, additional capital expenditures which are not listed on p. 3-23 nor p.10 will be required. Those include expenditures for water injection, gas processing, artificial lift, gathering systems, and other lease facilities.

QUESTION: 4. (B) Aerospace (p. 3-22) indicates that the quantity dependent costs are in addition to the costs of water treatment plants, but no cost figures are provided for such plants. Apparently, there are similar additional capital costs associated with gas processing, to control the water and hydrocarbon dew points, and to remove carbon dioxide (Aerospace Report, p. 3-8). Please explain the relative costs of these activities, and any other related activity necessary to prepare the gas for sale, so that the committee can have a general idea of why the costs of producing the gas for sale are higher than the costs of production for reinjection.

ANSWER: Our research indicates Gruy's study included about \$4.5 billion (1975\$) in capital expenditures for water injection wells and facilities, gas sales treating, gathering facilities, and other lease and service facilities. Gas sales treating facilities were estimated to cost \$550 MM by Gruy. Exxon's estimate (1975\$) for the gas sales treating facility is comparable to Gruy's.

When costs for sales compression and additional electrical power to support gas sales are added, Exxon's estimate of gas sales facility

costs is increased to \$800 MM (1975 dollars). These sales investments will ultimately be required whether gas is sold early or delayed. The cost to produce the gas to early sales is less than the costs to reinject the gas and produce it a second time. This subject is discussed further in our answer to question 8. (B).

QUESTION: 5. (A) Have you entered into any agreements for the sale of your share of the Prudhoe Bay gas which would require you to produce the gas even if the price obtainable for it was very low?

ANSWER: No. We have not entered into a gas contract; however, we have entered into agreements which grant certain purchasers the right to negotiate for Exxon's gas reserves. These agreements have been made a matter of public record with the Federal Power Commission and the California Public Utility Commission.

Exxon has entered into two agreements involving minor uses of gas for field facility fuel; however, no gas value has been agreed to. These agreements are expected to be superseded by the Unit.

QUESTION 5. (B) What minimum price, if any, is mentioned in any gas sale or option agreement covering North Slope gas to which your firm is a party?

ANSWER: None. A minimum price concept is included in the agreements referenced in the answer to 5 (A) above.

QUESTION: 6. (A) What will become of the heavier hydrocarbons contained in the gas stream (ethane and heavier) if the gas is reinjected?

ANSWER: In the absence of a gas sale, the produced gas will be processed through gas/liquid separation equipment and the liquids will be

commingled with the crude and transported to market.

QUESTION: 6. (B) If it is sold?

ANSWER: When Prudhoe Bay gas is sold, it will be necessary to reduce the water vapor and hydrocarbon dew points of the gas to the extent required by gas pipeline quality specifications. The hydrocarbon liquids removed from the gas stream will either be transported through the oil pipeline and sold, consumed as field fuel or re-injected into reservoir.

QUESTION: 6. (c) To what extent, if any, has your firm committed itself to the sale of these heavier hydrocarbons?

ANSWER: No commitments have been made.

QUESTION: 7. (A) Will the proceeds of the production of oil and gas be shared by the producers on the basis of original oil and gas in place?

ANSWER: The proceeds of the production of oil and gas will not be shared by the Prudhoe Bay owners. Instead, each owner will take-in-kind and dispose of separately, their share of the production. The proper basis for sharing oil and gas production is currently being negotiated.

QUESTION: 7. (B) If not, then how?

ANSWER: See explanation above.

QUESTION 7. (c) If, as is indicated in Gruy, the production of gas for sale

results in a loss of oil, what principle will govern the appointment of this loss among the field's several owners:

ANSWER: None. Once the oil and gas allocation factors referenced in response to question 7 (A) have been established, they will apply to the produced volumes.

Again, we do not like the use of the word "loss". Early gas sales is clearly the most optimum way to produce Prudhoe Bay. Gruy's estimated "loss" associated with early gas sales is a highly uncertain "loss" which, in our view, can be reduced, if not eliminated, by good reservoir management practices. Furthermore, the "loss", if it occurs, is small when compared to the benefits in present value income and other factors which would be associated with early gas sales including a higher condensate reserves, less fuel associated with reinjection of gas, less fuel and higher operating costs associated with producing the gas a second time, and lower costs associated with the reduced operating

QUESTION: 8 (A) The Aerospace study indicates that the future field development costs of gas production for sale exceed the costs of field development under a 100 percent reinjection assumption by a substantial amount. (Aerospace, p. 19 indicates a difference of \$3.8 billion.) Does your firm generally believe this to be a realistic prediction?

ANSWER: The Gruy study is limited to production over a 23-year period and compares costs for early gas sales with costs for no gas sales where all excess gas is reinjected. As previously pointed out, we have not had a chance to study the Gruy report in the detail we would like, however, we believe the \$3.8 billion cost increment associated with early gas sales is approximately correct for the assumptions made. Again, we must emphasize this expenditure is expressed in 1975\$ and will be substantially less than the ultimate expenditure required.

QUESTION: 8 (B) If so, please explain the reasons for this \$3.8 billion difference; if not, why?

ANSWER: To make the two cases comparable, the gas must be sold under the delayed gas sales case. This would require adding expenditures for gas treating and processing, central compression, additional electrical power, and other lease and service facilities required to handle the sales gas. Additional operating costs must be added to cover production of the gas, the extended life of the field, and the costs of fuel associated with producing and selling the gas. Addition of those factors to the Gruy "no gas sales" case would make that case more expensive than the early sales case. When the present value loss of deferring the income from gas sales and the associated condensate and plant liquids is included as additional cost to defer gas sales, deferral is clearly an uneconomic option which should not be seriously considered.

QUESTION: 9 (A) Pages 3-37 of the Aerospace report indicate that the total costs of producing the gas, considering the lost oil production (at \$9/barrel) and the actual field development costs, under maximum pressure maintenance, would be \$7.251 billion. Is this a reasonable figure? If not, what would be a reasonable estimate?

ANSWER: The \$7.2 billion (1975\$) number is comprised of the \$3.8 billion cost increment previously discussed and \$3.4 billion due to the approximately 400 MM barrel difference in oil recovery reported by Gruy. As previously discussed, this "loss" is uncertain and we believe it can be reduced or eliminated. Other than this difference, our quick examination of the Gruy study leads us to believe it is approximately correct.

QUESTION: 9. (B) The Aerospace report indicates that, assuming a \$9/barrel price for oil and a 10 percent discount rate, the cost of gas production will be \$47/Mcf (sic 47¢/Mcf) (Aerospace, p. 3-38, 3-30). Is this a reasonable figure? If not, what would be a reasonable figure?

ANSWER: We cannot endorse the calculation and cost estimate for several reasons. The discount rate which was used is clearly too low, the calculation did not include all costs, and the costs were expressed in 1975\$. The calculation was based upon a before-income-tax evaluation. Income taxes are a heavy burden to industry and add to the cost of the gas. Furthermore, the costs did not include appropriate exploration expenditures.

Industry makes many unsuccessful exploration expenditures to achieve one successful discovery and its profits on that discovery must carry its failures. The analysis of costs cannot be restricted to a small area of operations. Most of the larger companies operate throughout the United States, and their success in one part of the U.S. must carry failures in other parts. To arrive at the proper costs for a specific reserve and an acceptable return for a particular project is an exercise in futility as witness the FPC's experience. The only reasonable approach is to base gas values on deregulated free market gas pricing policies.

QUESTION: 10 (A) Would your firm be willing to develop the field for gas production (for sale) if the expected revenue from the gas sales were less than the cost of its production? (In other words, are there any circumstances under which your firm would go ahead with development for gas sales even if the present net worth of the field (or your part of it) were to be reduced thereby?)

ANSWER: Exxon cannot undertake projects which do not provide a profit and a reasonable return on investment. Therefore, we would not enter into a venture in which the revenue was less than the cost and which did not yield a reasonable present net worth. Furthermore, any government or other entity which forces expenditures on unprofitable investments is inefficiently utilizing its resources.

QUESTION: (10)(B) Are there any circumstances under which the production of natural gas could be subsidized by the production of oil?

ANSWER: It is our view that both oil and gas owners have the right to produce and realize current income from their reserves, and that the oil and gas can be optimally produced simultaneously in the Prudhoe Bay Field. In view of the large energy potential of the oil and gas, we further believe that with proper free market price incentives, each resource stands alone on its own economic merit and that there is no need for one to subsidize the other.

QUESTION: 10 (C) Are there circumstances under which a firm could be compelled to produce the gas even though such production did not make economic sense?

ANSWER: No.

QUESTION: 11. The Aerospace study seems to indicate that the maximum gas production from the Prudhoe Bay reservoir sustainable for any substantial period of time, without undue loss or oil recovery, is about 2.5 Bcf/day. Some pipeline feasibility calculations seem to be predicated on a higher rate of production. Is the Aerospace estimate realistic?

ANSWER: We have on a number of occasions stated, as have other Prudhoe Bay producers, that in our opinion a gas production rate from Prudhoe Bay of between 2 and 2.5 Bcf/

day is reasonable based on current reservoir knowledge and predicted performance. With additional reservoir performance data and after partial depletion of the oil reserves, the gas sale rate might be substantially increased above the 2.5 Bcf/day.

QUESTION: 11 (B) If not, what is a realistic estimate?

ANSWER: See response to question 11. (A).

# STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL


JAY S. HAMMOND, Governor

POUCH K - STATE CAPITOL  
JUNEAU 99801

April 2, 1975

## MEMORANDUM

TO: The Honorable Jay S. Hammond  
Governor

FROM: Avrum M. Gross   
Attorney General

RE: Recommendation of Gas Pipeline  
Task Force

On December 2, immediately after assuming office, you appointed me to chair a task force to review the State's posture concerning alternative transportation systems for North Slope gas. The task force was composed of the Commissioners of Environmental Conservation, Fish and Game, Revenue, Economic Development, Community and Regional Affairs, Commerce, Natural Resources and Highways, as well as the Director of the Division of Policy Development and Planning. At times Lieutenant Governor Thomas has participated with us in our deliberations and, of course, you have from time to time sat in on the sessions as we evaluated information made available to us.

The problem as you stated it was to make an unbiased, comparative evaluation of the TransAlaskan and Canadian routes for transportation of North Slope gas so as to determine what route would best serve the interests of the State of Alaska. Prior to the formation of the task force, you had publicly stated

that you favored a Trans-Alaskan route on the basis of information available to you. Upon assuming office, a great deal more information became available, as well as the machinery to do a comprehensive review of the competing projects. You asked that we consider whether or not your support of a Trans-Alaskan pipeline was justified in light of detailed information developed by the task force.

Your prior support of the Trans-Alaskan pipeline was consistent with the position of the previous administration. Upon undertaking a review of the competing projects, we found that a substantial amount of work remained to be done in evaluating the two proposals. The State had intervened in the legal proceedings before the Federal Power Commission and retained counsel in Washington, D.C. to present the State's position, but until this task force embarked upon its efforts the State's position consisted more of enthusiastic support for an Alaskan route for a pipeline than of careful analysis. You advised the task force that whatever position was ultimately adopted by the State, you wanted to be able to rationally support it and defend it before the Federal Power Commission or Congress should that body ultimately take jurisdiction over the matter. Faced with that mandate, the task force has met regularly since December and has increased its work substantially in the last two months so as to be able to make a recommendation to you prior to initiation of the FPC hearings. The prehearing conference for that proceeding will be April 7, so we are pleased to have met the deadline.

Our efforts have been directed to a comprehensive review of material developed in connection with both projects.

That material was made available primarily from the participants, Alaskan Arctic Gas and El Paso Alaska, who were required to develop the data for submission to the FPC. Representatives of both Arctic Gas and El Paso have appeared before the task force and made extensive presentations concerning their plans. The task force has also utilized consultant studies as a source of knowledge.

As a result of our review, it is the recommendation of the task force that you reaffirm support of a Trans-Alaskan transportation system for natural gas from the North Slope. We will in this report outline the basis for our conclusions. We will not include here the backup data on which our conclusions are based, but we have that data compiled for your review when you wish to make such a review.

A. The Nature of the Projects.

There are basically two competing systems for the transportation of North Slope gas to the continental United States. The first is the so-called Canadian route. Under this proposal, which has been made by the Arctic Gas consortium, gas from Prudhoe Bay would be transported by means of a large-diameter pipeline from Prudhoe Bay east across the Canadian border to a point somewhat south of the Mackenzie River Delta. At that point the pipeline carrying Alaskan gas would join with a lateral from the Mackenzie Delta region which would carry Canadian gas. The main line formed by the convergence of these two laterals follows the Mackenzie River Valley south through the Northwest Territories. After leaving the river valley,

this line continues south to Caroline Junction, Alberta. At Caroline Junction, the main 48-inch pipeline diverges into two pipelines; one heads southwest to the Canadian-Idaho border and the other heads southeast to the Canadian-Montana border. New pipelines which are proposed for construction in the Lower 48 would receive the gas at these border points and transport it to markets in Washington, Oregon and California in the case of the western pipeline and to markets in the midwest and east in the case of the eastern lateral. Theoretically, any surplus Canadian gas from the Mackenzie Delta would also be available for distribution in the United States, though the existence of that surplus is somewhat speculative.

The estimated cost of this transportation system is estimated by the consortium to be 8.3 billion dollars; not all of which is allocable to the Alaskan transportation network. The portion of the price which is allocable to the Canadian lateral should not affect the price of the American gas transported by the line.

The alternative to the Trans-Canadian system is a Trans-Alaskan route which handles the gas in a more complicated manner. This proposal, presently advanced by El Paso Alaska, would take the gas by means of a large-diameter 42-inch pipeline from Prudhoe Bay down the existing corridor of the Alyeska Pipeline. On approaching the southern terminus, the line would leave the pipeline corridor and go to Gravina Point on Prince William Sound. The applicant for the Trans-Alaska line intends to build

at Gravina Point an LNG plant which would reduce the gas to liquefied form. El Paso also proposes to construct a fleet of cryogenic tankers which would then take the liquefied gas to California, where the LNG would be reconverted to its gaseous state. At least initially, all of the North Slope gas delivered to California would be physically consumed on the west coast. This in turn would free gas presently being transported from Texas and New Mexico to the west coast, which could then be made available to markets in the midwest and east via existing distribution systems. If gas deliveries from Alaska increase to the extent that not all of the gas can be consumed in the west, it will be possible to reverse the direction of existing lines. These lines can then be used to transport gas from California eastward to Texas and Louisiana where the gas could be flowed into existing transportation systems and moved to the east and midwest. Although this transportation system is complex, a review of the system by Arctic Gas concludes (somewhat reluctantly) that this system is feasible and, of course, El Paso always has maintained the workability of this approach. This transportation system, including the pipeline, the cryogenic tankers, the LNG plant, the regasification plant, and facilities needed to effectuate displacement is estimated by El Paso in 1973 dollars to be 6.7 billion dollars. An analysis prepared by Arctic Gas critiquing the El Paso project indicates the more realistic figure on the basis of today's dollars would be 8.3 billion dollars, and while that figure may be inaccurate, there is no question but that

the cost of the El Paso proposal is substantially higher than set out in its application. Assuming the El Paso project costs approximately the same as the Arctic Gas project, it will nonetheless be more expensive for the delivery of American gas alone, as the Arctic Gas project will cover transportation of both American and Canadian gas.

Both projects involve the loss of some of the gas in the transportation system itself. The best estimate we have is that the Arctic Gas proposal will involve utilization of approximately nine to ten per cent of the gas for energy in transit. The El Paso loss will be considerably higher--approximately 16 per cent.

B. Criteria for Assessment.

The basic standard we have used in evaluating these two projects is what is best for the interests of the State of Alaska. We have sought to evaluate which route would produce the greatest benefits for the State in the long run. In evaluating those benefits, we have attempted to categorize them in two basic groups, which incidentally is the same basic grouping the FPC will make in its hearing procedure. The first is environmental. We have tried to evaluate the environmental effects of each line so as to consider the impact each will have on the State. Second, we have tried to consider the long-term economic impact of the line. That investigation has involved a study of the alternative effects of the two lines upon such things as royalty payments which would be made to the State, severance taxes, and property taxes. We will outline our general findings in these two areas.

I. ENVIRONMENTAL IMPACT. Unlike the quantitative measurements which can be applied to revenue comparisons, evaluation of environmental impact is a highly subjective process. There was no clear sentiment in the task force that one route or the other was better from an environmental standpoint. Rather, the conclusion was that each proposal had both benefits and detriments. It was the feeling of the group that, while the choice was not clearcut on the basis of a purely environmental comparison, it should be the State's obligation in the forthcoming FPC proceedings to insure that the detriments we have identified be minimized insofar as possible. We will outline the primary benefits and detriments of each route here, though as I have noted, they were not in themselves the basis for the group's recommendation.

(a) Trans-Alaskan Route.

Advantages

1. Without doubt, the most important environmental asset of a Trans-Alaska route is the fact that the gas pipeline could be constructed in an existing transportation corridor, a corridor which has been studied intensively and about which a tremendous amount of environmental information has been gathered. As construction of the Trans-Alaska oil pipeline proceeds, more information regarding construction practices, revegetation, protection of stream crossings, and other important techniques will be developed.
2. Existing facilities, such as the TAPS haul road, construction camps, access roads, existing highway system, spoil disposal sites, material sites and other critically important ancillary needs could be made available for use to

construct the gas pipeline.

3. A Trans-Alaska gas pipeline would parallel many streams along the corridor in the Arctic, instead of transecting them, which means that the total number of stream crossings on the ecologically sensitive North Slope is reduced along this route.

4. There is a dearth of knowledge about the fishery resources of the Arctic, particularly the offshore fisheries. However, the Alaska gas pipeline route parallels the Sagavanirktok River; our knowledge of its fishery resources is much more detailed than any other river on the North Slope. This greater base of knowledge can be drawn on to minimize the adverse impact on the North Slope fishery, if a Trans-Alaska gas pipeline is built.

5. Natural gas is the cleanest available fossil fuel. For this reason, it is in great demand in those areas of the nation which suffer from air pollution problems. An Alaskan route would insure that some day, if the need should arise, Alaskans could use their royalty gas as a low pollution source of energy. An Alaskan route would preserve that option; a Canadian route would not.

#### Disadvantages

1. An Alaskan route will mean substantial additional development in the State, particularly along an already heavily impacted pipeline route. With this development will

come the accompanying stresses of "boom growth", inflation, more people and possibly a large tidewater development to liquefy the gas for shipment to the Lower 48 states. This latter development could be sizable and may lead to extensive development in an area which is presently pristine.

2. There may be physical, biological and chemical effects from construction and operation of an LNG plant at tidewater. Excess heat from this process would be discharged from the plant and could have an adverse environmental impact. However, we estimate that this impact may be minimal.

3. Secondary development, spurred by the existence of an LNG facility and the availability of natural gas for industrial uses may cause greater environmental problems than the LNG development itself. An associated large petrochemical industry at tidewater would create its own environmental and socio-economic problems.

4. Any new development inevitably means more people and a new LNG facility built in a presently undeveloped area will mean that a new community may have to be constructed, or that existing communities will have to wrestle with significant new growth. Providing the basic services, such as water, sewer, health facilities, schools, etc., may place a severe burden on both State and affected community resources.

5. The environmental hazards of shipping LNG in cryogenic tankers are probably not of sufficient magnitude to be worrisome (especially when compared to shipping crude

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5. The environmental hazards of shipping LNG in cryogenic tankers are probably not of sufficient magnitude to be worrisome (especially when compared to shipping crude

oil by tanker), but the safety hazards to the ships and personnel may be substantial.

6. The energy loss, in the liquefaction process, is an environmental liability, especially in an era when energy conservation is needed.

(b) Trans-Canada Route

Advantages

1. Development within Alaska would be minimal if an Alaska-Canada gas pipeline were constructed. The tidewater development of LNG facilities, and tanker movement of the LNG would be eliminated by an overland route from Prudhoe Bay to the midwest. Also, development activity along the Trans-Alaska pipeline corridor would be eliminated.

2. The Alaska-Canada route will cause less problems in Alaska because of the relatively short distance that the pipeline would be within Alaska's borders (from Prudhoe Bay east to the Canadian border). In this sense, however, we are "trading off" Alaskan environmental problems to Canada.

Disadvantages

1. Any viable Alaska-Canada route will undoubtedly breach the ecologically fragile Arctic National Wildlife Range. This range, which is under consideration as a wilderness area, is the last remaining area of the Arctic Coastal Plain in Alaska and perhaps in the North American Continent which is not presently committed to development. An Alaska-Canada pipeline through this area would undoubtedly be the first in a long line of petroleum-related developments in the Range.

Therefore, a decision to route the gas pipeline through the Range may, in effect, be a decision to commit the last untouched wilderness area on Alaska's North Slope to full-scale oil and gas development.

2. A gas pipeline running east to the Canadian border from Prudhoe Bay transects many north-south Arctic streams and may have a serious environmental impact on the North Slope's fish resources. As the pipeline is refrigerated below the freezing point of water, its presence under streams and rivers may impact on natural freezing and thawing processes. Winter survival of fish populations, which in the Arctic is directly tied to adequate supplies of water, may be jeopardized by localized and downstream effects that would be created by a pipeline buried under streams and rivers. In addition, siltation caused by the construction process and stream bed disturbances could have major impact on aquatic habitat.

3. Advocates of an Alaska-Canada pipeline state that snow and ice roads would be used to support construction activities, which would avoid the need to build a permanent access-haul road network. However, there are substantial environmental problems associated with ice road construction. Heavy construction vehicles, rumbling over ice and snow roads, can cause damage to the tundra which may lead to serious subsidence, solifluction and erosion problems. As mute testimony to this fact, swaths of dead vegetation remain today in Naval Petroleum Reserve Number 4 more than 20 years after exploration crews

traveled on ice roads searching for oil and gas. Also, there appears to be a very real question regarding the availability of sufficient snow and water to construct snow and ice roads. Precipitation on the Arctic Slope is light, averaging four to eight inches annually. Therefore, snow availability--coupled with the lack of adequate sources of water for artificial snow manufacture--could be a serious factor in limiting construction of snow and ice roads along an Alaska-Canada pipeline route. In any event, maintenance of the line would utilize all-terrain vehicles at any time of year, with subsequent permafrost and tundra degradation.

4. Wildlife along an Alaska-Canada route will undoubtedly be adversely impacted by construction of the gas pipeline. A route which knifes through the coastal plain of the Arctic National Wildlife Range would breach untouched caribou calving grounds, would traverse and possibly interfere with the denning area and normal movements of a distinct polar bear population, and encroach upon significant resting and feeding grounds utilized by snow geese in preparation for their nonstop migratory flight to the contiguous United States.

5. The Canadian segment of an Alaska-Canada gas pipeline route would carry a very high environmental price tag, as it would traverse a very fragile area which has been touched only lightly by the machines and hands of man. Environmental impact of an Alaska-Canada gas pipeline does not end at the Yukon border; we Alaskans cannot close our eyes to the very

real environmental problems that would be associated with the Canadian leg of the pipeline route. The route traverses some of the most severe permafrost problem areas on the North American continent. Therefore, when writing the equation for determining the true environmental costs of an Alaska-Canada route, the serious problems in Canada must also be considered.

II. ECONOMIC IMPACT. One factor which has substantially affected our analysis in the economic sphere is concern for the possibility that neither the El Paso nor the Arctic Gas proposals may be completely economically viable. Of course, neither the Arctic Gas consortium nor El Paso have indicated in their applications to the Federal Power Commission that there is any real economic risk in the project. Both applicants have submitted cost data which, on the surface, seems to show that gas can be delivered to United States markets at competitive prices. The difficulty is that we find it hard to accept these estimates as completely reliable in light of both general and Alaskan experience with major construction projects of this magnitude. More than two years before the Trans-Alaska oil pipeline is expected to go on stream, its final system cost is now estimated at more than five times the initially announced figure. Overruns of 50 to 400 per cent are the rule, rather than the exception, in large custom designed and built engineering projects such as electrical generating plants, manufacturing plants pioneering new technology (G. M.-Lordsville), sports stadiums and coliseums (New Orleans, Seattle), airports,

urban transit systems (BART, Washington Metro), etc. Accordingly it is reasonable to regard the applicants' pro forma cost figures as establishing only an order of magnitude and a base for escalation far in excess of the rate of general inflation.

Our review of the information available indicates to us that both projects can be projected at an initial cost of 8-8.5 billion dollars, and taking into account the certainty of continual inflation, the near certainty of delays and other difficulties that will occur before either project can be completed, a more realistic estimate for either project would be at least 10 billion dollars. This last figure might well be qualified by the expression "plus 50 per cent or minus 20 per cent".

The significance of this initial cost is that it will necessarily require that tariffs for the transportation of this gas be high--so high in fact as to make the gas possibly noncompetitive with alternate fuel sources. A detailed accounting analysis of the necessary cash flows would be as futile and misleading as detailed cost estimates in judging the overall project viability. Because of engineering, cost and timing uncertainties, a very general procedure is probably as adequate for our purpose as an intensive critique of the applicants' pro forma income statements. Supposing the \$10 billion investment were to be depreciated at five per cent per year and that the entire investment had to produce a rate of return of 10 per cent, the initial annualized capital costs would be 1.5 billion dollars. Assuming further

that either system would be capable of delivering into the existing natural gas distribution system of the Lower 48 states one quadrillion BTU (quad) per year, the average capital costs at this level of throughput would be \$1.50 per million BTU delivered. Assuming operating costs other than fuel to amount to 10 percent of the capital costs, a wellhead price of only 25 cents per million BTU would bring the delivered costs at the U.S.-Canadian border or out of a regasification plant on the west coast of the United States, to \$1.90 per million BTU.

The assumptions going into this order of magnitude estimate are, we believe, conservative to moderate, so that \$1.90 probably represents the minimum price at which Alaskan natural gas could conceivably be delivered into the gas distribution system of the Lower 48 states. An informal survey of the opinions of energy specialists not affiliated with the applicants produced a range of cost estimates for transportation alone running from \$1.75 to \$2.50 for gas transported by an overland pipeline through Canada and \$2.00 to \$3.00 for a system that combined a pipeline across Alaska with LNG tankers to the west coast. The implications of these possible economic forecasts are enormous for the State. If the market price of the gas delivered in United States markets is nearly equivalent to the transportation cost alone, the State's royalty and share from severance taxes will be minimal. This is because both royalty and severance tax are based on a percentage of wellhead value, and wellhead value will roughly equal the difference between the market value of the gas and its transportation

cost. If gas is "deregulated", the equality will be precise. If wellhead price is set by the FPC (as is the current practice), the difference will be minimal since we cannot conceive of the FPC setting a wellhead price that would require the gas to be sold at a loss. If the gas can only be sold at a price of, say, \$2.50/Mcf, and it costs \$2.50/Mcf to get that gas to the market, there is simply going to be no wellhead value left upon which to assess royalties and taxes.

I am sure that our conclusions concerning possible lack of wellhead value must seem confusing, in light of the publicly expressed concerns of a national gas shortage, but if an evaluation is done of the nature of that "shortage", the problem becomes fairly clear. Gas has two basic markets in the United States, a "premium" market and a "nonpremium" market. The premium use of gas is for residential, commercial, and special industrial uses. While the price of premium gas is presently low because it is regulated by the FPC, there is no question but that on a free market the gas could be sold for high prices, perhaps in the neighborhood of \$3.00 per Mcf. The nonpremium use of gas is industrial and as boiler fuel. In this market, the maximum price which is paid for gas is about \$2.00 per Mcf. The significance of these two markets is that there are different competing products in each. In the premium market, gas competes with middle-distillate fuel oil. In the nonpremium market, gas competes with heavy fuel oil or coal.

The regulatory practices of the U. S. Government have created an unusual situation in regard to the prices at which

"premium" and "nonpremium" gas are sold. Interstate sales of gas are regulated by the FPC, while intrastate sales are not. Since interstate regulation has been on the basis of artificially low wellhead prices, much gas in the United States is used in the same state in which it is produced. There is a shortage in the "premium" market because companies cannot sell gas there advantageously--they can derive higher prices for nonpremium industrial use in the state of production.

If transportation costs for Alaskan gas are excessive, that gas is not going to be able to compete adequately with alternative sources of industrial fuel. The gas could compete on the premium market if conditions stay as they are today, since there is a real shortage in the premium market, and customers will buy the gas at even a high market price. The shortage in the premium market, however, is limited, and in and by itself could not justify the construction of a transportation system of the magnitude proposed. Moreover, if gas is deregulated or if end-use restrictions are placed on the use of natural gas, we can expect to see gas supplies quickly reallocated, with the result that the "shortage" in the premium market will rapidly dissipate. Companies will then direct their gas supplies to those markets where gas could be sold for higher rates than in nonpremium sales, leaving the nonpremium market to use heavy oil and coal. We have some doubts that Alaskan gas would be able to compete against gas from other sources in the premium

market if such a reallocation occurs. The primary competitor in the nonpremium market is oil and coal and the indications to the task force are that in the future Alaska gas will not be able to be delivered to the continental United States for prices competitive with those fuel options.

This issue is, of course, more complex than I have set out here, but suffice it to say that the task force has some concerns about the ability of either project to deliver gas competitively without government subsidy and with the result of a positive wellhead value. If the wellhead value is zero or very small, our royalties from the gas will be very slight and our severance taxes, which are based on wellhead value, will also be minimized. We find this to be a significant feature in our analysis since it has led us to conclude that if we are to derive any significant economic benefit from this developed Alaskan resource, it may well have to be through direct use of the gas ourselves.

That direct use can come in several ways. First, the gas may be made available in Alaska for the "premium" uses I previously discussed, though such a use will only involve a small percentage of the State's royalty share. For instance, the State's royalty share will be approximately 280 MMcf/d from production of 2.25 bcf/d. Even if we developed a natural gas market in the state equal to that which presently exists in Anchorage, it would only use approximately an additional 55.7 MMcf/d.

The real possible benefits for Alaska's gas seem to lie in the development of cheap sources of fuel for possible

industrial use in the state. . That industrial use can occur either in the interior or along the coast, where the gas is delivered. The cost of the transportation of such gas in Alaska will be substantially less than the cost of delivering the gas to the continental United States, meaning that we will have a source of cheap fuel here for industries that seek to use it. There are several possibilities which need not be discussed in detail here. Petrochemicals is one form of industrial use which has been discussed previously, and other possibilities exist, such as the Klukwan Iron Ore project in Southeastern Alaska.

Unless we have a Trans-Alaska line, there is no satisfactory way to transport Alaskan gas for Alaskan use. We have considered the possibility of constructing pipelines from Prudhoe Bay to points in Alaska, assuming that a Trans-Canadian route were used to transport most of the gas to continental United States markets. Our conclusion has been that a transportation system just for Alaska's royalty share is not economically feasible. The cost of construction of such a system simply cannot be amortized without resulting in an extremely high cost of gas. Accordingly, it is clearly in the State's best interest in obtaining a maximum return from its North Slope gas to keep that gas in the state for use here, and since we can only do that with a Trans-Alaskan line, it is in the State's interest to support such a route.

To this point our analysis has been based on economic projections which indicate a minimal wellhead value for Alaskan

gas from Prudhoe Bay. It is, of course, entirely possible that our predictions are overly pessimistic and that in the end we will see a reasonable or even substantial wellhead value for the gas. If that is the case, the direct use of Alaska's royalty gas in the state will not be the only benefit derived from the resource, but it will still be a prime benefit. If the wellhead price turns out to be more than we have anticipated, the State will derive royalty and severance taxes based on the wellhead price from both the Arctic Gas and the El Paso proposed systems. The task force does not anticipate that, if the project turns out to be successful, there would be a substantial difference in wellhead price between the Arctic Gas and the El Paso proposals, though there is some indication that a higher wellhead price might be derived under the Arctic Gas proposal. That possibility derives from the fact that the Arctic Gas and El Paso proposals are about the same cost, but the Arctic Gas system would carry a somewhat greater volume of gas, reducing unit transportation cost. However, as we note below, other direct taxes imposed by the State of Alaska on a Trans-Alaskan project would more than compensate for the difference between the two proposals. Moreover, the benefits which would accrue from Alaskan use of Prudhoe Bay gas are sufficiently substantial in and by themselves to outweigh what we anticipate to be a small difference in possible wellhead value, and local use has the added benefit of providing real value to the gas in the event that the economic model we have described is proven correct.

A Trans-Alaska line will also result in revenue from a number of other sources than the gas itself. The property

tax on the Trans-Alaska project would, in the view of the Department of Revenue, produce \$68 million more per year than a route through Canada. Under our current gas severance tax law, the wellhead price with a Trans-Canada pipeline would have to be 58.21 cents higher than the Trans-Alaska project to offset in royalty and severance tax payments this substantial difference in property tax. As previously noted, we have concern about the existence of any significant wellhead value after deduction of transportation costs and, accordingly, this comparison is important in evaluating the projects. If the current proposed law was passed providing for a 10 per cent severance tax on wellhead value, then the wellhead differential necessary to make the total revenues from both projects equal is 43.8 cents.

Adding to the direct revenue benefits of a Trans-Alaska line would be the corporate and personal income tax revenues that would accrue to the State. Although difficult to estimate, approximately \$42 million more tax revenue is expected during construction of the Trans-Alaska line.

These tax revenues are not, of course, without corresponding burden. Both projects will create substantial demands on State services. It is going to be crucial that we insure a source of revenue to meet those burdens. Property and income taxes provide such a source, even if the economic concerns expressed earlier are valid.

C. A Recommended State Position.

The task force believes that the State in its own best interest should advocate the construction of a Trans-Alaskan

route for the transportation of North Slope gas. This support, however, should be given in full recognition of the fact that it is the State's interest which is being promoted rather than that of a particular company or consortium building a route. We do not recommend that the State necessarily support El Paso Alaska in the construction of a Trans-Alaskan route. To do that would be to wed ourselves to the El Paso proposal and it is not necessarily to our benefit to do so.

We believe it is in the State's interest to support the Trans-Alaskan route but to insist that if that route is approved by the FPC stipulations be contained to insure the promotion of Alaska's interest. First, we must work to insure that the pipeline is certified as a common carrier. Without a detailed discussion of this point, legal doctrines require that common carrier status be obtained in order to insure that Alaska's gas be available at the terminus of the pipeline for Alaskan use. There is some authority that suggests that once gas is commingled in an interstate pipeline it may not be removed without FPC consent. We should make it a prime point in our position to insure that that consent is obtained.

El Paso has not spent the time or the money to evaluate the environmental impact of its line in the same manner as has been forthcoming from Arctic Gas. Relying primarily on the pipeline corridor studies already completed, El Paso suggests that in essence the problem has already been resolved by those studies. That, unfortunately, is an oversimplification. First,

it is unclear whether or not the gas and oil pipelines can in all instances be laid side by side within the same corridor, and it is possible that in certain instances the pipeline will have to be laid outside the existing corridor, creating environmental problems which have not been studied by El Paso. The State should be in a position to press for a route which most efficiently establishes a system compatible with the surrounding environment. Very little review has been done by El Paso of the environmental problems created when its proposed pipeline route leaves the corridor and goes to the Alaskan coast. Again, the State should not feel itself wedded to any position or presentation made by El Paso but should be in a position in the FPC proceedings to vigorously criticize and, if necessary, advocate alternatives. Finally, the financial capacity of El Paso to construct the proposed project is limited. El Paso frankly concedes that if it is granted a certificate, it expects to be joined by other companies and what we may well see is a new consortium created, composed of many of the same parties that presently are in the Arctic Gas consortium. The State should do everything to insure that adequate financial backing is obtained for this project and that the project is, insofar as it can be made so, economically feasible. It is in the State's interests to do so because if the project ultimately becomes subsidized we can reasonably expect that the State will be forced to bear a portion of that subsidy, either through pre-emption of its taxing power or through imposition of other federal controls.

While we have recommended to you that the State support a Trans-Alaskan route, we believe that we must also advise you that there is a great deal of impetus and political pressure tending toward an adoption of the Canadian route by either the FPC or the Congress. Midwestern and eastern states see it in their interest to have North Slope gas come directly to their markets through a pipeline, and when the decision is made we can expect that this large segment of the United States populace will not be ignored. Moreover, there is evidence that the Arctic Gas proposal will use less of the gas itself in the transportation system, which will recommend the system to a national constituency. Finally, as we have noted earlier, the Arctic Gas proposal appears to be cheaper in terms of the construction necessary for the transportation of Alaskan gas. Faced with two marginal economic proposals, the FPC or the Congress may well opt for the one which at least is cheaper on its face, since that would reduce costs to consumers.

We mention these factors because we believe that, while Alaska should promote a Trans-Alaskan route, it should never lose sight of the fact that the Arctic Gas proposal has a substantial chance of ultimately prevailing. Accordingly we believe our position should be not only to promote the Trans-Alaskan route, but actively to criticize the Arctic Gas proposal in an effort to insure that if it is ultimately adopted it will be the best route possible for Alaska. For instance, the Arctic Gas proposal right now is for a line through the Arctic Wildlife

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Range. It is the feeling of the task force that it is not in the State's interest to promote intrusion and development of that Range and that the State should attempt to insure that routes are developed for the Arctic Gas proposal (if it is accepted) which will avoid incursions into the Range. Arctic Gas has indicated that if they obtain the certificate which, in their view, will give them eminent domain powers for a pipeline across State lands, they will nonetheless negotiate with the State for such a route. We would expect to do so, but at the same time we should make every effort before the FPC or the Congress to insure that the basic corridor for the route is sound.

We will be meeting with our attorneys in Washington, D.C. over the weekend to discuss how we best can present Alaska's case before the FPC. On April 7 I will participate in the prehearing conference, at which point we will indicate to the hearing officer what basic alignment we will take in the proceeding. I will, of course, await your instruction before advising Washington counsel of that course of action.

AMG:as

CONCLUSIONS

The statements and testimony from communities and knowledgeable individuals have led to the following conclusions relative to the impact of pipeline construction. They are drawn with the aim of placing in perspective the possible courses of action which may be open to the Legislature and which are discussed later in this Summary.

1. The communities found it difficult, in most cases, to determine what effects pipeline construction would have on their areas. Most did not have the staff to do research or make employment and population projections. The communities had very little information on the specific plans for the pipeline at a date early enough to be helpful.

2. The early impact will be in the areas of law enforcement, recreation, unemployment, drugs, alcohol and welfare. These matters will increase the operational costs of local governments, but will not increase the potential for additional revenue. These problems will be associated with a transient population and with pipeline workers looking for recreation.

3. The more permanent population will place demands on schools, public facilities, housing, utilities and government services which, in some communities, will be difficult to meet. Although revenue to the local governments will rise, there will be an over-all lag in revenue, especially in property taxation. Some categories of State shared revenues will rise in proportion to population increases. Where a sales tax is in effect, an increase should be felt almost at once.

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4. Increased population will accelerate the need for many public improvements, often necessitating substantial financing at a date earlier than normal. In some cases, this presents the community with the problem of meeting higher maintenance costs and debt service payments while raising a question in the minds of community leaders as to whether required substantial tax increases can be sufficient. Without assistance, this may be the case in many communities.

5. Population increases will occur in most Alaskan cities, and in general, the impact will be in proportion to the increase. However, the relative severity of the impact on any community will be more related to the percentage of population increase rather than the number of persons arriving in any given community.

6. Some government leaders are concerned that public improvements made to meet demands during construction may lead to over-building with a resultant debt-burden existing in a community long after construction is completed. In nearly every case, the Committee's conclusion is that the cities will not decrease substantially in population after construction is completed.

7. Even with a lag in revenue receipts, findings show that by 1977, most community revenues will have reflected the population increase and further impact aid, per se, should not be required.

8. The agencies of the State Government will have an important role in meeting many of the problems associated with the pipeline construction, both in the organized communities, the unincorporated communities and in the unorganized borough.

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The effectiveness of these agencies will depend upon the money available to them and the direction given by the Administration. The Committee or the Legislature should review whatever plans are drawn to determine their adequacy.

9. Some communities are deficient in certain facilities or utilities and include funding of these deficiencies as related to pipeline impact. Even though there may be a real deficiency, the total demand for financing must be considered along with the amount needed only to meet the impact.

10. Some communities desire to provide improvements which are in excess of the need due to impact alone. In these cases, the impact portion should be isolated and the additional funds needed should be considered separately (see Appendices C & D).

11. There are capital-improvement projects being accelerated because of pipeline construction, but which will be needed regardless of the pipeline within a reasonable period of time under normal growth conditions. Aid made available should be designed to help the community during the interim period only.

Communities which are required to make capital improvements many years in advance of normal requirements may need a higher degree of immediate help, but not beyond the point where local revenues are created to support debt service.

12. Inflationary pressures will be a factor in operational costs of local government. It is believed that this factor need not be considered except for the first year of the impact. (See Appendices C & D).

Draft continued--

The following observations and suggestions for consideration are offered to reflect, as nearly as possible, the composite concern expressed in committee meetings, as well as in hearings and interviews with community leaders and citizens of the various impact areas:

1. Numerous city officials have suggested that increases in State Revenue Sharing would provide the aid so badly needed by the local governments. Administratively, this would be a simple solution, assuming that a general increase in the various categorical formulae used in revenue sharing would provide the amounts of aid necessary in individual cases.

This method was tested against the net needs of the five communities requesting the largest amounts of aid and found successful, if any general formula is to apply. The per-capita needs for operational aid range from about \$15 per-capita in the larger communities to over \$250 per-capita in the smaller ones.

Categorical grants might be made to the communities in response to formal applications, but this would not provide a total solution covering all communities.

Therefore, the first suggestion is an attempt to formalize grants for operational impact aid on a population percentage increase basis.

As stated earlier, the percentage increase in population is more significant to the community than an increase in actual numbers. Therefore, a formula based upon the percentage increase can be devised to provide for operational impact grants which

Draft continued--

apply to all communities affected by population increases.

Assume, for example, that a 12% increase in population would warrant a \$20 per-capita grant. Then, a 150% population increase would require a \$250 per-capita grant. In order to coordinate the situation of the boroughs with service districts, the Committee feels that grants should be broken down by percentage as follows: 50% for general government, 17% police, 17% fire, and 16% roads.

2. The revenue sharing grants for operational impact costs should be formally requested by the cities, with supporting evidence of need.

3. The Committee has found that per-capita impact costs will drop in 1975 and again in 1976. Any assistance programs should be reviewed for 1975 applications to determine the need, and if it exists, to establish a new per-capita grant formula.

4. Caution should be exercised in making substantial allowance for inflation.

5. Aid for capital improvement programs undertaken on an accelerated basis by the community, and which, under normal growth conditions, would be needed by 1976, 1977 or 1978, could be in the form of a State loan or bond-guarantee program. Such a program should be available to all cities and would enable the smaller communities, which may not be able to sell bonds, to obtain debt financing. A bond-guarantee should assure the smaller communities lower interest rates.

6. In cases where capital improvements are  required to meet impact needs, but under normal conditions would not be

Draft continued--

needed for, perhaps, five years or more, the State could undertake a program to finance a portion of the debt service, or interest, for a period of time.

7. In those cases where debt limitation on general obligation bonds makes it impossible to sell bonds for a capital improvement necessary to meet the impact needs, the State should consider a grant program, if an urgent need can be shown.

8. In those cases where funds are urgently needed by a municipal water utility and the earnings potential is such that the required debt coverage cannot be maintained, the State could establish a loan program, at a reasonable interest rate, to cover the interim period until bonds can either be sold or utility rates increased to improve the earnings.

9. Legislation similar to Senate Bill 235 (an Act creating the Alaska State Electric and Telephone Authority) should make available a loan program for municipal and cooperative electric and telephone systems when other financial sources are unavailable.

10. The State should establish a stronger program to make housing loans or purchase available mortgages if normal financing sources are not available.

11. No doubt, much of the impact of pipeline construction will fall in the areas of responsibility of the various State Departments. Funds should be provided for health services and health nurses; State Operated Schools; police; the Department of Highways for maintenance in the impacted areas; airports and airstrip construction and maintenance; various training programs;

environmental health law enforcement; protection of fish and game along pipeline route; expansion of the Motor Vehicle Division; review of voter registration capability; review of the Court System in impacted communities, and the prosecution of crimes.

The Committee suggests isolation of impact requirements of State Departments in order to prevent permanent build-up of departmental structures.

12. Impact on district and borough schools varies greatly. The per-student requirements range from over \$450 to over \$900. Since the Foundation Program and the other State contribution programs are quite intricate, a formula based on a per-student ratio and on the percentage increase of students should be devised for each of the communities needing school operational funds.

13. Some school districts will be requesting funds for new construction or for temporary classrooms. Consideration should be given to double-shifting until the population trend is fully established. If there is a clear need for more classrooms, temporary quarters should be provided until the growth pattern is clear.

14. Special action should be taken, either legislatively or administratively, to protect fish and game along the pipeline route.

15. Non-critical construction projects should be delayed until pipeline construction reaches its peak and begins to taper off.

16. The Alaska State Legislature should authorize, if appropriate and necessary, the University of Alaska to lease University land for temporary housing in areas where private land is not available.

Draft continued--

17. The Alaska State Legislature should consider the formation of a special agency or task force to investigate and make recommendations to the Administration and the Legislature concerning the availability of federal funds relating to pipeline construction. In light of the urgent needs in various areas of the State, the Committee recognizes that any such agency will need emergency authority. The Committee also feels that such an agency should be composed of members of the Administration and the Legislature or their appointees.

Finally, the Committee concludes that, in general, a case by case approach to the solution of impact problems would best serve to cope with the broad variety of local stresses bound to occur in varying degrees during the pipeline construction period. Suggested legislation to accomplish this approach is offered in "An Act creating the Pipeline Impact Agency" and its companion measure establishing a "Pipeline Impact Fund."

PIPELINE IMPACT  
Brief Summary

Several communities more severely affected by pipeline construction will see population increases ranging from 20% up to 150%. Accelerated growth in these proportions places a great burden upon both the State and local governments to provide both the extraordinary operational costs and necessary public improvements to accommodate the increased population.

The State is planning to aid the communities in absorbing part of the additional operational costs incurred, but will be unable to provide any substantial aid in the field of capital improvements because of declining reserves and the prospect of a negative-balance reserve account before substantial revenues accrue to the State from oil production.

In the public improvement categories are schools, streets, sewers and sewage treatment plants, water and other utilities, recreational areas and facilities, libraries, expanded dock facilities, fire and police quarters, and communication facilities, which must be financed and built ahead of schedule, in some cases as much as five or six years.

It is believed that the pipeline construction project is a national interest and that the crash nature of its' construction may be considered as a national effort.

Under the circumstances described above, we want to explore the Federal programs that might be available to assist the heavily impacted communities to prepare for the population boom.

Specifically, the following is a partial list of projects that will be needed by communities and estimated costs involved.

Schools	\$10,000,000
Electrical Utilities	14,000,000

Public Buildings & Facilities	\$10,000,000
Recreational Facilities	4,000,000
Roads & Drainage	2,000,000
Fire-fighting Facilities	1,000,000
Telephone Utility	1,500,000
Water Facilities	25,000,000
Sewer & Treatment Plants	5,000,000
Libraries	1,000,000
Waste Disposal	120,000
Air Quality Control	25,000
Total	<u>\$73,600,000+</u>

A complete assessment of the needs have not been made, but the above represents the needs of the communities most heavily affected by population expansion. It is expected that several other communities that have not been studied, including Juneau, will experience substantial population increases.

It should be noted that several of the cities have already made substantial investments to prepare for the impact. For example, Fairbanks has expended or encumbered over \$27,000,000 since 1969 on public facilities and utilities.

# Gas Line Depends On Push

The executive vice president of El Paso Natural Gas Co. said in Anchorage last night that unless his company has some evidence of unqualified, enthusiastic support of all Alaskans, El Paso will be forced to abandon its plans for a trans-Alaska gas pipeline.

The official, George Carameros, who also is vice president of El Paso Alaska, was here for only a day, and met yesterday with the special legislative Pipeline Impact Committee, and members of the Alaska Pipeline Education Committee. He also was the guest of honor at an informal reception last night with Anchorage civic leaders.

Carameros told all that El Paso is faced with a crucial decision on whether to spend another \$30 million, (in addition to the \$2 million already spent) in environmental and engineering studies, preparatory to building a natural gas pipeline from the North Slope to a terminus in Southcentral Alaska.

Arctic Gas Study, which is proposing a trans-Canada gas pipeline to take Prudhoe Bay gas to market, has said it will file applications for its pipeline in January with both the U.S. Federal Power Commission and the Canadian government.

At that time, or within two or three months, El Paso must also file an application.

Carameros said it would cost \$3 million just to file an application with the federal commission and that another \$27 million expenditure would have to be committed for additional work. He said El Paso cannot proceed in this unless there is support in Alaska for the all-Alaska pipeline.

Carameros said he wants firm, complete backing of El Paso's proposal from the governor, the legislature and the people of the state.

He indicated that the state can exercise "moral suasion" in decisions as to who the oil companies on the North Slope sell their gas, and of course, the state has its own royalty gas of which to dispose.

At this meeting with Sen. Ron Rettig's special impact committee, Carameros indicated that El Paso would like to see the legislature adopt a formal resolution at its next

(See Page 2, Col. 3)

## El Paso Asks Support

(Continued From Page 1)  
session, in January, supporting the trans-Alaska gas pipeline.

The committee's executive secretary, George Sharrock, said the legislators made no commitment. But he said they are sympathetic to the fact that El Paso's project would have more economic benefits to the state than the trans-Canada proposal.

Carameros said the maximum benefit to Alaska would only come with a plan as proposed by El Paso, and not through that proposed by a

consortium of 28 companies, the Arctic Gas Study group.

The trans-Canada plan would pick up Canadian gas from the Mackenzie Delta, for transportation to both Canadian and American markets. Arctic Gas has said the Alaska gas is absolutely essential to a trans-Canada pipeline at this time.

El Paso's plan is to build a pipeline closely paralleling the trans-Alaska crude oil pipeline. A gas liquefaction plant would be built at the gas pipeline's terminus, which has not been decided. Then the

super-chilled liquefied natural gas would be moved to the West Coast by refrigerated supertankers.

"We have completed \$2 million worth of studies which have convinced us that the economics of a trans-Canada pipeline versus a trans-Alaska pipeline are virtually the same — it would cost as much to go either way," Carameros said.

"Furthermore our studies indicate that the plan we propose is economically feasible, providing we can obtain the natural gas supplies necessary to operate the line. But the biggest consideration of all is that the interests of the Alaska people overwhelmingly lie in committing this resource to an all-Alaska pipeline that will reap enormous benefits for the whole state."

Carameros said that despite strong odds in favor of the trans-Alaska gas pipeline, "there has been a passive attitude on the part of Alaskans which we find very difficult to understand.

"If I were in the shoes of the average Alaskan, I would be standing on the rooftop shouting for state support of an all-Alaska route."

Anchorage Daily Times  
12/14/73 p. 1

# ARCTIC GAS COMPANIES PUSH NATURAL GAS SYSTEM

By BETZI WOODMAN

**E**arnest persuaders from Arctic Gas Study Groups are working to convince governments, financiers and the general public in the U.S. and Canada that their proposed pipeline is the most efficient and advantageous means of transporting natural gas from the North Slope and Northern Canada's Mackenzie Delta region to all major United States markets.

Until mid-June, wide-ranging feasibility studies were conducted for the 26 participating firms (a major portion of the petroleum and natural gas industries in North America), primarily by the Canadian Arctic Gas Study Company. Then it was announced that the Alaska Arctic Gas Study Company would be activated with an office in Anchorage. Named as president and chief executive was Robert Ward, lieutenant governor under Keith Miller and most recently administrator for the Alaska Power Administration. Colonel Amos "Mo" Mathews, soon-to-be-retired from his position as district engineer for Alaska, Army Corps of Engineers, is executive vice president.

Although both men are highly regarded for their administrative and engineering expertise, respectively, neither has a history of gas pipeline experience. The new office, with from 10 to 20 employees probably

will have loans of gas experts from among the participating firms.

Alaskan Arctic Gas (AAG) will supervise study programs in Alaska, prepare applications (to be filed this year) to state and federal regulatory authorities for approvals to construct and operate the proposed pipeline, and act as liaison with state government officials and Alaskan residents. The Canadian group will continue to function similarly in Canada.

The two companies were organized as service companies on behalf of the mem-

however, they are to be replaced and developed into Alaskan Arctic Gas Pipeline Company and Canadian Arctic Gas Pipeline Company. The latter two organizations will, in their respective countries, actually apply for authorizations; secure the necessary financing; and build, own, and operate the pipeline. (To avoid confusion among the names of four companies, the general reference will be to Arctic Gas.)

Approximately \$34 million has been spent in the past five years studying the economic, engineering, and environmental aspects of the proposed pipeline in both countries. Expenditures are expected to total \$60 million for further studies, regulatory proceedings, and detailed engineering, prior to governmental approvals.

The pipeline will be a contract carrier, officials say, neither buying nor selling gas, but providing transport for shippers of gas who contract for the service on a long-term basis. It will be essentially a utility-type operation with a regulated rate of return.

Proponents of the Arctic Gas pipeline are hard at work drumming up support for the mammoth project estimated to cost \$5.7 billion—and they have their work cut out for them. Pro arguments must be persuasive in the feasibility of the technical aspects of constructing through the Arctic a high-pressure 48-inch line more than two thirds the length of North America.

Advocates must also contend with a number of issues which can complicate procedures as much as or more than the situations which have beset the Trans-Alaskan Pipeline. One immediate concern of Arctic Gas is the proposed El Paso gas pipeline across Alaska from the North Slope to (probably) Seward, where the gas would be liquefied for transport to the west coast. W. P. Wilder, chairman of Canadian Arctic Gas Study Ltd. told government officials of Northwest Territories that delays in approving Arctic's proposals could lead to completion of the El Paso line. "The result would almost certainly be that a pipeline from the Mackenzie Delta would, at the very least, be deferred for a considerable period," Wilder warned. In addition, "exploration for petroleum resources in the North (of Canada) would be severely retarded. Supplies of northern gas would likely be deferred well beyond the point in time that they are required to help meet Canadian needs." Wilder, in fact,



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ber firms. As study companies, the two entities represent a planning phase. Soon,

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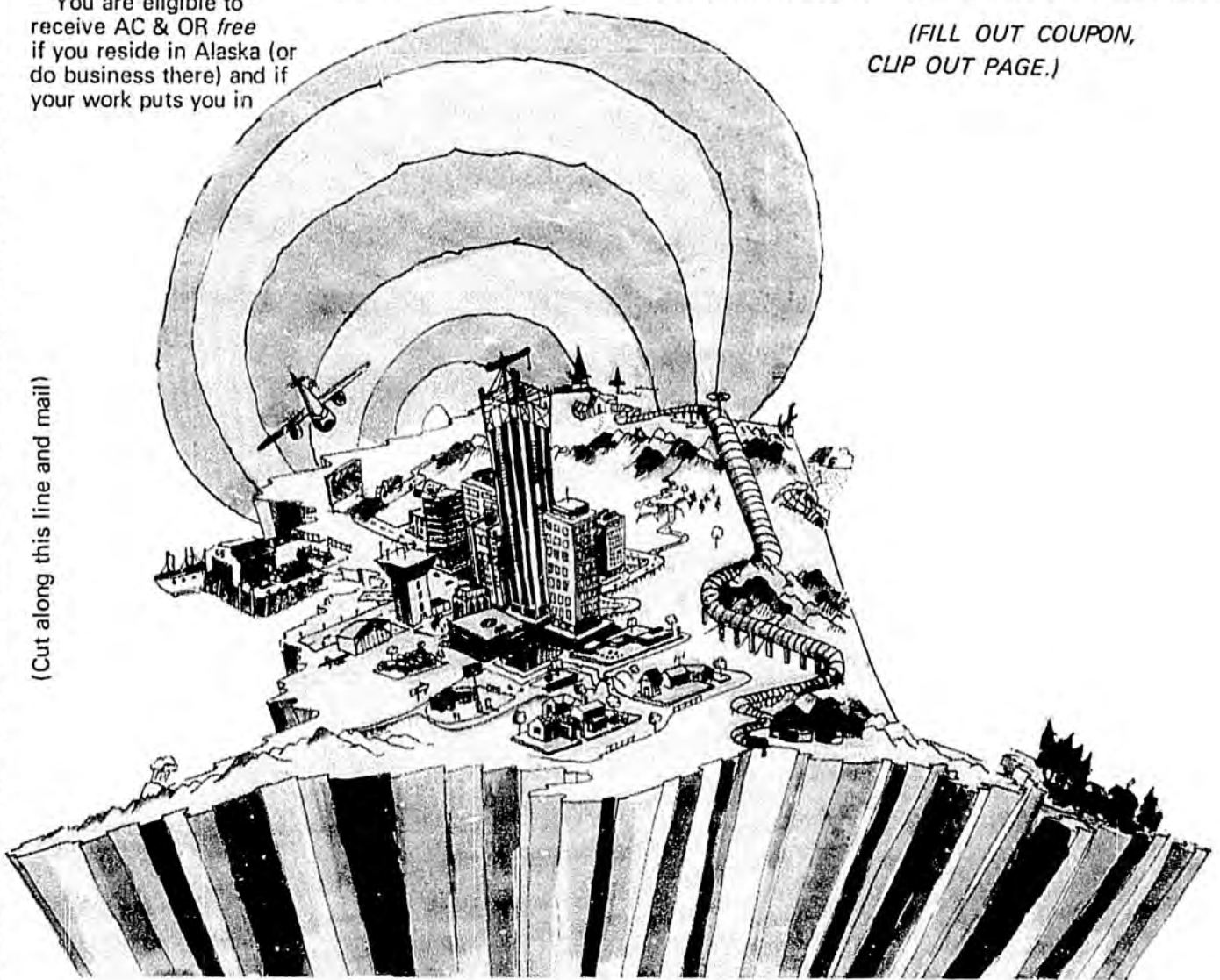
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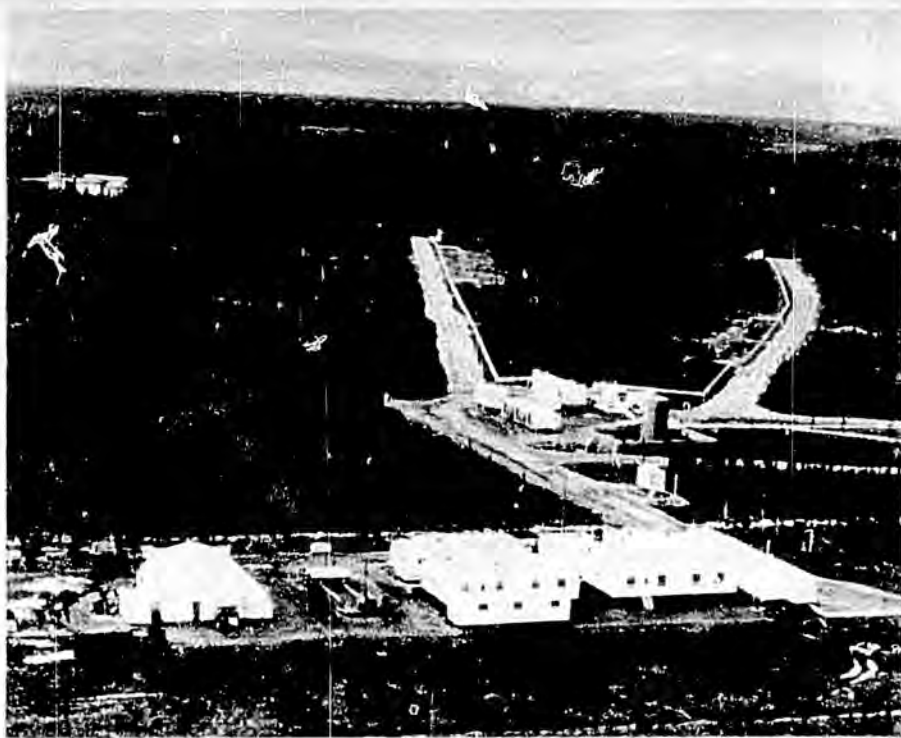
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Aerial view of Arctic Gas' \$3.5 million Arctic test facility at Sans Sault, NWT. Five 500-ft. sections of 48-in. diameter pipe were installed at the test site. Refrigeration and compressor simulated the flow of natural gas through the pipe sections.

has called the possibility of El Paso's success and thus loss of North Slope gas to Arctic Gas "probably the biggest risk facing our project."

Other serious issues with which Arctic Gas must deal include indeterminate and differing energy policies in Canada and the U.S.; differing regulatory procedures (with that of U.S. on the verge of change) by the two governments; environmental and economic impacts; political considerations in both countries which may in some cases be only indirectly related to this particular project; financial backing and methods for public ownership; legal intricacies of product ownership and export; and the already-recognized potential delay in the matter of Canadian aboriginal land claims.

Basic to the whole project, however, is access to the proven gas reserves in both the Mackenzie Delta and the North Slope. Wilder states that two things are required to achieve a delivery rate of more than four billion cubic feet per day and thus make the transportation of Northern gas economically viable; gas resources of both the Slope and the Delta for volume; and access to not only Canadian markets, but an outlet to the much larger U.S. markets.

At this point, the only promise of North Slope gas for the line is through an option held by Columbia Gas Systems with Sohio for gas from the BP operation. Columbia, a participating member of both study groups, is under the crunch to build reserves for their large distribution in seven eastern states. Atlantic Richfield and Exxon, who have most of the gas of Prudhoe through the gas cap, and are also

members of the Arctic Gas Consortium, are not yet committed for their gas transportation.

Before the basic resource of natural gas can be available, however, there must be oil production on the Slope. This, of course, depends on a transportation route for the crude oil — the trans-Alaska oil pipeline. An even further consideration of basics involves the nature of the Prudhoe reservoir and whether the cap gas can be produced without harming the reservoir. The Oil and Gas Conservation Committee has jurisdiction over when the gas will be produced.

To help find answers on which to base such decisions, the state has spent nearly a year on a reservoir simulation project by computer. First basic runs were due in July, but the real crux is not expected until late winter or early spring when all the parameters are defined. Undoubtedly, every company involved on the Slope has taken the prudent step to make its own study. Although a computer will reflect only what program is put into it, it is likely that the oil companies have more information than the state. In any case, judging the results adequately will be a crucial matter.

#### THE ARCTIC GAS CASE

To back its project, Arctic Gas sets forth a number of advantages besides the overall statement that the route of their gas line represents "the most efficient and advantageous means of providing transportation for large reserves of natural gas to all major U.S. market centers."

Wilder points out that for Canada to re-

main self-sufficient in energy (she is the only industrialized nation in the free world in such a situation), she must be able to develop her vast potential energy resources at an adequate rate. Only a small portion of the potential reserves are presently discovered, developed, and now available for present or future use.

The opportunity exists, Wilder said, to take advantage of the growing U.S. demand for oil and gas imports in such a way to make economically feasible the development and utilization of Canada's Arctic petroleum resources. The scale of development required to economically tap these resources is such that it can be provided only by access to the much larger U.S. markets, he says. "Our proposed Arctic Gas pipeline illustrates this well. At full compressor horsepower, the 48-inch diameter line will be able to deliver gas to Canada and U.S. markets at a rate about one third greater than the present total rate of gas demand in Canada. . . we cannot economically reach our Arctic gas resources without the economics of scale of the big U.S. market."

That market, however, is not all that is needed to make the pipeline economically viable. Also necessary is the U.S. gas supply on the North Slope. It is anticipated that a little more than half the four billion cfd will be from Alaska, the other from Mackenzie Delta. All of the Alaskan gas and a substantial portion of the initial flow of Canadian gas will be destined for U.S. markets. "Without the Alaskan gas, a pipeline from the Mackenzie Delta would require discovery of much more gas in northern Canada to economically justify the pipeline. And it would require export of more Canadian gas to U.S. markets."

Once built, the pipeline capacity could be increased in stages in step with the demand growth by means of incremental looping with additional 48-inch diameter pipe. Thus, after the initial export commitment required to get the system built, "the remaining potential gas reserves in the North (Canada) mainland would be economically available to serve Canadian needs exclusively, if required."

A conservative estimate of the potential gas reserves in northern Canada, excluding the Arctic islands, places the total at 100 trillion cubic feet.

Benefits for Canada, then, will include assurance of adequate gas supplies for Canadian needs; generation of hundreds of millions of dollars in government royalties through production royalty and lease payments, as well as large revenues from various taxes; substantial revenue from the sale of this gas; a dynamic and broad-based stimulation of the Canadian economy and national employment flowing from the activities involved in the development and use of this resource; and generation of earnings to a great number of Canadian investors who are anticipated to be majority owners of the pipeline.

Beyond the construction phase, Arctic

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	623	260E Series A
Flywheel Horsepower	300	300
Power To Empty Wt. Ratio	1:214	1:199
Cubic Inch Displacement	700	844
Heaped Capacity	22 cu. yd.	23 cu. yd.
Width of Cut	10'-4"	10'-6.5"
Transmission Speeds	8	9
Kon Tork Differential	No	Yes

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Gas calculates that operation of the pipeline and export of Canadian gas to the U.S. might result in a contribution to Canada's balance of payment position of \$500 million to \$750 million annually.

Principal benefit to the U.S. would be alleviation of the present critical natural gas shortage, with this line said to be capable of making northern gas supplies available to a much broader (than El Paso's proposal, presumably) area throughout the U.S. from the Pacific coast to the eastern seaboard. With transportation costs to the consuming centers appreciably lower, a maximum wellhead value for the gas would be provided and thus generate revenue to the state.

#### TECHNICAL

The 26 participating firms in late June agreed on routing of their proposed line for purposes of governmental applications. Precise delineation was not available at AC&O press time and the announcement did not specify the Alaskan portion of the route.

Three routes are being considered from Prudhoe to Canada. One lies east from Prudhoe along the coastal plain, then south up the Mackenzie River valley. This route would cross the Alaska Wildlife Refuge and talks are underway with Department of Interior officials on this matter. Another route skirts the Refuge by crossing the

Brooks Range in Alaska and the Richardson Mountains in the Yukon. The coastal route is shorter, appreciably less costly, would traverse a greater area of potential gas supply and is believed to involve less risk of environmental impact.

The companies are also interested in an offshore route and studies are being conducted by Shell Oil Company off Prudhoe in the Arctic Ocean.

South of the 60th parallel, the line will tie in with existing facilities of Alberta Gas Trunk Line, TransCanada Pipelines and Alberta Natural Gas — all of which can be expanded to handle increased volume.

Depending on final route selection, the proposed pipeline, with full delivery capacity, will embrace up to 3,000 miles of 48-inch diameter pipe and some two million horsepower at about 50 compressor and refrigeration stations. Jet engines of the type used in large aircraft will be installed in compressor stations at approximately 50-mile intervals. They will chill the gas and push it through the pipe.

Design operating pressure is 1,680 psi, requiring X70 pipe with a wall thickness of nearly 3/4 inch. This will be nearly 2 million tons of steel pipe. At full capacity, the line will be able to handle a maximum gas supply of 4.5 billion cfd, traveling at 8 mph with a delivery capacity in excess of 4 billion cfd, the difference accounted for by line fuel.

The unique design feature involves refrigeration of the gas. Throughout the areas of permafrost, roughly north of 60 degrees latitude, the gas will be refrigerated at each compressor station to about 25° F, so that it will be close to soil temperature and below freezing. This chilled gas concept will allow the pipeline to be fully buried the entire length and avoids risk of any intolerable damage to high ice-content permafrost. The surface will be revegetated to provide a thermal insulation for the permafrost and to arrest alluvial erosion. South of the permafrost area, the gas will be chilled to remove the heat of compression.

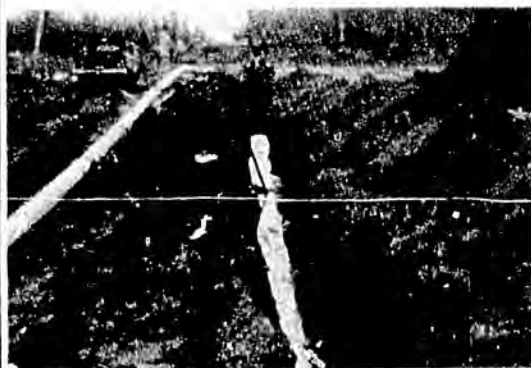
The right-of-way and compressor stations will occupy less than 40 square miles in the 1.5 square-mile Yukon and Northwest Territories. Life of the line is planned for 25 years.

The biggest unknown factor in timing will involve time needed to get government authorization. Allowing 18 months for this from the time of filing, it would be the first part of 1975 before approvals could be anticipated, at the earliest. With luck, this could provide for assembly and delivery of materials during the summer and

TURN TO PAGE 60

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### FAIRBANKS

Laying pipeline across the Chena River in Fairbanks for Corps of Engineers, 1971.

### KIEHI LAGOON IN HAWAII

Rows of pipeline await completion of the underwater trenching operation . . . the finished pipeline runs from Sand Island to Honolulu International Airport, crossing water in several sections.



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**Next Month —  
THE EL PASO STORY**

# How to give a mini-business a boost

This year Alaskans will see a boom in small businesses beginning, coinciding with the start of the school year. These small businesses will produce and market a wide range of products, and offer a variety of services. In spite of their basic differences, they will have one thing in common. They will be owned and operated by young people of high school age. It is all part of the nationally-acclaimed Junior Achievement Program, a "learn-by-doing" approach in which students organize and manage their own small-scale businesses.

At Exxon, we are proud to have been able to play a part in introducing Junior Achievement to Alaska. But if Junior Achievement is to continue to be successful, it needs broad community support. That means not only company sponsorship, but individual participation as advisors, and as stockholders, to help give these Mini-businesses a boost.

**EXXON** COMPANY, U.S.A.



Sound equipment was set up at several locations along possible northern pipeline routes being examined by Arctic Gas. The equipment simulates the sounds of pipeline operations, including compressor stations and refrigeration units, to see what impact they have on animals and birds.

CONTINUED FROM PAGE 56

start of construction during the winter of 1975-76.

Construction in the north would be limited to a winter season of about four months. Equipment would move over snow and ice roads to protect the vegetative mat which insulated the permafrost.

With careful planning, it is considered possible to build the northern end of the system as far as the Mackenzie Delta during two winter seasons, 1975-76 and 1976-77. The southern portion could be built during the summer and fall of 1976. This would permit the start of gas flow from the Mackenzie Delta by mid-1977, with extension of the pipeline to the Alaskan North Slope gas during the following winter.

This is considered an optimistic timetable.

The pipelaying will require 9 to 10 mainline construction spreads and two major river crossing crews. The construction spreads in northern Canada would have to complete 60-70 miles each during each winter season, and the prairie spreads would

have to complete about 150 miles each during one fall and summer period.

Construction contract costs, excluding materials and based on unescalated 1972 costs could amount to about \$20 million per construction spread on the prairies and \$30 million to \$50 million per spread for each season in northern Canada. The Alaskan extension, depending on route, will require 8 to 10 construction spreads for a winter season's work, and the contract cost per season is expected to be even higher than in northern Canada. The cost of construction equipment may amount to about \$10 million per spread on the prairies, and in excess of \$15 million for each northern spread. This means that pipeline contractors will be looking at more than \$150 million in equipment to handle this job. In addition to pipelaying, other construction work will include compressor stations, refrigeration stations, maintenance bases, camps, winter snow and ice roads, airports, docks and stockpiling areas.

About eight of the compressor and refrigeration stations would have to be com-

pleted with the pipelaying for the initial start-up of the line; the remaining compressor and refrigerator stations could be completed during the next couple of years to achieve full design capacity.

This construction schedule is dependent upon labor agreements which preclude the risk of work stoppages. Not only is the construction schedule dependent on this, but the entire economic viability could be seriously jeopardized by any extensive work stoppages. A precedent for such labor agreements was set at construction of the large Churchill Falls hydro-electric project. Responsibility for attaining the agreements would rest primarily with the contractors.


In addition to its own technical staff, Arctic Gas employs 30 consultants and research organizations on its wide range of study programs. These include aspects as diverse as metallurgy, soils mechanics, thermodynamics, transportation and logistics, sociology, economics, and wildlife biology, among others.

Principal study programs include pilot test pipelines at Sans Sault and Norman Wells, NWT, and Prudhoe Bay. Chilled and compressed air, used to simulate natural gas flow, has been circulated through 5,000 feet of 48-inch diameter test pipes. In operation for two years, these test facilities demonstrate that fully-buried chilled gas pipelines can be constructed and operated without any permanent damage to the permafrost. This \$7 million program has provided data on stability of gas pipelines in permafrost under various simulated operating conditions: stability of different types of foundations for above-ground structures, effects of a pipeline on various forms of surface cover; drainage problems associated with Arctic pipeline construction; and construction methods, design techniques, material, and equipment for use in an ultimate pipeline system.

#### FINANCES

As envisioned, the Gas Arctic line will be the largest single project ever to be financed by private capital. Without importing some capital, the company could not raise in Canada the over \$5 billion for the pipeline traversing Canadian lands, except for some 250-300 miles in Alaska. But the company is confident of its ability to secure more than 50 per cent equity, ownership and financial control in Canada. But while there is need to import capital to develop Canada's potential energy supplies, the nation must also generate greater amounts of capital requirements from Canadian savings, according to one Arctic Gas spokesman.

"The growth of the Canadian capital market can provide the opportunity while the problem which confronts the U.S. with its continuing balance of payments position may underline a need to do so. We do not need to discourage foreign investment in our energy sector; we do need to encourage more Canadian investment," said V.L. Horte of Arctic Gas before the Con-



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*This field of grass was grown in six weeks by botanists at Arctic Gas' \$3.5 million Arctic test facility at Sans Sault, NWT. A ditch had been dug to accommodate a stretch of 48-in. diameter pipe for testing purposes and then was covered and seeded to see how quickly and effectively a vegetative cover could be restored.*

ference Board of Canada.

In May of this year, Wilder urged the investment section of the Canadian Life Insurance Association to "start thinking of increasing your proportion of assets in the energy field . . . (This) growing accumulation of Canadian savings which you gentlemen represent is of considerable interest to Arctic Gas. We are hopeful that it will be a significant factor in achieving majority Canadian ownership (of this project)."

Reactions to the energy situation around Canada seem to be sharply divided. Some fear the large degree of domination of Canada's energy companies by foreign corporations. Others note that without outside help, the level of activity and employment in the resource industries might well have been much slower. Arctic Gas representatives frankly push the international aspects of the project. "Arctic Gas exemplifies the historic spirit of the U.S. and Canadian relations . . . a spirit which recognizes that the interest of each nation can be best served by mutual cooperation—and never more so than in this instance." The recent energy policy report however, stated adamantly that development of Ca-

nadian resources would be governed by Canadian needs.

In order to assess the total impact of the pipeline on the Canadian economy during both construction and operation, Arctic Gas has commissioned studies by the Institute for the Quantitative Analysis of Social and Economic Policy at the University of Toronto. Using many sets of circumstances and working with its TRACE econometric model, the Institute is preparing forecasts of the Canadian economy with and without the pipeline. The computer models will measure the potential impact of the line both nationally and regionally in terms of such factors as employment, national income, gross national product, inflation, interest rates, balance of payments and exchange value of the Canadian dollar.

Although studies are not completed, indications from results so far are that there need not be upward pressure on the Canadian dollar resulting from financing and construction of the pipeline. Imported capital resulting from the financing and construction is likely to be at least matched by direct and induced payment for foreign goods and services. Impacts on other major



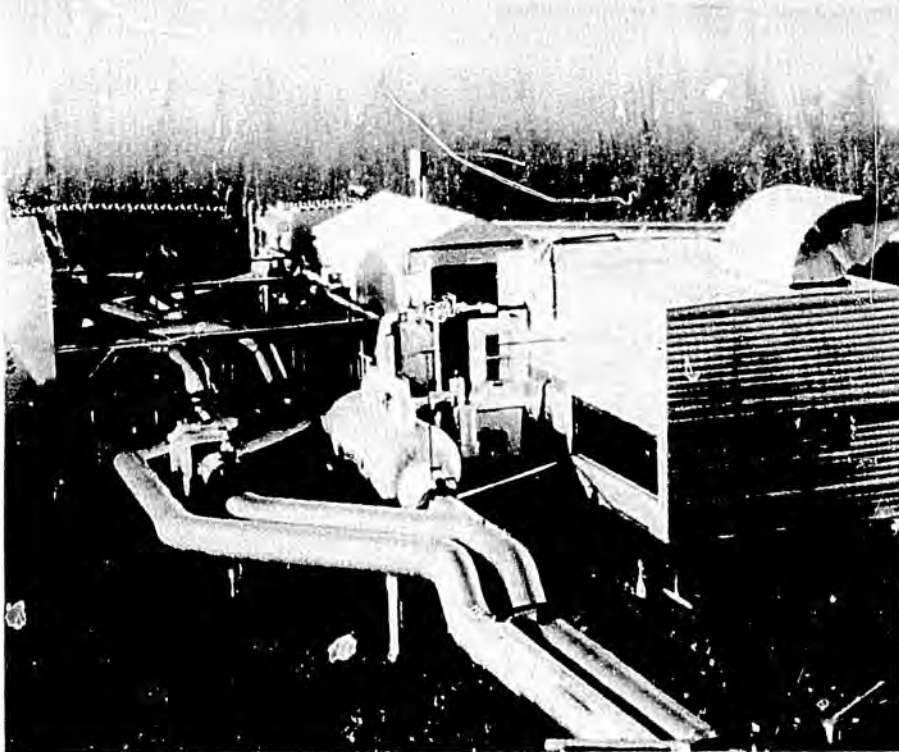
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This pipeline testing facility at Sans Sault, NWT, is one of three operated in the North by Arctic Gas.

economic factors such as price levels and interest costs should be negligible.

In terms of employment generation, preliminary results suggest that total income and employment impact of investment in

the pipeline will be on the same order of magnitude as investment in the rest of Canadian industry.

In financing studies, the company's objective is a viable plan which will provide

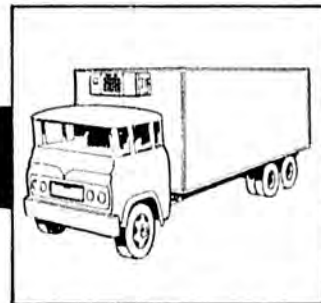
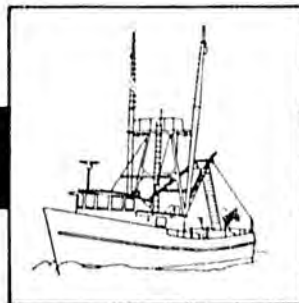
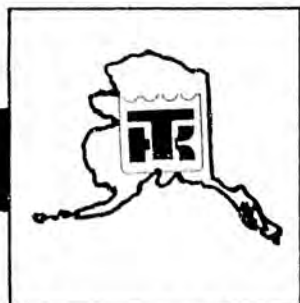
first priority to Canadian investors and a minimum 50 per cent Canadian equity ownership. "The only limitation on Canadian ownership that we can foresee will be the amount of funds that Canadian corporate, institutional and private investors choose to make available."

Of the \$5 billion required, the company anticipates that about 20 percent will be equity capital. The \$4 billion of debt capital will comprise a combination of such forms as 20- or 25-year first mortgage bonds, some junior debt money which may have provisions for conversion to equity, and bank loans. In addition to more than half of the equity capital, the company expects to be able to raise a substantial portion of the debt money in the growing Canadian capital market. A very large segment of the debt money, as well as the equity, will obviously have to be raised in the U.S.

In Anchorage, Wilder told AC&O that borrowing would not take place before 1975-76 and would then follow traditional finance methods, hoping for long term money. Rate estimate for private placement is 9 to 3 1/4 per cent.

#### EL PASO

While the Arctic Gas groups worry over possible success of the El Paso gas line in Alaska, they also have realistically considered this route as one alternative. By so



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doing, they avoid the problems encountered by the trans-Alaska consortium when it was alleged that the latter did not consider all alternate means of transporting Alaskan crude oil.

Although Arctic Gas does not believe the El Paso plan is the most economic or advantageous way for the U.S. to tap its large gas reserves on the Slope, the consortium does acknowledge that "it could be done." One potential advantage from the U.S. viewpoint, as seen by Arctic Gas, is that a U.S. transportation system, as opposed to one across Canada, would involve less strain on the U.S. balance of payments.

Wilder says that liquefied natural gas is important when the source cannot be linked with the market by pipeline and he thinks it unlikely that the Federal Power Commission, which would regulate the gas line, would let this gas (North Slope) serve only one market, namely the west coast.

Other industry spokesmen have pointed out that over the long term, Arctic Gas offers high well head value and low local employment, which overall might serve the whole of Alaska better. El Paso promises relatively high local employment and a relatively low well head value because of high transportation costs.

Others question whether present proven Slope reserves are enough for liquefaction.

James Lister, El Paso project director in Houston, says "both lines are needed," and that there is a good case for a line from the Mackenzie Delta and Prudhoe Bay south and neither line is exclusive. He bases his statement not only on the 17 trillion cubic feet of gas Van Horte says is in the Delta, but "there are hundreds of trillions of cubic feet at Mackenzie." Initially, however, El Paso believes their routing has the most advantages.

Lister also says El Paso has extensive pipelines across the country which can accommodate gas transmissions in both directions so their market is not limited to the west coast. He also contends that "we're able to pay the same well head price as anyone" and that the "same people regulate both lines —" meaning the Federal Power Commission which up to now has set the well head value.

The Alaska routing, Lister said, will not only be an all-Alaska pipeline through the state, but "can provide an infinite number of taps off the pipeline to provide an infinite number of energy sources."

Energy taps in Alaska appeal to residents in the interior of the state, particularly in Fairbanks, who see it as potential alleviation to their burdensome icefog problems. Governor William Egan, while not endorsing either proposal, has voiced concern over "how Alaskan gas leaves Alaska" and what benefits it can give the state's people.

Meanwhile, El Paso has "favorable prospects" for gas commitments for their project and their own explorations for gas are well under way. Studies for the pipe-

line and liquefaction plant are out of the preliminary stages and in-depth studies have begun.

#### COMPLICATIONS

Hindrances, obstacles and uncertainties suggested in the first part of this dissertation are compounded by numerous unknowns and controversial attitudes among industry and government people. For example, what if the state of Alaska chooses to take its 12½ per cent gas royalty in kind? Would this throw weight to an Alaskan line? Suppose a cents-per-million cubic feet tax were imposed? Suppose the Canadian land claims litigation drags on with no Parliamentary decision

until the next election because of political implications? If the issue threatens to become a unifying force to bring down Pierre Trudeau's government, would the Trudeau government, as landlord of the pipeline route, make a negative decision on the right-of-way permit?

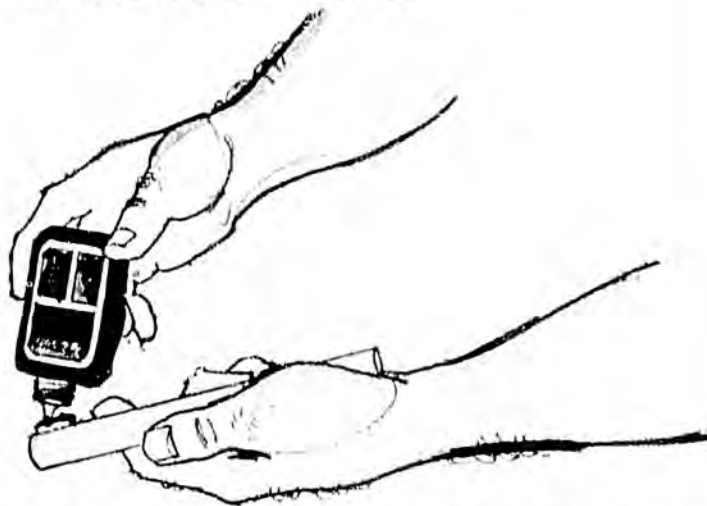
What would be the legal ownership of Alaskan gas in the line while in Canada? Would a sudden cut of Middle East oil change attitudes on this and other aspects of the line?

Obviously, the persuaders of Arctic Gas companies have a Herculean task before them, possibly bigger than the actual construction of the line itself, Gargantuan though it is. □

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## PRESERVING PET 4

Commander J. P. Trunz Jr., is in charge of the Office of Naval Petroleum and Oil Shale Reserves in the Pentagon. Of the four naval petroleum reserves and three naval oil shale reserves administered by his office, the largest in terms of land mass and almost certainly in terms of potential production is Naval Petroleum Reserve No. 4 which covers 37,000 square miles, or about half of Alaska north of the Brooks range.

Trunz would love to bring the oil out of Petroleum Reserve No. 4 but he can't say that. He even said he couldn't say that. From a prepared speech delivered to the Society of Petroleum Engineers in Anchorage, he noted that "We can only assume that the laws affecting that Reserve will be continued as they are presently written, and the Navy would have no plans for the Reserve other than as authorized by these laws."

The Navy hasn't done much with Pet 4 since 1953 except to develop a small quantity of gas in the South Barrow gas field which is being used by the Natives at Barrow and vicinity. That little bit has reduced fuel costs to the Natives by 60 percent and is said to have saved the government as much in transportation costs as it has spent in all the years it has had Pet 4, about \$50 million.

Development of Pet 4 started in 1944 when a potential energy crisis hit the country. Tankers supplying oil to Alaska were needed to supply American troops stationed elsewhere and it looked like petroleum could be in very short supply on the west coast if the war continued for long. At that time all of the North Slope was withdrawn from private exploration and the Navy undertook a major petroleum exploration program called PET-4. This program included the drilling of 36 test wells and 44 core sample holes, seismic shooting of 36,800 square miles, geologic mapping of 21,000 square miles by reconnaissance (semi-detailed and detailed methods), vertical aerial photography of 70,000 miles, and many related studies.

The PET-4 operation demonstrated the presence of a widespread petroliferous province, the probability of nine large deposits of recoverable gas and oil, and was abandoned in 1953.

PET-4 did not drill deep enough, essentially only exploring the shallow Cretaceous geologic formations. Of the 80 wells drilled most were concentrated in

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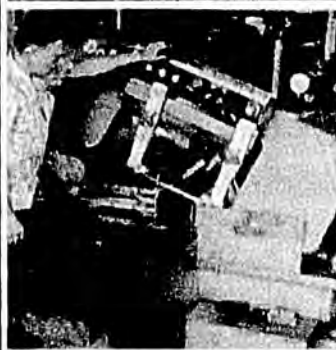
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# STATE OF ALASKA

## DEPARTMENT OF HIGHWAYS

OFFICE OF THE COMMISSIONER

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WILLIAM A. EGAN, GOVERNOR

November 30, 1973

Re: 00-2516

REC 3 REC'D

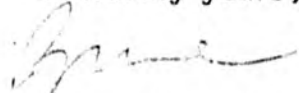
Mr. George Sharrock  
Committee Director and Coordinator  
Special Petroleum Impact Committee  
326 "H" Street, Room #8  
Anchorage, Alaska 99501

Dear Mr. Sharrock:

We have your letter of November 17, 1973 forwarding a copy of Mr. Robert Ditman's letter of September 25, 1973.

Answers to the specific questions related to our department are being channeled through the office of Mr. Robert Favitt, Director of Planning and Research, Office of the Governor.

Sincerely yours,



B. A. Campbell  
Commissioner of Highways

CC: Office of the Governor

# STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

## DEPARTMENT OF PUBLIC SAFETY

DEC 5 REC'D

OFFICE OF THE COMMISSIONER

POUCH N — STATE CAPITOL  
JUNEAU 99801

December 3, 1973

Mr. George Sharrock  
Committee Director and Coordinator  
Special Petroleum Impact Committee  
Alaska State Legislature  
326 H Street, Room 8  
Anchorage, Alaska 99501

Re: Your letter of 11/17/73

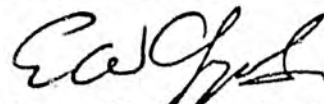
Dear Mr. Sharrock:

The answers to your questions are no doubt best contained in my Supplementary Budget Requests for fiscal years 1974 and 1975. These requests have been forwarded through channels to Governor Egan who has not had the opportunity to review the many requests from all agencies or to formulate his policies and budgetary recommendations.

Inasmuch as requests for additional trooper and protection support is by nature rather nebulous and predicated upon my judgments and opinions, I feel that the answers to your questions must come from the Governor. After all, the level of our service to the public is a value judgment for he alone to ultimately make and implement.

I am certain that this is not the answer you most desire, but am equally certain you can see the merit in having this information come from the person most responsible for the level of police services in the State of Alaska.

Very truly yours,



Emery W. Chapple, Jr.  
Commissioner

cc: Governor William A. Egan  
Colonel M. E. Dankworth

# STATE OF ALASKA

## OFFICE OF THE GOVERNOR

STATE PLANNING AND RESEARCH

WILLIAM A. EGAN, GOVERNOR

DEC 3 REC'D

POUCH AD — JUNEAU 99801  
PHONE 586-5386

November 30, 1973

Mr. George Sharrock  
Committee Director &  
Coordinator  
Special Petroleum Impact  
Committee  
326 H Street, Room 8  
Anchorage, Alaska 99501

Dear George:

Thank you for your letter of November 17 and the copies of letters sent to several Commissioners. I am, of course, familiar with Bob Ditman's September 25 letter to you, and wish to assure you and the Committee that each of the Commissioners is available to provide factual information to legislative committees either during or between sessions.

The difficulty in this instance lies in the fact that the particular information you are seeking has not yet been finalized. As a former State Commissioner, you are aware that the Governor's Budget Review Committee holds its meetings with all State agencies between October 15 and December 15. This year, the Committee is requiring from each agency a well-documented and well-justified pipeline impact budget in addition to its normal operating budget request. The Committee, in turn, will review each of these impact budgets in light of the State's overall assumptions concerning construction impact, state revenues, surveillance agreements with the Federal government, current information from Alyeska, and other pertinent factors before finalizing them in a budget recommendation to Governor Egan.

Recent meetings with officials of Alyeska have confirmed our determination to have a better picture of the logistics of the construction operation before finally identifying the anticipated

impacts and the measures necessary to address them. For example; the results of the current negotiations between Alyeska and the unions will have a substantive affect on population, distribution, leisure time, family relationships, etc. In turn, these matters will affect all areas of state and local services and facilities. Similarly, the final resolution of the question regarding medical services to be provided by Alyeska will impact medical manpower in Alaska, as well as the continuity of vital health programs.

As Commissioner Mallott and I stressed at the Fairbanks hearing before your Committee, the administration and the Legislature have a mutual concern and a mutual goal with respect to the forthcoming construction; to anticipate and meet the needs of Alaskans and their communities so that the maximum social and economic benefit will result from the pipeline construction and operation.

When the Pipeline Coordinating Committee and its sub-committees (including the Budget Review Committee) are satisfied that their assumptions are based on the most current and most dependable data, the base line information and resultant projections will be documented, published and released. With such a tool, the Governor's legislative recommendations on this subject can be discussed on the basis of factual information and authoritative assumptions.

Kindest personal regards.

Sincerely,

A handwritten signature in black ink, appearing to read "R. W. Pavitt". The signature is stylized with a large, looping initial "R" and a horizontal line extending to the right.

R. W. Pavitt, AIP  
Director

MEETING OF NORTHWEST FEDERAL REGIONAL COUNCIL WITH  
ALASKA SPECIAL PETROLEUM IMPACT COMMITTEE

Seattle, Washington  
December 18, 1973

Northwest Federal Regional Council

Dave Dougherty  
Executive Director

Bernard E. Kelly (Chairman)  
Regional Director  
Dept. of Health, Education & Welfare

Jim Agee (Vice Chairman)  
Regional Administrator  
Environmental Protection Agency

Oscar Pedersen  
Regional Administrator  
Office of Housing & Urban Development

David Head  
Regional Administrator  
Law Enforcement Assistance Administration

James Hughes  
Regional Director  
Department of Labor

Donald Samuelson  
Regional Director  
Dept. of Transportation

J. Finley  
Regional Administrator  
Office of Economic Opportunity

S. Trenhaile  
Regional Director  
Dept. of Agriculture

R. Sampsel  
Regional Director  
Dept. of the Interior

Special Petroleum Impact Committee

George Sharrock  
Director and Coordinator

✓ Senator Ron Rettig (Chairman)  
Anchorage, Alaska

✓ Senator Cliff Groh  
Anchorage, Alaska

Senator Terry Miller (Senate President)  
Fairbanks, Alaska

Representative Tom Fink (House Speaker)  
Anchorage, Alaska

✓ Representative Richard McVeigh  
Anchorage, Alaska

Senator Robert H. Ziegler, Sr.  
Ketchikan, Alaska

Senator Keith Miller  
Anchorage, Alaska

✓ Senator H. D. (Pete) Meland  
Sitka, Alaska

Representative Robert Hartig  
Anchorage, Alaska

✓ Representative Andrew Warwick  
Fairbanks, Alaska

Representative Lavell Wilson  
Tok, Alaska

C & Lucille

NOV 21 1973

LEGISLATIVE AFFAIRS  
AGENCY

November 20, 1973

(Members of Special Petroleum Impact Committee)

Dear

I have arranged for the Committee to meet with the Federal Regional Council. I tried to have the Council come to Alaska for the meeting, but found this could not be done. The meeting is set for the morning of December 18th at the Council Headquarters, Arcade Plaza Building, 1321 Second Avenue, Seattle.

It was the intent to hold an Impact Committee meeting early in December to review our report and allow the Committee to make decisions on legislative recommendations. Following our receipt of all information from the communities, it will take about 10 days to prepare the report.

It is believed that combining the Committee meeting with the Regional Council meeting would be best. Therefore, I have arranged for the Committee to meet the morning of December 17th in a conference room at the Regional Council Headquarters at 9:30 A.M.

I plan to have copies of the report to you a few days in advance.

The Northwest Federal Regional Council members are:

- |  |   |
|--|---|
| Bernard E. Kelly (Chairman)<br>Regional Director<br>Dept. of Health, Education & Welfare | Donald Samuelson<br>Regional Director<br>Dept. of Transportation      |
| Jim Agee (Vice Chairman)<br>Regional Administrator<br>Environmental Protection Agency    | James Hughes<br>Regional Director<br>Dept. of Labor                   |
| Oscar Pedersen<br>Regional Administrator<br>Office of Housing and Urban Development      | J. Finley<br>Regional Administrator<br>Office of Economic Opportunity |

Special Petroleum Impact Committee -2-

November 20, 1973

S. Trenhaile  
Regional Director  
Dept. of Agriculture

R. Sampsel  
Regional Director  
Dept. of the Interior

There is reason to believe that there will be federal programs for aid in some of the impacted areas. The purpose of the meeting with the Council is to explore all possible means. There has been some discussion by the Council regarding pipeline impact and they will have further discussions with their Washington, D.C. offices before December 18th.

Since the Council offices are not far from the Olympic Hotel, reservations will be made there at Government rates.

We should have confirmation on whether you plan to attend the meetings as soon as possible.

Sincerely,

George Sharrock  
Committee Director and Coordinator

GS:ta

cc: ✓ John Elliott  
Executive Director  
Legislative Affairs Agency

b.P.S. (John Elliott) In addition to the TRs you will send directly to the Committee members, we will need TRs for Ben Marsh, Trudie Alford and myself.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

March 12, 1974

M E M O R A N D U M

TO: Russell E. Mulder, Deputy Director

FROM: Greg Machyowsky, Legislative Counsel

SUBJECT: Applicability of Article IX, Sec. 9 of the state constitution (relating to debts incurred by political subdivisions) to loan programs authorized by the state for political subdivisions; applicability of Article III, Secs. 22 and 23 (relating to the executive) to review of Department of Community and Regional Affairs determinations on loan applications by Legislative Budget and Audit Committee.

Whether Article IX, Sec. 9 relates only to bonded indebtedness incurred for capital improvements or to bonded and any other kind of indebtedness for such improvements appears still to be under question; moreover, whether the provision is to be read as prohibiting any debt other than for capital improvements might also be questioned.

In practice it seems the constitutional provision is generally accepted as applying to debt incurred for capital improvements only, primarily bonded debt, and perhaps as well other than bonded debt for capital improvements.

There are at least two permanent statutes now in effect authorizing loans to municipalities, namely AS 46.03.030, authorizing loans for water supply and sewage treatment systems, and AS 44.19.177, authorizing urban renewal loans to municipalities damaged by natural disasters.

To insure against raising of probably the more apparent of the two constitutional questions on Article IX, Sec. 9 noted above, perhaps inserting the following provision would be helpful in loan program enabling legislation:

If the loan is for a capital improvement the ordinance to be effective must be ratified by a majority of the qualified voters of the municipality voting on the question at a general or special municipal election.

Russell E. Mulder  
Deputy Director

-2-

March 12, 1974

Incidentally, the term "community" if used to describe localities eligible for loans, perhaps should be defined or otherwise indicated as either including or excluding unincorporated communities; presumably it is intended to cover at least cities and boroughs.

A loan program to municipalities which is to be administered by the Department of Community and Regional Affairs but invests the Legislative Budget and Audit Committee with responsibility to approve or disapprove applications would seem to come within the purview of Article III, Sec. 22 of the state constitution, calling for executive and administrative functions to be allocated among principal departments and Article III, Secs. 25 and 26, requiring the head of each department to be appointed by the governor, subject to confirmation by the legislature. Article III, Sec. 22 qualifies the requirements as follows:

Regulatory, quasi-judicial, and temporary agencies may be established by law and need not be allocated within a principal department.

A loan program, if enacted as a temporary measure, and calling for approval of administrative decisions by a legislative appointed commission may perhaps be viewed as an executive and administrative function vested in a temporary agency and thereby not subject to the requirements for allocating functions within principal departments, with department heads appointed by the executive. In the context of the apparent purpose of the provisions, however, and the general constitutional principle of separation of powers underlying the state constitution, the vesting of final administrative or executive authority in a legislative agency, even on a temporary basis, may be questioned for conformity with the constitution.

Let me know of course if the matters noted require more extensive and specific review in terms of proposed bill or amendment requests.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

March 12, 1974

MEMORANDUM

TO: Senate Community and Regional Affairs Committee  
FROM: Russell E. Mulder, Deputy Director  
SUBJECT: Draft of CSSB 382 (Pipeline Impact) #1

NOTE: Reference needs to be made to CSHB 505 and SB 382

Section 1. New language stressing "temporary emergency"  
(p. 1, line 10).

Sec. 2(a). Primarily sec. 2(a)(1) of CSHB 505. The word  
"seasonal" was removed on p. 1, line 18 between "normal" and  
"population" and paragraph "(2)" was deleted. Sec. 2(b) is  
sec. 4 of CSHB 505. Sec. 2(c) is basically sec. 3 of CSHB 505.  
Sec. 2(d) is a combination of secs. 2(b) and 4(c) of CSHB 505.  
Sec. 2(e) is partly taken from sec. 4(d) of CSHB 505.

Sec. 3. Taken from sec. 5(a) of CSHB 505. Subsection (b) of  
that sec. was deleted.

Sec. 4. Primarily the concept embraced in sec. 44.19.589(b)-  
(1) of SB 382 (p. 3, line 10); limited to grants and providing  
for approval by Legislative Budget and Audit Committee in lieu  
of Special Legislative Pipeline Impact Review Committee.

Sec. 5. Same as above except it relates to loans for capital  
improvements only and "(b)" incorporates sec. 44.19.589(f) of  
SB 382 (p. 5, lines 1 - 3).

Sec. 6. Same as sec. 44.19.603 of SB 382 (p. 6, lines 25 - 27)  
but changing Special Legislative Pipeline Impact Review Commit-  
tee to Legislative Budget and Audit Committee.

Sec. 7. Taken from sec. 12 of CSHB 505.

Sec. 8. Except for a new "(1)" (definition of "department"),  
basic language taken from sec. 8 of CSHB 505.

Senate Community and Regional Affairs Committee  
March 12  
Page 2

Sec. 9. New language patterned after AS 43.25.110 (part of the Alaska Industrial Incentive Act) and AS 43.26.070 (part of the Industrial Incentive Tax Credit Act).

Sec. 10. Same effective date as contained in SB 382 and CSHB 505.

REM:cb

Intent - act  
2 pages long  
✓ 3 programs

- formula - population

- ~~Arbitr.~~ discretionary

grants (pipeline related impact)

✓ committee - like Rettigs

✓ need not confer director

- approval only of disbursement  
of funds

- above their normal operating expenses.

- ~~only~~ expire

< June 30, 1975

no applications approved  
after that date.

✓ Emergency legis - Temporary

✓ Dept. of C&RA.

- ~~no loans~~

✓ grants (limit) to non-cap-  
improvements (operational)

✓ capital imp. loans okay

✓ - 7% interest 1 quarter of

(?) 1% the state is currently  
paying on its obligations  
✓ terms by director which  
are.

\* Section 1. Purpose. It is the intention of the legislators to financially assist municipalities in meeting extraordinary ~~operating~~ expenditures caused by pipeline construction impact.

?  
Temporary  
for emergency  
relief

\* It is the purpose of this Act to provide temporary, emergency, <sup>financial</sup> relief to municipalities ~~adversely~~ ~~incurring extraordinary~~ in order that they can meet extraordinary expenditures caused by or related to pipeline construction.

\* Sec. 2. Formula Grants. <sup>The Dept of C & R A.</sup>

(Sec. 2 of CSHB 505)

(a) yes

(b) yes

(c) Sec. 3 of CSHB 505

(d) Sec. 4(a) "

(e) Sec 4(c)

(f) Sec. 5

Sec. 3. Discretionary Grants. The Department of C. & R A may, with the approval of the B & A Comm, make grants to a municipality demonstrating extraordinary municipal operating expenditures beyond its capability to reasonably meet from growth in receipts from present municipal revenue sources.

Sec. 4. <sup>(a)</sup> Capital Improvement Loans.  
The Dept. of C & R A may, with the approval of the B/A Committee, make loans to municipalities ~~and~~ demonstrating extraordinary municipal capital improvement expenditures beyond...

(b) The Dept. shall establish the terms and conditions of the loans but ~~the~~ interest may not be changed in excess of one quarter of percent ~~of~~ <sup>of</sup> the rate the state is paying on its obligations.

Sec. 5. B/A Comm. Approval. —

Sec. 6. Termination Date for Applications

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

Sec. 4. <sup>(a)</sup> Capital Improvement Loans.  
The Dept. of C & R A may, with the approval of the B/A Committee, make loans to municipalities ~~or~~ ~~and~~ demonstrating extraordinary municipal capital improvement expenditures beyond...

(b) The Dept. shall establish the terms and conditions of the loans but ~~the~~ interest may not be changed in excess of one quarter of percent ~~of~~ ~~the~~ the rate the state is paying on its obligations.

Sec. 5. B/A Comm. Approval. —

Sec. 6. Termination Date for Applications

February 26, 1974

MEMORANDUM

TO: Senator Rader

FROM: Russell E. Mulder, Deputy Director

SUBJECT: An inconsistent use of language in  
SB 382 (1974) and HB 638 (1974)

In reviewing identical bills to create the Pipeline Impact Agency (SB 382 and HB 638) it has been brought to the attention of this office that an inconsistency exists within the bills themselves. In sec. 10 of the bills (p. 2, lines 7-10) it is stated that

"...The legislature finds, too, that revenue-sharing formulas on per capita or percentage per capita increase basis are less desirable, less effective, and more costly than the case-by-case approach intended in the legislation...."

Sec. 589(c), on the other hand, provides that

"Grants...shall be made on the basis of percentage increase in population..." (p. 3, lines 19-21)

This conflicting language was brought together during the process of drafting the final bill for introduction from various work drafts. In the final draft the language referring to grants being made on the basis of percentage increase in population should have been changed to reflect the newer thinking as set forth in sec. 10 (Purpose).

In order to resolve this inconsistency, it is suggested that the first sentence of sec. 589(c) be changed to read:

"Grants under (b)(1) of this section shall be made on a case-by-case basis as demonstrated by need."

REM/sm

CYRA Comm. 2/26/17

SB 382

look into!  
① Check const. questionnaire new amendment, i.e., need for a vote of the people for anticipate loans... check with Greg.

~~XXXXXXXXXXXXXXXXXXXX~~

look into!  
Separation of powers question  
- Need a sec. 26 Board? (section 603)

Anchorage Base

- 1.) SB 505 & 382 should be combined.
  - \$10 mil distressed per formula & 15 mil " by Agency on an emergency (contingency fund).
  - ~~XXXXXX~~ They have 05

Original sponsor: Rules Committee by  
request of the Governor

1 IN THE HOUSE

BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 505

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to assisting municipalities; and  
7 providing for an effective date."

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

9 \* Section 1. DECLARATION OF PURPOSE. It is the intention of the legis-  
10 lature to financially assist municipalities in meeting certain extraordinary  
11 operating expenditures caused by accelerated population growth other than the  
12 normal seasonal population increase and which are beyond the capability of  
13 the impacted municipalities to reasonably meet. It is the further intention  
14 of the legislature that the state respond promptly to the impact needs of  
15 municipalities.

16 \* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the purposes  
17 of this Act may be made to a municipality demonstrating

18 (1) an annual population growth rate in excess of 2.9 per cent  
19 of the base population *other than the normal seasonal population increase;*

20 (2) extraordinary municipal operating expenditures beyond its  
21 capability to reasonably meet from growth in receipts from present municipal  
22 revenue sources.

23 (b) The base population for measuring the annual population growth rate,  
24 for purposes of this section, is the population of the municipality on the  
25 first day of the quarter in which this Act takes effect.

26 \* Sec. 3. ESSENTIAL MUNICIPAL SERVICES. Grants made under this Act may  
27 be expended only for operating expenditures for essential municipal services  
28 specified in the application.

29 \* Sec. 4. GRANT COMPUTATION AND PAYMENT. (a) An existing municipality

1 or a municipality incorporated after the effective date of this Act is eligible  
2 for a grant amount under this Act equal to its annual population growth by  
3 June 30, 1975 in excess of the 2.9 per cent growth rate standard established  
4 under sec. 2 of this Act multiplied by its per capita general fund expendi-  
5 tures, excluding expenditures for education, capital outlay and debt service,  
6 for, in the case of an existing municipality, the last complete fiscal year  
7 preceding the effective date of this Act and, in the case of a municipality  
8 incorporated after the effective date of this Act, its fiscal year budget.

9 (b) Total grants under this Act to a municipality with a population of  
10 10,000 persons or more on the first day of the quarter in which the effective  
11 date of this Act falls may not exceed \$250 per capita of the population  
12 growth in excess of the average annual population growth rate standard estab-  
13 lished under sec. 2 of this Act. Total grants under this Act to a municipali-  
14 ty with a population under 10,000 persons on the first day of the quarter in  
15 which the effective date of this Act falls may not exceed \$400 per capita of  
16 the population growth in excess of the average annual population growth rate  
17 standard established under sec. 2 of this Act.

18 (c) The base population for measuring the per capita general fund  
19 expenditures for purposes of this section is the population of the munici-  
20 pality on the first day of the quarter in which the effective date of this  
21 Act falls.

22 (d) Grants may be made quarterly based upon quarterly population esti-  
23 mates with final adjustment to be made on June 30, 1975. Final grant payments  
24 shall be withheld until after final adjustments of amounts are made on June 30,  
25 1975.

26 " Sec. 5. PREPAYMENTS. (a) A municipality may receive, as a prepayment,  
27 up to 50 per cent of the amount it will be entitled to under this Act upon  
28 certification by the Department of Community and Regional Affairs that the  
29 municipality will more likely than not meet the eligibility standards set

1 out in sec. 2 of this Act.

2 (b) Total prepayments to municipalities made under this section may not  
3 exceed \$5,000,000.

4 \* Sec. 6. APPLICATION. (a) Grants under this Act may be made only upon  
5 application by a municipality to the Department of Community and Regional  
6 Affairs. Each grant application shall state the essential municipal services  
7 for which the grant will be expended. A prepayment grant application may be  
8 submitted at any time after the effective date of this Act.

9 (b) No grant may be expended for purposes other than those specified  
10 in the application.

11 \* Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit a  
12 financial report covering the expenditure of a grant already received under  
13 this Act to the Department of Community and Regional Affairs before another  
14 grant may be received under this Act.

15 (b) A municipality receiving grants under this Act shall

16 (1) maintain a separate account for the grants received under this  
17 Act;

18 (2) provide for an annual independent audit of the separate account  
19 for the grants received under this Act; and

20 (3) submit a copy of the independent audit report to the Department  
21 of Community and Regional Affairs.

22 \* Sec. 8. APPROVAL. Grants under this Act shall be made by the Department  
23 of Community and Regional Affairs at the direction of the governor subject  
24 to approval of the Special Legislative Pipeline Impact Review Committee.

25 \* Sec. 9. POPULATION. A municipality shall submit estimated population  
26 and population growth figures to the Department of Community and Regional  
27 Affairs. These population and population growth figures are subject to review  
28 and approval by the Department of Community and Regional Affairs. The  
29 decisions of the Department of Community and Regional Affairs are final as to

1 (1) population growth figures for the purpose of establishing  
2 eligibility under sec. 2 of this Act;

3 (2) population figures for computing grant amounts under sec. 4  
4 of this Act; and

5 (3) population figures for computing prepayment amounts under  
6 sec. 5 of this Act.

7 \* Sec. 10. PIPELINE IMPACT FUND. There is the pipeline impact fund  
8 created for the purpose of carrying out the provisions of this Act. The fund  
9 consists of all money made available by appropriations of the state legisla-  
10 ture, and from other appropriated funds all contributions from whatever  
11 source, and income and interest derived from the investment of money.

12 [ \* Sec. 11. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW COMMITTEE. There  
13 is established the Special Legislative Pipeline Impact Review Committee com-  
14 posed of three members of the senate appointed by the president of the senate  
15 and three members of the house of representatives appointed by the speaker of  
16 the house. The committee shall select its own chairman.

17 \* Sec. 12. TERM OF MEMBERSHIP. The committee shall be organized within  
18 15 days after the organization of each legislature. Members serve for the  
19 duration of the legislature during which they are appointed. If they are  
20 reelected or their term of office extends into the next succeeding legisla-  
21 ture, they continue to serve until reappointed or the appointment of their  
22 successor.

23 \* Sec. 13. VACANCIES. When a vacancy occurs in the membership of the  
24 committee, the presiding officer of the house incurring the vacancy shall  
25 choose a successor. If the office of the president of the senate or speaker  
26 of the house of representatives becomes vacant and a vacancy from the affected  
27 house occurs among the membership of the committee, the remaining committee  
28 members from the house incurring the vacancy shall appoint a new member.

29 \* Sec. 14. MEETINGS. (a) The committee may meet during sessions of the

1 legislature and during the interim between sessions at such times and places  
2 in the state as the chairman may determine. Members may receive, for the  
3 minimum time required to get to and from meetings and for the period while  
4 attending meetings, the same travel and per diem allowances provided by law  
5 for members of the legislature when attending sessions, except that members  
6 of the committee receive no per diem during legislative sessions other than  
7 the per diem allowance paid to other members of the legislature.

8 (b) The members of the committee can validly conduct a meeting and vote  
9 by communicating simultaneously with each other by means of conference tele-  
10 phones or similar communications equipment.

11 (c) A majority of the members of the committee constitute a quorum for  
12 the purpose of carrying out its duties under this Act.

13 \* Sec. 15. DUTIES OF COMMITTEE. The committee shall review and approve  
14 or disapprove, in whole or in part, the grants made by the Department of  
15 Community and Regional Affairs under this Act.

16 \* Sec. 16. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The division of  
17 legislative finance shall cooperate with the committee and shall furnish  
18 technical assistance and personnel, if available, upon request.

19 \* Sec. 17. DEFINITIONS. In this Act

20 (1) "municipality" means a home rule municipality or a general  
21 law municipal corporation and political subdivision, which is a first or  
22 second class borough or city incorporated under the laws of the state;

23 (2) "operating expenditures" means personal services, contractual  
24 services, travel, commodities, and up to \$20,000 per item of equipment except  
25 that it does not include any of these items if part of a capital improvement  
26 expenditure;

27 (3) "population" means nonmilitary population;

28 (4) "quarter" means a period beginning January 1, April 1, July 1  
29 and October 1 of a calendar year.

1 \* Sec. 18. REGULATIONS. The Department of Community and Regional Affairs  
2 may adopt regulations necessary to carry out the purpose of this Act.

3 \* Sec. 19. EFFECTIVE DATE. This Act takes effect on the day after its  
4 passage and approval or on the day it becomes law without approval.

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Introduced: 2/15/74  
Referred: Community and  
Regional Affairs and  
Finance

BY THE RULES COMMITTEE  
BY REQUEST OF THE  
SPECIAL PETROLEUM  
IMPACT COMMITTEE

1 IN THE SENATE

2 CS for SENATE BILL NO. 382

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Pipeline Impact Agency; and  
7 providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. PIPELINE IMPACT AGENCY.

11 Sec. 44.19.581. PURPOSE. The legislature finds that construction  
12 of the trans-Alaska pipeline, from its commencement to completion over  
13 a period of approximately three years, will impose severe to mild  
14 strains on local and state governmental services and facilities. While  
15 the pipeline construction indubitably will, in the long run, mean  
16 immense growth and development to the communities and areas along the  
17 pipeline route, and to those areas coming under direct pipeline con-  
18 struction influence, the legislature further finds that localities most  
19 affected will be unable to cope with the probable impact on facilities  
20 and services brought about by the anticipated overwhelming and sudden  
21 increases in numbers of citizens to be served. The legislature finds,  
22 also, that communities while likely to be impacted are willing and  
23 ready via local taxation to do all possible themselves to meet impact  
24 requirements, even to the full limits of local taxation tolerance,  
25 nevertheless, recognizing the state will be the prime beneficiary of  
26 pipeline construction via realization of enormous oil development  
27 revenues for the total state, the legislature finds that local impact  
28 financial burdens logically should be borne by the state as its invest-  
29 ment in those future revenues. It is, therefore, the intent of the

1 legislature, in this measure, to provide a means of quickly and deci-  
2 sively determining specific impact problems and, additionally, for  
3 moving quickly and decisively to provide funds, facilities, personnel  
4 or other means for quick solutions. Finally, the legislature intends  
5 via this legislation to meet local and state pipeline construction impact  
6 problems as quickly and efficiently as possible in manners similar to  
7 the handling of disaster impact problems. ~~The legislature finds, too,~~  
8 ~~that revenue-sharing formulas on per capita or percentage per capita~~  
9 ~~increase basis are less desirable, less effective, and more costly than~~  
10 ~~the case-by-case approach intended in the legislation. Under the~~  
11 ~~formula approach, provision would have to be made for all probable as~~  
12 ~~well as all possible impact contingencies, some of which may never~~  
13 ~~develop.~~

14 Sec. 44.19.583. PIPELINE IMPACT AGENCY. There is created in the  
15 *(Department of Community and Regional Affairs)*  
16 ~~office of the governor~~ the Pipeline Impact Agency.

17 Sec. 44.19.585. DIRECTOR. The Pipeline Impact Agency is adminis-  
18 tered by a director of pipeline impact. The director is appointed by  
19 the governor and serves at the pleasure of the governor. The appoint-  
20 ment of the director is subject to confirmation by a majority of the  
21 members of the legislature in joint session.

22 Sec. 44.19.587. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
23 CONSTRUCTION. The Pipeline Impact Agency shall administer a state  
24 program to provide assistance to municipalities which are adversely  
25 affected, economically and socially, by pipeline construction.

26 Sec. 44.19.589. POWERS AND DUTIES. (a) The director shall

27 (1) advise and assist the governor in developing planning  
28 assumptions and a broad preparedness plan with respect to the economic  
29 and social impact that will accompany pipeline construction;

(2) advise and assist the governor in developing policies,

1 programs and control systems designed to alleviate the economic and  
2 social impact resulting from pipeline construction; and

3 (3) advise and assist the governor with respect to resolving  
4 issues related to pipeline construction impact preparedness responsi-  
5 bilities of state agencies which arise concerning two or more of those  
6 agencies.

7 (b) The director, with the approval of the Special Legislative  
8 Pipeline Impact Review Committee ~~(as provided for in secs. 595 - 605~~  
9 ~~of this chapter)~~, may

10 (1) make loans and grants and purchase evidences of indebted-  
11 ness with funds from the pipeline impact fund to municipalities economi-  
12 cally or socially adversely affected by pipeline construction;

13 (2) guarantee municipal bonds when a municipality needs to  
14 undertake a capital improvement program on an accelerated basis; and

15 (3) pay (for not more than three years) from the pipeline  
16 impact fund a portion of the debt service or interest or both incurred  
17 by a municipality for undertaking capital improvements made necessary  
18 by pipeline construction.

19 (c) <sup>(4)</sup> Grants under (b)(1) of this section shall be made ~~on the~~  
20 ~~basis of percentage increase in population and not on the basis of~~  
21 ~~per capita increase in population~~ Applications for grants shall be  
22 made in a form prescribed by the director. A grant shall be allotted  
23 according to an agreement made between the director on behalf of the  
24 state and the municipality receiving the grant. The agreement may  
25 include any provision agreed upon by the parties and shall include in  
26 substance the following provisions:

27 (1) a schedule of grant disbursements, if, as determined  
28 by the director, a grant is to be disbursed other than in one sum;

29 (2) agreement by the municipality to

Insert #1  
Insert #2

1 (A) proceed with and complete the proposed project  
2 or program expeditiously;

3 (B) not discontinue operation or dispose of all or  
4 part of the project or program for which it receives a grant with-  
5 out the approval of the director;

6 (C) apply for, and make reasonable efforts to secure,  
7 federal assistance which may be available for the project or  
8 program, subject to any conditions the agency may require in  
9 order to maximize the amounts of that assistance received or to  
10 be received for all projects or programs in the state;

11 (3) agreement by the municipality that, if federal assistance  
12 for a project or program becomes available to the municipality which  
13 was not included in the calculation of the amount of a grant authorized  
14 and disbursed under this section, the value of the federal assistance  
15 shall be ascertained and subtracted from the total value of the project  
16 or program and the balance shall be proportionately divided between  
17 the state and municipality;

18 (4) provision for alteration or modification of an approved  
19 project or program and for remedies in case of failure to perform the  
20 agreement between the parties or noncompliance with regulations promul-  
21 gated by the director under this section.

22 (d) If funds appropriated by the legislature to provide loans and  
23 grants and purchase evidences of indebtedness under this section are  
24 not adequate to satisfy amounts required by approved grant applications,  
25 funds shall be allocated on the basis of priority established by the  
26 director by regulations promulgated to carry out the provisions of this  
27 section.

28 (e) The director shall provide a quarterly report to the legisla-  
29 ture with respect to grants made under this section.

1 (f) The director shall determine the terms and conditions for  
2 making a loan and purchasing an evidence of indebtedness under this  
3 section.

4 <sup>607</sup>  
5 Sec. 44.19.~~591~~. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND  
6 LOANS. When the federal government or an agency or officer of the  
7 federal government offers to the state, or through the state to a  
8 municipality, services, equipment, supplies, materials, or funds by  
9 way of gift, grant, or loan, for the purpose of alleviating the social  
10 or economic impact resulting from pipeline construction, the state  
11 acting through the director, or the municipality acting through its  
12 executive officer or governing body, may accept the offer subject to  
13 the terms of the offer and the rules and regulations of the agency  
14 making the offer.

15 <sup>607</sup>  
16 Sec. 44.19.~~593~~. PIPELINE IMPACT FUND. There is the pipeline  
17 impact fund created for the purpose of carrying out the provisions of  
18 sec. 587(b) of this chapter. The fund consists of all money made  
19 available by appropriations of the state legislature, and from other  
20 appropriated funds, all contributions from whatever source, and income  
21 and interest derived from the investment of money.

22 <sup>701</sup>  
23 Sec. 44.19.~~595~~. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW COM-  
24 MITTEE. There is established the Special Legislative Pipeline Impact  
25 Review Committee composed of three members of the senate appointed by  
26 the president of the senate and three members of the house of represen-  
27 tatives appointed by the speaker of the house. The committee shall  
28 select its own chairman.

29 <sup>703</sup>  
30 Sec. 44.19.~~597~~. TERM OF MEMBERSHIP. The committee shall be  
31 organized within 15 days after the organization of each legislature.  
32 Members serve for the duration of the legislature during which they  
33 are appointed. If they are reelected or their term of office extends

Insert  
# 3

1 into the next succeeding legislature, they continue to serve until  
2 reappointed or the appointment of their successor.

3 Sec. 44.19.<sup>705</sup>~~599~~. VACANCIES. When a vacancy occurs in the member-  
4 ship of the committee, the presiding officer of the house incurring  
5 the vacancy shall choose a successor. If the office of the president  
6 of the senate or speaker of the house of representatives becomes  
7 vacant and a vacancy from the affected house occurs among the member-  
8 ship of the committee, the remaining committee members from the house  
9 incurring the vacancy shall appoint a new member.

10 Sec. 44.19.<sup>707</sup>~~601~~. MEETINGS. (a) The committee may meet during  
11 sessions of the legislature and during the interim between sessions at  
12 such times and places in the state as the chairman may determine.  
13 Members may receive, for the minimum time required to get to and from  
14 meetings and for the period while attending meetings, the same travel  
15 and per diem allowances provided by law for members of the legislature  
16 when attending sessions, except that members of the committee receive  
17 no per diem during legislative sessions other than the per diem allow-  
18 ance paid to other members of the legislature.

19 (b) The members of the committee can validly conduct a meeting  
20 and vote by communicating simultaneously with each other by means of  
21 conference telephones or similar communications equipment.

22 (c) A majority of the members of the committee constitute a  
23 quorum for the purpose of carrying out its duties under sec. <sup>707</sup>~~603~~ of  
24 this chapter.

25 Sec. 44.19.<sup>707</sup>~~603~~. DUTIES OF COMMITTEE. The committee shall review  
26 and approve or disapprove, in whole or in part, the decisions made  
27 by the Pipeline Impact Agency ~~under sec. 589(b) of this chapter.~~

28 Sec. 44.19.<sup>707</sup>~~603~~. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The  
29 division of legislative finance shall cooperate with the committee and

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shall furnish technical assistance and personnel, if available, upon request.

\* Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

*Insert #4*

Insert #1

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2 (4) allow A community <sup>to</sup> may  
3 borrow from the fund to cover immediate impact needs in antici-  
4 pation of tax revenues, grants under this act, federal grants, or  
5 other revenue sources;

6 (b) Loans under this <sup>paragraph</sup> ~~section~~ may be granted upon application  
7 and the passage by the local governing body of an ordinance author-  
8 izing the borrowing. The ordinance shall specify the anticipated  
9 revenue sources and provide for a pledge of the revenues to the  
10 repayment of the loans;

11 (c) Loans under this <sup>paragraph</sup> ~~section~~ shall require concurrence of  
12 the Special Legislative Pipeline Impact Review Committee and shall  
13 include the following terms:

14 (1) <sup>A</sup> The loan shall bear interest at a rate not to  
15 exceed six per cent a year.

16 (2) <sup>B</sup> No interest may be charged for the first three  
17 years of the loan or until January 1, 1978, whichever is sooner.

18 (3) <sup>C</sup> If the loan or any part of it is not repaid or  
19 otherwise extinguished before the date of commencement of interest,  
20 repayment shall be made in equal semi-annual installments, including  
21 interest, starting six months following the commencement of inter-  
22 est. The payments schedule shall provide for full payment of the  
23 loan over a period of not more than 20 years.  
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INSERT # 2

~~ONLY FOR EXTRA~~ only for extraordinary municipal operations<sup>ing</sup> expendi-  
 tures ~~which are~~ <sup>which are</sup> beyond a municipality's capacity to reasonably meet. In  
 considering population growth shall ~~be given~~ <sup>(shall be given to per-</sup> greater weight than per  
~~centage population growth)~~ capita increase in population.

~~And draft of new language~~  
~~page~~

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Insert # 3

((Forget underlining))

1 <sup>44.18.591</sup>  
2 \* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the  
3 purposes of this <sup>Chapter</sup> Act may be made to a municipality demonstrating

4 (1) an annual population growth rate in excess of its  
5 average annual growth rate for the period April 1, 1970, through  
6 July 1, 1973;

7 (2) extraordinary municipal operating expenditures beyond  
8 its capability to reasonably meet from growth in receipts from present  
9 municipal revenue sources; and

10 (3) that both (1) and (2) of this subsection can be  
11 directly attributed to the impact of construction of the trans-  
12 Alaska pipeline.

13 (b) The base population for measuring the annual population  
14 growth rate for purposes of this section is the population of the  
15 municipality on the first day of the quarter in which the effective

16 <sup>44.18.593</sup>  
17 \* Sec. 2. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
18 eligible for a grant amount under this <sup>Chapter</sup> Act equal to its population  
19 growth by June 30, 1975 in excess of the average annual population  
20 growth rate standard established under sec. <sup>591</sup> 2 of this <sup>Chapter</sup> Act multiplied  
21 by its per capita general fund expenditures, excluding expenditures  
22 for education, capital outlay and debt service, for the last  
23 complete fiscal year preceding the effective date of this Act.

24 (b) A municipality incorporated after the effective date of this  
25 Act is eligible for a grant amount under this <sup>Chapter</sup> Act equal to its  
26 population growth by June 30, 1975 in excess of the average annual  
27 population growth rate standard established under sec. <sup>591</sup> 3 of this  
28 <sup>Chapter</sup> Act multiplied by its per capita general fund expenditures, excluding  
29 expenditures for education, capital outlay and debt service, for its  
fiscal year budget.

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(c) Total grants under this ~~Act~~<sup>Chapter</sup> to a municipality with a population of 10,000 persons or more on the first day of the quarter in which ~~the~~<sup>this Act takes effect</sup> effective date of this Act falls may not exceed \$250 per capita of the population growth in excess of the average annual

population growth rate standard established under sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.

Total grants under this Act to a municipality with a population under 10,000 persons on the first day of the quarter in which ~~the~~<sup>this Act takes effect</sup> effective date of this Act falls may not exceed \$400 per capita of

the population growth in excess of the average annual population growth rate standard established under sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.

(d) The base population for measuring the per capita general fund expenditures for purposes of this section is the population of the municipality on the first day of the quarter in which ~~the~~<sup>this Act takes effect</sup> effective date of this Act falls.

(e) Grants may be made quarterly based upon quarterly population estimates with final adjustment to be made on June 30, 1975. Final grant payments shall be withheld until after final adjustments of amounts are made on June 30, 1975.

\* Sec. ~~575~~<sup>44.19</sup> PREPAYMENTS. (a) A municipality may receive, as a prepayment, up to 50 per cent of the amount it will be entitled to under this ~~Act~~<sup>Chapter</sup> upon certification by the ~~Department of Community and Regional Affairs~~<sup>Agency</sup> that the municipality will more likely than not meet the eligibility standards set forth in sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.

(b) Total prepayments to municipalities made under this section may not exceed \$5,000,000.

44.19.587

\* Sec. 6. APPLICATION. (a) Grants under this Act may be made only

upon application by a municipality to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. Each grant application shall state the essential/municipal services for which the grant will be expended. A prepayment grant application may be submitted at any time after the effective date of this Act.

(b) No grant may be expended for purposes other than those specified in the application.

44.19.599

\* Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit

a financial report covering the expenditure of any grant already received under this ~~Act~~ <sup>chapter</sup> to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> before another grant may be received under this ~~Act~~ <sup>chapter</sup>.

(b) A municipality receiving grants under this Act shall

(1) maintain a separate account for the grants received under this ~~Act~~ <sup>chapter</sup>;

(2) provide for an annual independent audit of the separate account for the grants received under this ~~Act~~ <sup>chapter</sup>; and

(3) submit a copy of the independent audit report to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>.

44.19.601

\* Sec. 8. APPROVAL. Grants under this ~~Act~~ <sup>chapter</sup> shall be made by the De-

~~partment of Community and Regional Affairs~~ at the direction of the ~~governor~~ <sup>director</sup> subject to approval of the ~~Legislative Budget and Audit Committee~~ <sup>Special Legislative Topics Impact Review</sup>.

44.19.603

\* Sec. 9. POPULATION. A municipality shall submit estimated population

and population growth figures to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. These population and population growth figures are subject to review and approval by the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. The decisions of the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> are final as to

(1) population growth figures for the purpose of establishing eligibility under sec. <sup>591</sup> ~~2~~ of this <sup>chapter</sup> ~~Act~~;

(2) population figures for computing grant amounts under sec. <sup>593</sup> ~~1~~ of this <sup>chapter</sup> ~~Act~~; and

(3) population figures for computing prepayment amounts under sec. <sup>595</sup> ~~3~~ of this <sup>chapter</sup> ~~Act~~.

<sup>44,19,605</sup> \* Sec. ~~4~~ <sup>1</sup> REGULATIONS. The <sup>agency</sup> ~~Department~~ of ~~Community and Regional Affairs~~ may adopt regulations necessary to carry out the purpose of this Act.

*Insert # 4*

\* Sec. 44,19,803. Definitions. In this chapter

(1) "agency" means the Population and ~~Health~~ <sup>Food</sup> Agency;

(2) "population" means non-milita. population;

(3) "municipality" means a home rule municipality or a general law municipal corporation and political subdivision, which is a first or second class borough or city incorporated under the laws of the state;

(4) "operating expenditures" means personal services, contractual services, travel, commodities and up to \$20,000 per item of equipment except that it does not include any of these items if part of a capital improvement expenditure;

(5) "quarter" means a period beginning January 1, April 1, July 1 and October 1 of a calendar year.

STF:md  
2-23-74

BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 505

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to assisting municipalities; and  
7 providing for an effective date."

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

9 \* Section 1. DECLARATION OF PURPOSE. It is the intention of the  
10 legislature to financially assist municipalities in meeting certain  
11 extraordinary operating expenditures directly attributable to the  
12 impact of construction of the trans-Alaska pipeline and which are  
13 beyond the capability of the impacted municipalities to reasonably  
14 meet. It is the further intention of the legislature that the state  
15 respond promptly to the impact needs of municipalities.

16 <sup>14.18.571</sup>  
\* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the  
17 purposes of this <sup>Chapter</sup> Act may be made to a municipality demonstrating

18 (1) an annual population growth rate in excess of its  
19 average annual growth rate for the period April 1, 1970, through  
20 July 1, 1973;

21 (2) extraordinary municipal operating expenditures beyond  
22 its capability to reasonably meet from growth in receipts from present  
23 municipal revenue sources; and

24 (3) that both (1) and (2) of this subsection can be  
25 directly attributed to the impact of construction of the trans-  
26 Alaska pipeline.

27 (b) The base population for measuring the annual population  
28 growth rate for purposes of this section is the population of the  
29 municipality on the first day of the quarter in which the effective

1 date of this Act falls.

2 \* Sec. 3. ESSENTIAL MUNICIPAL SERVICES. Grants made under this  
3 Act may be expended only for operating expenditures for

- 4 (1) police protection;  
5 (2) fire protection;  
6 (3) solid waste collection and disposal;  
7 (4) water supply and sewage disposal systems;  
8 (5) health care services;  
9 (6) land use and environmental planning and regulation; and  
10 (7) other essential municipal services specified in the

11 application.

12 <sup>44, 18, 593</sup>  
13 \* Sec. 4. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
14 eligible for a grant amount under this <sup>Chapter</sup> ~~Act~~ equal to its population  
15 growth by June 30, 1975 in excess of the average annual population  
16 <sup>591</sup> growth rate standard established under sec. <sup>Chapter</sup> ~~2~~ of this ~~Act~~ multiplied  
17 by its per capita general fund expenditures, excluding expenditures  
18 for education, capital outlay and debt service, for the last  
19 complete fiscal year preceding the effective date of this Act.

20 (b) A municipality incorporated after the effective date of this  
21 Act is eligible for a grant amount under this <sup>Chapter</sup> ~~Act~~ equal to its  
22 population growth by June 30, 1975 in excess of the average annual  
23 population growth rate standard established under sec. <sup>591</sup> ~~3~~ of this  
24 <sup>Chapter</sup> ~~Act~~ multiplied by its per capita general fund expenditures, excluding  
25 expenditures for education, capital outlay and debt service, for its  
26 fiscal year budget.

27 (c) Total grants under this <sup>Chapter</sup> ~~Act~~ to a municipality with a  
28 population of 10,000 persons or more on the first day of the quarter  
29 in which <sup>this Act takes effect</sup> ~~the effective date of this Act falls~~ may not exceed \$250  
per capita of the population growth in excess of the average annual

7

1 population growth rate standard established under sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

2 Total grants under this Act to a municipality with a population  
3 under 10,000 persons on the first day of the quarter in which ~~the~~ <sup>this Act takes effect</sup>

4 ~~effective date of this Act falls~~ may not exceed \$400 per capita of  
5 the population growth in excess of the average annual population  
6 growth rate standard established under sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

7 (d) The base population for measuring the per capita general  
8 fund expenditures for purposes of this section is the population  
9 of the municipality on the first day of the quarter in which ~~the~~ <sup>Act</sup> ~~effective date of this Act falls~~ <sup>this takes effect</sup>.

11 (e) Grants may be made quarterly based upon quarterly population  
12 estimates with final adjustment to be made on June 30, 1975. Final  
13 grant payments shall be withheld until after final adjustments of  
14 amounts are made on June 30, 1975.

15 \* Sec. <sup>44.19.</sup> ~~595~~ PREPAYMENTS. (a) A municipality may receive, as a pre-  
16 payment, up to 50 per cent of the amount it will be entitled to  
17 under this ~~Act~~ <sup>Chapter</sup> upon certification by the ~~Department of Community and~~ <sup>Agency</sup>  
18 ~~Regional Affairs~~ that the municipality will more likely than not meet  
19 the eligibility standards set forth in sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

20 (b) Total prepayments to municipalities made under this section  
21 may not exceed \$5,000,000.

22 \* Sec. <sup>44.19.587</sup> ~~596~~ APPLICATION. (a) Grants under this Act may be made only  
23 upon application by a municipality to the ~~Department of Community~~ <sup>Agency</sup>  
24 ~~and Regional Affairs~~. Each grant application shall state the  
25 essential ~~municipal~~ services for which the grant will be expended.  
26 A prepayment grant application may be submitted at any time after  
27 the effective date of this Act.

28 (b) No grant may be expended for purposes other than those  
29 specified in the application.

44,19,599

\* Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit a financial report covering the expenditure of any grant already received under this ~~Act~~ <sup>chapter</sup> to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> before another grant may be received under this ~~Act~~ <sup>chapter</sup>.

(b) A municipality receiving grants under this Act shall

(1) maintain a separate account for the grants received under this ~~Act~~ <sup>chapter</sup>;

(2) provide for an annual independent audit of the separate account for the grants received under this ~~Act~~ <sup>chapter</sup>; and

(3) submit a copy of the independent audit report to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>.

44,19,601

\* Sec. 8. APPROVAL. Grants under this ~~Act~~ <sup>chapter</sup> shall be made by the ~~Department of Community and Regional Affairs~~ at the direction of the governor subject to approval of the ~~Legislative Budget and Audit Committee~~ <sup>Special Legislative Fiscal Impact Review</sup>.

44,19,603

\* Sec. 9. POPULATION. A municipality shall submit estimated population and population growth figures to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. These population and population growth figures are subject to review and approval by the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. The decisions of the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> are final as to

(1) population growth figures for the purpose of establishing eligibility under sec. ~~9~~ <sup>591</sup> of this ~~Act~~ <sup>chapter</sup>;

(2) population figures for computing grant amounts under sec. ~~10~~ <sup>593</sup> of this ~~Act~~ <sup>chapter</sup>; and

(3) population figures for computing prepayment amounts under sec. ~~11~~ <sup>595</sup> of this ~~Act~~ <sup>chapter</sup>.

\* Sec. 10. DEFINITIONS. ~~As used in this Act~~ <sup>In this chapter</sup>

(1) "population" means non-military population;

Handwritten notes: "Add 'fund' to agency", "593", "595", "agency", "chapter", "In this chapter"

1 (2) "municipality" means a home rule municipality or a  
2 general law municipal corporation and political subdivision, which  
3 is a first or second class borough or city incorporated under the  
4 laws of the state;

5 (3) "operating expenditures" means personal services, con-  
6 tractual services, travel, commodities and up to \$20,000 per item of  
7 equipment except that it does not include any of these items if part  
8 of a capital improvement expenditure;

9 (4) "quarter" means a period beginning January 1, April 1,  
10 July 1 and October 1 of a calendar year.

11 \* Sec. <sup>44,19,605</sup> ~~11~~ REGULATIONS. The <sup>agency</sup> ~~Department of Community and Regional~~  
12 ~~Affairs~~ may adopt regulations necessary to carry out the purpose of  
13 this Act.

14 \* Sec. 12. EFFECTIVE DATE. This Act takes effect on the day after  
15 its passage and approval or on the day it becomes law without approval.  
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STF:md  
2-23-74

BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 505

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to assisting municipalities; and  
7 providing for an effective date."

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

9 \* Section 1. DECLARATION OF PURPOSE. It is the intention of the  
10 legislature to financially assist municipalities in meeting certain  
11 extraordinary operating expenditures directly attributable to the  
12 impact of construction of the trans-Alaska pipeline and which are  
13 beyond the capability of the impacted municipalities to reasonably  
14 meet. It is the further intention of the legislature that the state  
15 respond promptly to the impact needs of municipalities.

16 <sup>44.19.591</sup>  
\* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the  
17 purposes of this <sup>Chapter</sup> ~~Act~~ may be made to a municipality demonstrating

18 (1) an annual population growth rate in excess of its  
19 average annual growth rate for the period April 1, 1970, through  
20 July 1, 1973;

21 (2) extraordinary municipal operating expenditures beyond  
22 its capability to reasonably meet from growth in receipts from present  
23 municipal revenue sources; and

24 (3) that both (1) and (2) of this subsection can be  
25 directly attributed to the impact of construction of the trans-  
26 Alaska pipeline.

27 (b) The base population for measuring the annual population  
28 growth rate for purposes of this section is the population of the  
29 municipality on the first day of the quarter in which the effective

1 date of this Act falls.

2 \* Sec. 3. ESSENTIAL MUNICIPAL SERVICES. Grants made under this  
3 Act may be expended only for operating expenditures for

- 4 (1) police protection;  
5 (2) fire protection;  
6 (3) solid waste collection and disposal;  
7 (4) water supply and sewage disposal systems;  
8 (5) health care services;  
9 (6) land use and environmental planning and regulation; and  
10 (7) other essential municipal services specified in the

11 application.

12 <sup>44,18,593</sup>

13 \* Sec. 4. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
14 eligible for a grant amount under this <sup>Chapter</sup> Act equal to its population  
15 growth by June 30, 1975 in excess of the average annual population  
16 growth rate standard established under sec. <sup>591</sup> 2 of this <sup>Chapter</sup> Act multiplied  
17 by its per capita general fund expenditures, excluding expenditures  
18 for education, capital outlay and debt service, for the last  
19 complete fiscal year preceding the effective date of this Act.

20 (b) A municipality incorporated after the effective date of this  
21 Act is eligible for a grant amount under this <sup>Chapter</sup> Act equal to its  
22 population growth by June 30, 1975 in excess of the average annual  
23 population growth rate standard established under sec. <sup>591</sup> 3 of this  
24 <sup>Chapter</sup> Act multiplied by its per capita general fund expenditures, excluding  
25 expenditures for education, capital outlay and debt service, for its  
26 fiscal year budget.

27 (c) Total grants under this <sup>Chapter</sup> Act to a municipality with a  
28 population of 10,000 persons or more on the first day of the quarter  
29 in which <sup>this Act takes effect</sup> the effective date of this Act falls may not exceed \$250  
per capita of the population growth in excess of the average annual

1 population growth rate standard established under sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

2 Total grants under this Act to a municipality with a population

3 under 10,000 persons on the first day of the quarter in which ~~the~~ <sup>this Act takes effect</sup>

4 ~~effective date of this Act falls~~ may not exceed \$400 per capita of

5 the population growth in excess of the average annual population

6 growth rate standard established under sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

7 (d) The base population for measuring the per capita general

8 fund expenditures for purposes of this section is the population

9 of the municipality on the first day of the quarter in which ~~the~~ <sup>Act this takes effect</sup>

10 ~~effective date of this Act falls~~.

11 (e) Grants may be made quarterly based upon quarterly population

12 estimates with final adjustment to be made on June 30, 1975. Final

13 grant payments shall be withheld until after final adjustments of

14 amounts are made on June 30, 1975.

15 \* Sec. <sup>44.19.</sup> ~~575~~ PREPAYMENTS. (a) A municipality may receive, as a pre-

16 payment, up to 50 per cent of the amount it will be entitled to

17 under this ~~Act~~ <sup>Chapter</sup> upon certification by the ~~Department of Community and~~ <sup>agency</sup>

18 ~~Regional Affairs~~ that the municipality will more likely than not meet

19 the eligibility standards set forth in sec. <sup>591</sup> ~~2~~ of this ~~Act~~ <sup>Chapter</sup>.

20 (b) Total prepayments to municipalities made under this section

21 may not exceed \$5,000,000.

22 \* Sec. <sup>44.19.597</sup> ~~6~~ APPLICATION. (a) Grants under this Act may be made only

23 upon application by a municipality to the ~~Department of Community~~ <sup>agency</sup>

24 ~~and Regional Affairs~~. Each grant application shall state the

25 essential ~~municipal~~ services for which the grant will be expended.

26 A prepayment grant application may be submitted at any time after

27 the effective date of this Act.

28 (b) No grant may be expended for purposes other than those

29 specified in the application.

44.19.599

\* Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit a financial report covering the expenditure of any grant already received under this ~~Act~~ <sup>chapter</sup> to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> before another grant may be received under this ~~Act~~ <sup>chapter</sup>.

(b) A municipality receiving grants under this Act shall

(1) maintain a separate account for the grants received under this ~~Act~~ <sup>chapter</sup>;

(2) provide for an annual independent audit of the separate account for the grants received under this ~~Act~~ <sup>chapter</sup>; and

(3) submit a copy of the independent audit report to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>.

44.19.601

\* Sec. 8. APPROVAL. Grants under this ~~Act~~ <sup>chapter</sup> shall be made by the ~~Department of Community and Regional Affairs~~ at the direction of the governor subject to approval of the ~~Legislative Budget and Audit Committee~~ <sup>Special Legislative Pipeline Impact Review</sup>.

44.19.603

\* Sec. 9. POPULATION. A municipality shall submit estimated population and population growth figures to the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. These population and population growth figures are subject to review and approval by the ~~Department of Community and Regional Affairs~~ <sup>agency</sup>. The decisions of the ~~Department of Community and Regional Affairs~~ <sup>agency</sup> are final as to

(1) population growth figures for the purpose of establishing eligibility under sec. ~~2~~ <sup>591</sup> of this ~~Act~~ <sup>chapter</sup>;

(2) population figures for computing grant amounts under sec. ~~14~~ <sup>595</sup> of this ~~Act~~ <sup>chapter</sup>; and

(3) population figures for computing prepayment amounts under sec. ~~2~~ <sup>575</sup> of this ~~Act~~ <sup>chapter</sup>.

\* Sec. 10. DEFINITIONS. ~~Section 10 of this Act~~ <sup>In this chapter</sup>

(1) "population" means non-military population;

Handwritten notes: "Add" with arrows pointing to sections 9 and 10, and "agency" written below.

1 (2) "municipality" means a home rule municipality or a  
2 general law municipal corporation and political subdivision, which  
3 is a first or second class borough or city incorporated under the  
4 laws of the state;

5 (3) "operating expenditures" means personal services, con-  
6 tractual services, travel, commodities and up to \$20,000 per item of  
7 equipment except that it does not include any of these items if part  
8 of a capital improvement expenditure;

9 (4) "quarter" means a period beginning January 1, April 1,  
10 July 1 and October 1 of a calendar year.

11 # Sec. <sup>44,19,605</sup> ~~11~~ REGULATIONS. The <sup>agency</sup> ~~Department~~ of Community and Regional  
12 ~~Affairs~~ may adopt regulations necessary to carry out the purpose of  
13 this Act.

14 # Sec. 12. EFFECTIVE DATE. This Act takes effect on the day after  
15 its passage and approval or on the day it becomes law without approval.  
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Introduced: 2/15/74  
Referred: Community and  
Regional Affairs and  
Finance

BY THE RULES COMMITTEE  
BY REQUEST OF THE  
SPECIAL PETROLEUM  
IMPACT COMMITTEE

1 IN THE SENATE

2 CS for SENATE BILL NO. 382

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Pipeline Impact Agency; and  
7 providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. PIPELINE IMPACT AGENCY.

11 Sec. 44.19.581. PURPOSE. The legislature finds that construction  
12 of the trans-Alaska pipeline, from its commencement to completion over  
13 a period of approximately three years, will impose severe to mild  
14 strains on local and state governmental services and facilities. While  
15 the pipeline construction indubitably will, in the long run, mean  
16 immense growth and development to the communities and areas along the  
17 pipeline route, and to those areas coming under direct pipeline con-  
18 struction influence, the legislature further finds that localities most  
19 affected will be unable to cope with the probable impact on facilities  
20 and services brought about by the anticipated overwhelming and sudden  
21 increases in numbers of citizens to be served. The legislature finds,  
22 also, that communities while likely to be impacted are willing and  
23 ready via local taxation to do all possible themselves to meet impact  
24 requirements, even to the full limits of local taxation tolerance,  
25 nevertheless, recognizing the state will be the prime beneficiary of  
26 pipeline construction via realization of enormous oil development  
27 revenues for the total state, the legislature finds that local impact  
28 financial burdens logically should be borne by the state as its invest-  
29 ment in those future revenues. It is, therefore, the intent of the

1 legislature, in this measure, to provide a means of quickly and deci-  
2 sively determining specific impact problems and, additionally, for  
3 moving quickly and decisively to provide funds, facilities, personnel  
4 or other means for quick solutions. Finally, the legislature intends  
5 via this legislation to meet local and state pipeline construction impact  
6 problems as quickly and efficiently as possible in manners similar to  
7 the handling of disaster impact problems. ~~The legislature finds, too,~~  
8 ~~that revenue-sharing formulas on per capita or percentage per capita~~  
9 ~~increase basis are less desirable, less effective, and more costly than~~  
10 ~~the case-by-case approach intended in the legislation. Under the~~  
11 ~~formula approach, provision would have to be made for all probable as~~  
12 ~~well as all possible impact contingencies, some of which may never~~  
13 ~~develop.~~

14 Sec. 44.19.583. PIPELINE IMPACT AGENCY. There is created in the  
15 Department of Community and Regional Affairs  
~~office of the governor~~ the Pipeline Impact Agency.

16 Sec. 44.19.585. DIRECTOR. The Pipeline Impact Agency is adminis-  
17 tered by a director of pipeline impact. The director is appointed by  
18 the governor and serves at the pleasure of the governor. The appoint-  
19 ment of the director is subject to confirmation by a majority of the  
20 members of the legislature in joint session.

21 Sec. 44.19.587. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
22 CONSTRUCTION. The Pipeline Impact Agency shall administer a state  
23 program to provide assistance to municipalities which are adversely  
24 affected, economically and socially, by pipeline construction.

25 Sec. 44.19.589. POWERS AND DUTIES. (a) The director shall

26 (1) advise and assist the governor in developing planning  
27 assumptions and a broad preparedness plan with respect to the economic  
28 and social impact that will accompany pipeline construction;

29 (2) advise and assist the governor in developing policies,

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programs and control systems designed to alleviate the economic and social impact resulting from pipeline construction; and

(3) advise and assist the governor with respect to resolving issues related to pipeline construction impact preparedness responsibilities of state agencies which arise concerning two or more of those agencies.

(b) The director, with the approval of the Special Legislative Pipeline Impact Review Committee ~~(as provided for in secs. 595, 605 of this chapter)~~, may

(1) make loans and grants and purchase evidences of indebtedness with funds from the pipeline impact fund to municipalities economically or socially adversely affected by pipeline construction;

(2) guarantee municipal bonds when a municipality needs to undertake a capital improvement program on an accelerated basis; and

(3) pay (for not more than three years) from the pipeline impact fund a portion of the debt service or interest or both incurred by a municipality for undertaking capital improvements made necessary by pipeline construction.

(c) <sup>(4)</sup> Grants under (b)(1) of this section shall be made ~~on the~~ ~~basis of percentage increase in population and not on the basis of~~ ~~per capita increase in population~~. Applications for grants shall be made in a form prescribed by the director. A grant shall be allotted according to an agreement made between the director on behalf of the state and the municipality receiving the grant. The agreement may include any provision agreed upon by the parties and shall include in substance the following provisions:

(1) a schedule of grant disbursements, if, as determined by the director, a grant is to be disbursed other than in one sum;

(2) agreement by the municipality to

*Insert #1*

*Insert #2*

1 (A) proceed with and complete the proposed project  
2 or program expeditiously;

3 (B) not discontinue operation or dispose of all or  
4 part of the project or program for which it receives a grant with-  
5 out the approval of the director;

6 (C) apply for, and make reasonable efforts to secure,  
7 federal assistance which may be available for the project or  
8 program, subject to any conditions the agency may require in  
9 order to maximize the amounts of that assistance received or to  
10 be received for all projects or programs in the state;

11 (3) agreement by the municipality that, if federal assistance  
12 for a project or program becomes available to the municipality which  
13 was not included in the calculation of the amount of a grant authorized  
14 and disbursed under this section, the value of the federal assistance  
15 shall be ascertained and subtracted from the total value of the project  
16 or program and the balance shall be proportionately divided between  
17 the state and municipality;

18 (4) provision for alteration or modification of an approved  
19 project or program and for remedies in case of failure to perform the  
20 agreement between the parties or noncompliance with regulations promul-  
21 gated by the director under this section.

22 (d) If funds appropriated by the legislature to provide loans and  
23 grants and purchase evidences of indebtedness under this section are  
24 not adequate to satisfy amounts required by approved grant applications,  
25 funds shall be allocated on the basis of priority established by the  
26 director by regulations promulgated to carry out the provisions of this  
27 section.

28 (e) The director shall provide a quarterly report to the legisla-  
29 ture with respect to grants made under this section.

1 (f) The director shall determine the terms and conditions for  
2 making a loan and purchasing an evidence of indebtedness under this  
3 section.

4 Sec. 44.19.<sup>607</sup>~~599~~. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND  
5 LOANS. When the federal government or an agency or officer of the  
6 federal government offers to the state, or through the state to a  
7 municipality, services, equipment, supplies, materials, or funds by  
8 way of gift, grant, or loan, for the purpose of alleviating the social  
9 or economic impact resulting from pipeline construction, the state  
10 acting through the director, or the municipality acting through its  
11 executive officer or governing body, may accept the offer subject to  
12 the terms of the offer and the rules and regulations of the agency  
13 making the offer.

14 Sec. 44.19.<sup>607</sup>~~593~~. PIPELINE IMPACT FUND. There is the pipeline  
15 impact fund created for the purpose of carrying out the provisions of  
16 sec. 587(b) of this chapter. The fund consists of all money made  
17 available by appropriations of the state legislature, and from other  
18 appropriated funds, all contributions from whatever source, and income  
19 and interest derived from the investment of money.

20 Sec. 44.19.<sup>701</sup>~~595~~. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW COM-  
21 MITTEE. There is established the Special Legislative Pipeline Impact  
22 Review Committee composed of three members of the senate appointed by  
23 the president of the senate and three members of the house of represen-  
24 tatives appointed by the speaker of the house. The committee shall  
25 select its own chairman.

26 Sec. 44.19.<sup>703</sup>~~597~~. TERM OF MEMBERSHIP. The committee shall be  
27 organized within 15 days after the organization of each legislature.  
28 Members serve for the duration of the legislature during which they  
29 are appointed. If they are reelected or their term of office extends

Insert  
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1 into the next succeeding legislature, they continue to serve until  
2 reappointed or the appointment of their successor.

3 Sec. 44.19.<sup>705</sup>~~589~~. VACANCIES. When a vacancy occurs in the member-  
4 ship of the committee, the presiding officer of the house incurring  
5 the vacancy shall choose a successor. If the office of the president  
6 of the senate or speaker of the house of representatives becomes  
7 vacant and a vacancy from the affected house occurs among the member-  
8 ship of the committee, the remaining committee members from the house  
9 incurring the vacancy shall appoint a new member.

10 Sec. 44.19.<sup>707</sup>~~601~~. MEETINGS. (a) The committee may meet during  
11 sessions of the legislature and during the interim between sessions at  
12 such times and places in the state as the chairman may determine.  
13 Members may receive, for the minimum time required to get to and from  
14 meetings and for the period while attending meetings, the same travel  
15 and per diem allowances provided by law for members of the legislature  
16 when attending sessions, except that members of the committee receive  
17 no per diem during legislative sessions other than the per diem allow-  
18 ance paid to other members of the legislature.

19 (b) The members of the committee can validly conduct a meeting  
20 and vote by communicating simultaneously with each other by means of  
21 conference telephones or similar communications equipment.

22 (c) A majority of the members of the committee constitute a  
23 quorum for the purpose of carrying out its duties under sec. <sup>707</sup>~~603~~  
24 of this chapter.

25 Sec. 44.19.<sup>707</sup>~~603~~. DUTIES OF COMMITTEE. The committee shall review  
26 and approve or disapprove, in whole or in part, the decisions made  
27 by the Pipeline Impact Agency ~~under sec. 589(b) of this chapter.~~

28 Sec. 44.19.<sup>801</sup>~~605~~. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The  
29 division of legislative finance shall cooperate with the committee and

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• shall furnish technical assistance and personnel, if available, upon request.

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\* Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

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(4) <sup>to</sup> allow A community ~~may~~ borrow from the fund to cover immediate impact needs in anticipation of tax revenues, grants under this act, federal grants, or other revenue sources;

(b) Loans under this <sup>paragraph</sup> ~~section~~ may be granted upon application and the passage, by the local governing body of an ordinance authorizing the borrowing. The ordinance shall specify the anticipated revenue sources and provide for a pledge of the revenues to the repayment of the loans;

(c) Loans under this <sup>section</sup> shall require concurrence of the Special Legislative Pipeline Impact Review Committee and shall include the following terms:

<sup>A</sup> (1) The loan shall bear interest at a rate not to exceed six per cent a year.

<sup>B</sup> (2) No interest may be charged for the first three years of the loan or until January 1, 1978, whichever is sooner.

<sup>C</sup> (3) If the loan or any part of it is not repaid or otherwise extinguished before the date of commencement of interest, repayment shall be made in equal semi-annual installments, including interest, starting six months following the commencement of interest. The payments schedule shall provide for full payment of the loan over a period of not more than 20 years.

1           INSERT # 2

2           ~~ONLY FOR EXTRA~~ only for extraordinary municipal operations expendi-  
3           tures ~~exceed~~ beyond a municipality's capacity to reasonably meet in  
4           considering population growth shall be given greater weight than per  
5           capita increase in population.

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*((forget underlining))*

1        <sup>44.19.591</sup>  
 2        \* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the  
 3        purposes of this ~~Act~~ <sup>Chapter</sup> may be made to a municipality demonstrating

4        (1) an annual population growth rate in excess of its  
 5        average annual growth rate for the period April 1, 1970, through  
 6        July 1, 1973;

7        (2) extraordinary municipal operating expenditures beyond  
 8        its capability to reasonably meet from growth in receipts from present  
 9        municipal revenue sources; and

10        (3) that both (1) and (2) of this subsection can be  
 11        directly attributed to the impact of construction of the trans-  
 12        Alaska pipeline.

13        (b) The base population for measuring the annual population  
 14        growth rate for purposes of this section is the population of the  
 15        municipality on the first day of the quarter in which the effective

16        <sup>44.19.593</sup>  
 17        \* Sec. 3. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
 18        eligible for a grant amount under this ~~Act~~ <sup>Chapter</sup> equal to its population  
 19        growth by June 30, 1975 in excess of the average annual population  
 20        growth rate standard established under sec. <sup>591</sup> ~~2~~ <sup>Chapter</sup> of this ~~Act~~ multiplied  
 21        by its per capita general fund expenditures, excluding expenditures  
 22        for education, capital outlay and debt service, for the last  
 23        complete fiscal year preceding the effective date of this Act.

24        (b) A municipality incorporated after the effective date of this  
 25        Act is eligible for a grant amount under this ~~Act~~ <sup>Chapter</sup> equal to its  
 26        population growth by June 30, 1975 in excess of the average annual  
 27        population growth rate standard established under sec. <sup>591</sup> ~~3~~ of this  
 28        ~~Act~~ <sup>Chapter</sup> multiplied by its per capita general fund expenditures, excluding  
 29        expenditures for education, capital outlay and debt service, for its  
 30        fiscal year budget.

1  
 2 (c) Total grants under this ~~Act~~<sup>Chapter</sup> to a municipality with a  
 3 population of 10,000 persons or more on the first day of the quarter  
 4 in which ~~the effective date of this Act falls~~<sup>this Act takes effect</sup> may not exceed \$250  
 5 per capita of the population growth in excess of the average annual

6  
 7 population growth rate standard established under sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.  
 8 Total grants under this Act to a municipality with a population  
 9 under 10,000 persons on the first day of the quarter in which ~~the~~<sup>this Act takes effect</sup>  
 10 ~~effective date of this Act falls~~ may not exceed \$400 per capita of  
 11 the population growth in excess of the average annual population  
 12 growth rate standard established under sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.

13 (d) The base population for measuring the per capita general  
 14 land expenditures for purposes of this section is the population  
 15 of the municipality on the first day of the quarter in which ~~the~~<sup>this Act takes effect</sup>  
 16 ~~effective date of this Act falls~~.

17 (e) Grants may be made quarterly based upon quarterly population  
 18 estimates with final adjustment to be made on June 30, 1975. Final  
 19 grant payments shall be withheld until after final adjustments of  
 20 amounts are made on June 30, 1975.

21 \* Sec. <sup>44.19</sup> ~~575~~ PREPAYMENTS. (a) A municipality may receive, as a pre-  
 22 payment, up to 50 per cent of the amount it will be entitled to  
 23 under this ~~Act~~<sup>Chapter</sup> upon certification by the ~~Department of Community and~~<sup>agency</sup>  
 24 ~~Regional Affairs~~ that the municipality will more likely than not meet  
 25 the eligibility standards set forth in sec. ~~2~~<sup>591</sup> of this ~~Act~~<sup>Chapter</sup>.

26 (b) Total prepayments to municipalities made under this section  
 27 may not exceed \$5,000,000.  
 28  
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1 <sup>44.19.597</sup>  
 2 \* Sec. 4. APPLICATION. (a) Grants under this Act may be made only  
 3 upon application by a municipality to the <sup>agency</sup> ~~Department of Community~~  
 4 ~~and Regional Affairs~~. Each grant application shall state the  
 5 essential/municipal services for which the grant will be expended.  
 6 A prepayment grant application may be submitted at any time after  
 7 the effective date of this Act.

8 (b) No grant may be expended for purposes other than those  
 9 specified in the application.

10 <sup>44.19.599</sup>  
 11 \* Sec. 5. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit  
 12 a financial report covering the expenditure of any grant already  
 13 received under this <sup>chapter</sup> ~~Act~~ to the <sup>agency</sup> ~~Department of Community and Regional~~  
 14 ~~Affairs~~ before another grant may be received under this <sup>chapter</sup> ~~Act~~.

15 (b) A municipality receiving grants under this Act shall

16 (1) maintain a separate account for the grants received  
 17 under this <sup>chapter</sup> ~~Act~~;

18 (2) provide for an annual independent audit of the separate  
 19 account for the grants received under this <sup>chapter</sup> ~~Act~~; and

20 (3) submit a copy of the independent audit report to the <sup>agency</sup>  
 21 ~~Department of Community and Regional Affairs~~.

22 <sup>44.19.601</sup>  
 23 \* Sec. 6. APPROVAL. Grants under this <sup>chapter</sup> ~~Act~~ shall be made by the De-  
 24 partment of Community and Regional Affairs at the direction of the  
 25 governor subject to approval of the <sup>Special Legislative Policies Impact Review</sup> ~~Legislative Budget and Audit~~  
 26 Committee.

27 <sup>44.19.603</sup>  
 28 \* Sec. 7. POPULATION. A municipality shall submit estimated population  
 29 and population growth figures to the <sup>agency</sup> ~~Department of Community and~~  
 30 ~~Regional Affairs~~. These population and population growth figures are  
 31 subject to review and approval by the <sup>agency</sup> ~~Department of Community and~~  
 32 ~~Regional Affairs~~. The decisions of the <sup>agency</sup> ~~Department of Community and~~  
 33 ~~Regional Affairs~~ are final as to

1 (1) population growth figures for the purpose of estab-  
 2 lishing eligibility under sec. <sup>591</sup> ~~2~~ of this <sup>chapter</sup> Act;

3 (2) population figures for computing grant amounts under  
 4 sec. <sup>593</sup> ~~15~~ of this <sup>chapter</sup> Act; and

5 (3) population figures for computing prepayment amounts  
 6 under sec. <sup>595</sup> ~~3~~ of this <sup>chapter</sup> Act.

7  
 8 \* Sec. <sup>44,19,605</sup> ~~11~~ REGULATIONS. The <sup>agency</sup> ~~Department of Community and Regional~~  
 9 ~~Officers~~ may adopt regulations necessary to carry out the purpose of  
 10 this Act.

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 12 *Insert # 4*

13 \* Sec. 44,19,803. Definitions. In this chapter

14 (1) "agency" means the Pipeline In-  
 15 *ject Agency;*

16 (2) "population" means non-military population;

17 (3) "municipality" means a home rule municipality or a  
 18 general law municipal corporation and political subdivision, which  
 19 is a first or second class borough or city incorporated under the  
 20 laws of the state;

21 (4) "operating expenditures" means personal services, con-  
 22 tractual services, travel, commodities and up to \$20,000 per item of  
 23 equipment except that it does not include any of these items if part  
 24 of a capital improvement expenditure;

25 (5) "quarter" means a period beginning January 1, April 1,  
 26 July 1 and October 1 of a calendar year.

BY THE RULES COMMITTEE  
BY REQUEST OF THE  
SPECIAL PETROLEUM  
IMPACT COMMITTEE

IN THE HOUSE

*SB 382*  
CS FOR ~~HB 515~~

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to assisting municipalities, creating a pipeline/impact office; and providing for an effective date."

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

\*Section 1. AS 44.19 is amended by adding new sections to read:

ARTICLE 8. PIPELINE IMPACT AGENCY.

Sec. 44.19.581. PURPOSE. The legislature finds that construction of the trans-Alaska pipeline, from its commencement to completion over a period of approximately three years, will impose severe to mild strains on local and state governmental services and facilities. While the pipeline construction indubitably will, in the long run, mean immense growth and development to the communities and areas along the pipeline route, and to those areas coming under direct pipeline construction influence, the legislature further finds that localities most affected will be unable to cope with the probable impact on facilities and services brought about by the anticipated overwhelming and sudden increases in numbers of citizens to be served. The legislature finds, also, that communities while likely to be impacted are willing and ready via local taxation to do all possible themselves to meet impact requirements, even to the full limits of local taxation tolerance, nevertheless, recognizing the state will be the prime beneficiary of pipeline construction via realization of enormous oil development revenues for the total state, the legislature finds that local impact financial burdens logically should be borne by the state as its investment in those future revenues. It is, therefore, the intent of the legislature, in this measure, to provide a means of quickly and decisively determining specific impact problems and, additionally, for moving quickly and decisively to provide funds, facilities, personnel or other means for quick solutions. Finally, the legislature intends via this legislation to meet local

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and state pipeline construction impact problems as quickly and efficiently as possible in manners similar to the handling of disaster impact problems.

Sec. 44.19.583. PIPELINE IMPACT AGENCY. There is created in the ~~office of the governor~~ <sup>Dept. of Comm. & Regional</sup> the Pipeline Impact Agency.

Sec. 44.19.585. DIRECTOR. The Pipeline Impact Agency is administered by a director ~~of~~ of pipeline impact. The director ~~is~~ is appointed by the governor and serves at the pleasure of the governor. *(Add legi. confirmation)*

Sec. 44.19.587. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE CONSTRUCTION. The Pipeline Impact Office shall administer a state program to provide assistance to municipalities which are adversely affected, economically and socially, by pipeline construction.

Sec. 44.19.589. POWERS AND DUTIES. (a) The director shall

(1) advise and assist the governor in developing planning assumptions and a broad preparedness plan with respect to the economic and social impact that will accompany pipeline construction;

(2) advise and assist the governor in developing policies, programs and control systems designed to alleviate the economic and social impact resulting from pipeline construction; and

(3) advise and assist the governor with respect to resolving issues related to pipeline construction impact preparedness responsibilities of state agencies which arise concerning two or more of those agencies.

(b) The director, with the approval of the <sup>Special Leg. Impact Comm.</sup> ~~Legislative Audit~~ Committee may

(1) make loans and grants and purchase evidences of indebtedness with funds from the pipeline impact fund to municipalities economically or socially adversely affected by pipeline construction;

(2) guarantee municipal bonds when a municipality needs to undertake a capital improvement program on an accelerated basis; and

(3) pay (for not more than three years) from the pipeline impact fund a portion of the debt service or interest or both incurred by a municipality for undertaking capital improvements made necessary by pipeline construction.

(c) Grants under (b) (1) of this section shall be made and shall be made only for extraordinary municipal operations expenditures <sup>where there</sup> beyond a municipality's capacity to reasonably meet. ~~In considering population growth shall be given~~ <sup>shall be given its percentage population growth</sup> greater weight than per capita increase in population. Applications for grants

*Mr. Confrontation*

*use*

shall be made in a form prescribed by the director. A grant shall be allotted according to an agreement made between the director on behalf of the state and the municipality receiving the grant. The agreement may include any provision agreed upon by the parties and shall include in substance the following provisions:

(1) a schedule of grant disbursements, if, as determined by the director, a grant is to be disbursed other than in one sum;

(2) agreement by the municipality to

(A) proceed with and complete the proposed project or program expeditiously;

(B) not discontinue operation or dispose of all or part of the project or program for which it receives a grant without the approval of the director;

(C) apply for, and make reasonable efforts to secure, federal assistance which may be available for the project or program, subject to any conditions the agency may require in order to maximize the amounts of that assistance received or to be received for all projects or programs in the state;

(3) agreement by the municipality that, if federal assistance for a project or program becomes available to the municipality which was not included in the calculation of the amount of a grant authorized and disbursed under this section, the value of the federal assistance shall be ascertained and subtracted from the total of the project or program and the balance shall be proportionately divided between the state and municipality;

(4) provision for alteration or modification of an approved project or program and for remedies in case of failure to perform the agreement between the parties or noncompliance with regulations promulgated by the director under this section.

(d) If funds appropriated by the legislature to provide loans and grants and purchase evidences of indebtedness under this section are not adequate to satisfy amounts required by approved grant applications, funds shall be allocated on the basis of priority established by the director by regulations promulgated to carry out the provisions of this section.

(e) The director shall provide a quarterly report to the legislature with respect to applications and grants made under this section.

(f) The director shall determine the terms and conditions for making a loan and purchasing an evidence of indebtedness under this section.

*Emergency*

~~(g) The director shall defer action on all applications which do not require immediate action until the Ninth State Legislature at which time the director shall submit to the legislature a listing of applications together with his evaluation of the priority and urgency of each request.~~

Sec. 44.19.591 AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND LOANS. When the federal government or an agency or officer of the federal government offers to the state, or through the state to a municipality, services, equipment, supplies, materials, or funds by way of gift, grant, or loan, for the purpose of alleviating the social or economic impact resulting from pipeline construction, the state acting through the director, or the municipality acting through its executive officer or governing body, may accept the offer subject to the terms of the offer and the rules and regulations of the agency making the offer.

Sec. 44.19.592 INITIAL GRANTS TO IMPACT COMMUNITIES. (a) Eligibility Standards.

(1) Grants to carry out the purposes of this Act shall be made to a municipality demonstrating an annual population growth rate in excess of ~~2.9~~ *growth from 1970 to 1974* percent;

(2) The base population for measuring the annual population growth rate for purposes of this section is the population of the municipality on the first day of the quarter of the calendar year during which the construction date of the trans-Alaska pipeline occurs.

(b) Grant Computation and Payment.

*use 505 Sec*

*Initial Grant*

(1) A municipality is eligible for a grant amount under this Act equal to its population growth by June 30, 1975 in excess of the 2.9 percent annual population growth rate standard established under Sec. 2 of this Act multiplied by that percentage which population growth of the municipality in excess of ~~2.9~~ *2.9* percent bears to total population growth in excess of four percent for all Alaska municipalities multiplied by the sum or \$10,000,000.

(2) Grants may be made quarterly based upon quarterly population estimates with final adjustment to be made on June 30, 1975. Final grant payments shall be withheld until after final adjustments of amounts are made on June 30, 1975.

(c) Prepayments.

(1) A municipality may receive, as a prepayment, up to 50 percent of the amount it will be entitled to under this Act upon certification by the Pipeline Impact Office that the municipality will more likely than not meet the eligibility standards set forth in Subsection (a).

(2) Total prepayments to municipalities made under this section may not exceed \$5,000,000.

(d) Application. Grants under this Act may be made only upon application by a municipality to the Pipeline Impact Office. Each grant application shall state the projected population increase in excess of ~~four percent~~ <sup>four and one-half percent</sup> for the period of July 1, 1974 through June 30, 1975 together with the data upon which the projections are based.

(e) Approval. Grants under this Act shall be made by the Pipeline Impact Office at the direction of the governor subject to approval of the Legislative Budget and Audit Committee.

(f) Population. A municipality shall submit estimated population and population growth figures to the Pipeline Impact Office. These population and population growth figures are subject to review and approval by the Pipeline Impact Office. The decisions of the Pipeline Impact Offices are final as to

(1) population growth figures for the purpose of establishing eligibility under Subsection (a);

(2) population figures for computing grant amounts under Subsection (c) of this Act; or

(3) population figures for computing prepayment amounts under subsection (d).

Sec. 44.19.593. PIPELINE IMPACT FUND. There is the pipeline impact fund created for the purpose of carrying out the provisions of sec. 587(b) of this chapter. The fund consists of all money made available by appropriations of the state legislature, and from other appropriated funds, all contributions from whatever source, and income and interest derived from the investment of money.

Sec. 44.19.595. DEFINITIONS. For purposes of this Act

(1) "construction commencement date" means the date the following occur:

(A) There has been issued to the owner of his agen right-of permits, leases, and title and other rights in lands, and other approvals, permits, licenses and certificates, by federal, state and local agencies that a reasonable and prudent person would consider adeuqate to commence construction of the facilities in the expectation that all other approvals permits, licenses and certificates necessary for the completion of facilities will be obtained;

(B) all approvals, permits licenses and certificates are in full force and effect, unrevoked and without any modification, which might jeopardize the completion or continued construction of the facilities; and

(C) no order, judgement, decree, determination or award of a federal, state or local court or administrative or regulatory agency enjoining, either temporarily or permanently, the construction of the continuation of construction of the facilities is in effect.

(2) "municipality" means a <sup>Home Rule &</sup> general law municipal corporation and political subdivision, which is a first or second class borough or city incorporated under the laws of the state;

(3) "operating expenditures" means personal services, contractual services, travel, commodities and up to \$20,000 per item of equipment except that it does not include any of these items if part of a capital improvement expenditure;

(4) "quarter of a calendar year" means a period beginning January 1, April 1, July 1, and October 1 of a calendar year.

Sec. 44.19.597. REGULATIONS. The Pipeline Impact Office may adopt regulations necessary to carry out the purpose of this Act.

Sec. 44.19.599. EFFECTIVE DATE. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

Agency Bill SB 382

1) change insert # 2 per Arch. draft. - done

2) line 15, p. 3 (of insert) something missing

sec. 581. - defer

(1) Budget & Audit will do it.

(2) discretionary grants.

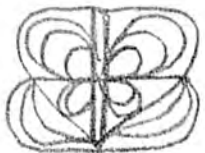
(3) formula grants.

- director shall make grants according to pop. increase

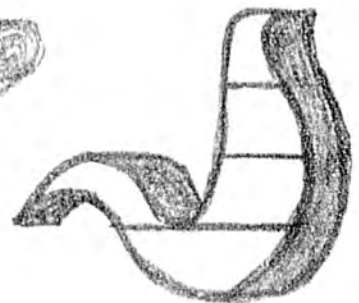
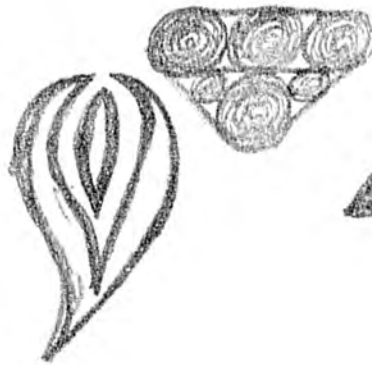
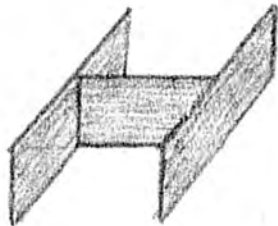
- "may" per Pittler's bill. (not a funding request)



see SB 270 (Slides)



- type, top of p. 2 "non" in reference "nonrenewable" resource should be taken out.



PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

EXCELLENT SUMMARY OF THE SITUATION - *Chlor Justice*

# Washington Analysis Corporation

1612 K STREET N.W., WASHINGTON, D.C. 20006 (202) 659-8030 *fu*

APR 7 1980

March 12, 1980

## THE ALASKAN GAS PIPELINE

### Summary and Conclusions

Although generally recognized as a project vital to U.S. energy security and very significant to economic development in Canada, the proposed pipeline to transport natural gas from Alaska's Prudhoe Bay to the lower 48 states has still not emerged from the planning phase. Recent oil price rises have probably made the project a viable one from an economic perspective, but currently it is tied up in a knot of ill-advised federal decisions that will require new legislation to untangle. While the intent of these government actions was to forestall inequities and speed construction, it is our belief that the strictures laid down are so tight as to prevent funding and building of the pipeline until the law is changed.

A Special Advisor to DOE recently proposed a new financing scheme in an attempt to break the impasse, but it has been unfavorably received by Congress and the White House, as well as the companies involved. We doubt that new legislation will be considered until 1981, and then we expect the debate to drag on for months. Once a new funding plan is approved, pipeline construction companies such as Bannister Continental will be in a strong position to benefit, as will line pipe manufacturers such as Steele, and other firms engaged in supplying large construction projects. We stress, however, that project start-up is probably at least two years further away from reality than has been commonly assumed.

### History of the Pipeline

Plans were conceived for transporting Alaskan oil and gas to the lower 48 states shortly after the great Prudhoe Bay discovery was made in 1968. By 1978, the Trans-Alaskan Pipeline System (TAPS) was in place and sending crude petroleum south. However, the development of the Alaskan Natural Gas Transmission System (ANGTS) has met with a series of delays. Currently gas is being re-injected into the oil reservoir. (Figures on resource and pipeline ownership by North Slope producers are shown in Appendix 1.)

A SUBJIDIARY OF BACHE HALSEY STUART SHIELDS INCORPORATED

## Bache

Three groups, the El Paso, Arctic Gas and Alcan consortiums, were formed in 1969 to compete for a government license to build a gas pipeline. The construction certificate was ultimately awarded to Alcan, of which Northwest Energy was the parent company. Among the reasons cited were environmental superiority and Alcan's assurance that its project could be financed entirely in the private sector. Subsequently, Alcan was joined by other pipeline companies (listed in Appendix 2), and became known as the Alaskan Northwest Natural Gas Pipeline Company. The project was the subject of an elaborate treaty between the United States and Canada in 1977.

The proposed 4,800-mile gas pipeline would travel south from Prudhoe Bay, paralleling the oil line to Fairbanks, follow the Alaskan Highway to the Canadian border, then head across Canada and split near Calgary, Alberta, into two segments — a western leg extending to San Francisco, and an eastern leg to Chicago. The Canadian part of the line would be built by the Foothills consortium, composed of two Canadian firms (listed in Appendix 2). The transmission system would carry about 2.4 billion cubic feet of gas per day and DOE estimates total costs at \$23 billion, in 1979 dollars: \$2 to \$3 billion for the lower 48 portion, \$6.0 billion for the Canadian leg, and \$15 billion for the Alaskan segment. The great expense of the Alaskan segment is due to field development and gathering systems (estimated at \$4 billion), construction of a conditioning plant to clean the gas and separate it into different fuels (estimated at \$3.5 billion), and building of the pipeline itself, under difficult Arctic conditions (estimated at \$7.5 billion).

Comprehensive design and civil engineering studies have yet to be undertaken and thus the cost estimates are not firm. Design alone is conservatively estimated by DOE at \$500 million, and would be completed by 1982 if started now. Construction of the transmission system would take an additional three to four years.

#### Government Decisions

Starting in 1976, Federal authorities issued a number of rulings on the ANGTS which were supposed to provide for swift construction of the pipeline. The government's intent was to prevent problems similar to those plaguing TAPS. However, the actual effect of determinations made so far by the Congress, the President, and the Federal Energy Regulatory Commission (FERC), has been to hinder seriously the prospects for moving ahead. The difficulties arise mainly with the Alaskan section of the ANGTS, since the Lower 48 and Canadian sections should be relatively easy to finance and construct. However, because the Alaskan portion accounts for more than two-thirds of cost and is the first link to Prudhoe Bay, its status is vital to the rest of the project. The government decisions and their impact to date are reviewed below.

CONGRESSIONAL LEGISLATION: in the Alaskan Natural Gas Pipeline Act of 1976, Congress legislated policy on certain aspects of the pipeline. The Act had two major provisions of interest:

- 1) Congress stipulated that it would award building rights to whatever company proposed the route finally chosen by the President.

This arrangement committed the Government to backing whatever consortium happened to propose the desirable route, quite aside from the financial and technological strength of the consortium itself. As a result, the ANGTS construction certificate went to a group led by Northwest Energy, a regional transmission company which the oil industry and financial community find difficult to take seriously as a builder of trancontinental pipelines. Moreover, Northwest's Executive Officer, John MacMillian, is viewed as a highly unconventional figure, and his personal ties to President Carter and financial ties to the Carter campaign committee have not helped to diminish the lack of confidence with which many regard his consortium.

- 2) Congress also insisted that access to the ANGTS be guaranteed for any concern that wishes to ship gas, regardless of participation in the building of the pipeline.

The intent of this stipulation was to prevent the owners of the pipeline from monopolizing access to the system, and to encourage other firms to search for gas. The effect, for now, has been to make participation in the ownership consortium unattractive to other potential shippers. With access guaranteed, they feel little compulsion to participate in the costly, high-risk planning phase of what appears to them as a weak and floundering project.

PRESIDENTIAL DECISION: President Carter issued his decision on pipeline financing and ownership in June, 1977. While it has aroused much controversy, changes will not be easy because The Alaskan Natural Gas Pipeline Act requires Congressional approval of major alterations in the Presidential ruling. The three conditions set by Carter on Alean's right to build the ANGTS were:

- 1) Gas producers that develop Prudhoe Bay petroleum resources (i.e., Exxon, ARCO, and Sohio) are forbidden from having any equity ownership -- and hence any management voice -- in the pipeline, and they are restricted to debt financing for any interest they might wish to acquire.

While the oil companies have traditionally stayed out of the gas transmission business, the enormous cost of the proposed pipeline makes conventional approaches questionable. The major North Slope petroleum concerns form one of the few groups with enough money to contribute towards such an undertaking. The Presidential Decision, however, closes off this source of equity capital. It is unlikely that producers would be inclined to tie up billions of dollars in commercial loans that carry a high risk, yet offer low returns and no management rights.

- 2) None of the pipeline's construction expenses may be billed to consumers before the project is finished. Only after the pipeline is built and operating can owners begin to recover costs through consumer charges.

Consumers are another of the very few groups able to guarantee this multi-billion dollar project. If prevented from incurring surcharges, they can merely ensure timely repayment of costs after the pipeline is built, rather than inspire investor confidence as an exploitable source of capital in the risky precompletion phase. However, the Carter decision makes any other outcome unavoidable.

- 3) The Federal Government will take no part in financing of the pipeline via guarantees.

This condition was set on the basis of Northwest's assertions that all funds could be raised in the private sector. However, Northwest envisioned consumers and producers -- the latter on a debt as well as a non-management equity basis -- as important sources of capital when it made its assurances. Regardless of Northwest's hopes, this is unlikely to occur. Hence, the Administration, having removed the only alternatives to government participation, then proceeded to eliminate the government as well. President Carter apparently felt federal guarantees were politically unacceptable.

FERC RULINGS: FERC is involved in three major aspects of the natural gas pipeline. It has ruled that:

- 1) Gas producers must themselves bear all conditioning costs.

Although in the past it was generally accepted that producers would pay for conditioning costs, FERC policy of the last several years has allowed more flexibility in the apportionment of these expenses between producers and pipelines. Hence this decision amounts to a major policy reversal, and probably reflects FERC awareness of the Northwest group's inherent financial weakness, as well as certain fears of "Big Oil monopoly control." At any rate, while producers are willing to share conditioning costs with the pipeline consortium (and even the Presidential Decision envisioned this), carrying the entire burden is unacceptable, especially in view of the substantial non-completion risks. Moreover, FERC, having saddled the producers with responsibility for conditioning, has also ruled that the costs (estimated at well over \$.75 per mcf, in 1980 dollars) must not be added to the allowable well-head price (\$1.80 per mcf in February 1980, escalating by inflation as measured by the GNP deflator).

- 2) A variable rate of return (ROR) has been set which ignores the investment tax credit (ITC). The ROR on the Alaskan segment of the line has been placed at a center-point of 17.5% if the project is completed without cost overruns. For the lower 48 leg the figure will be 15%.

Some FERC staffers have complained that the return established by the Commission is too high and will cause unfair prices to consumers. Moreover, while government agencies are directed to overlook the ITC when setting rates of return, the policy has caused concern in this case, due to the prodigious amounts of money involved. Calculations that include the effect of the tax credit place the center-point ROR as high as 30.5%. While such a high return would undoubtedly be a boon to the pipeline's equity owners, the differential between their return and that of prospective lenders is a severe disincentive to the latter. If other parties ultimately secure pipeline debt, the ROR will have to be reduced and the investment tax credit taken into account, because the risk will no longer be so high. And such an extraordinary ROR would be politically unacceptable under those conditions.

Of course, there is the possibility, under the novel variable return concept, that unexpected cost overruns could reduce the ROR to a level well below the 17.5% and 15% figures mentioned above. This, however, only makes for added project risk.

- 3) One area in which FERC has yet to set policy, and where its ruling is eagerly awaited, regards "tracking" -- pass-through arrangements that automatically send costs forward to consumers. While the Presidential Decision forbids pre-completion surcharges to customers, "tracking" will still be necessary once the pipeline is operating, and it would become immediately relevant if surcharges were permitted. Tracking may have to be put in place by federal legislation that would override state utility commissions. Given the enormous cost of the project, there are many circumstances under which state commissions might wish to protect consumers from bearing any costs not directly related to their own gas consumption.

PROJECT FINANCE: Although it is not strictly a decision of the government, Federal authorities have apparently concurred with Northwest's proposal to finance the pipeline on a non-recourse basis (where lenders could seize only assets of the pipeline, and not those of equity owners, in the event of project failure). While this arrangement certainly protects Northwest's position, it makes it even more difficult for the ANGTS to attract normal debt capital. Such a method of financing, viewed in relation to the absence of any strong "guarantor of last resort," makes the ANGTS particularly risky during the construction phase. Since Northwest lacks the financial strength to allow for conventional recourse, a shift away from project finance would automatically imply a radically altered equity base. Moreover, debt owners may simply demand recourse financing if there are no absolute federal guarantees or perfect "tracking" mechanisms for an all-events tariff.

#### Outlook

We feel it is virtually certain that the ANGTS will never be built under the arrangements described above. Delays on the Alaskan leg of the project will also hold up "pre-build" of the Canadian portion since authorities in Ottawa -- in a move to protect their own exports going through the line -- have ruled that reasonable assurances for financing of the entire project must be obtained before Canadian firms may begin construction on their segment.

A Special Advisor to DOE, Martin Lipton, recently formulated a plan that would have overturned the troublesome provisions of past federal decisions, but the plan was rejected by the White House and key members of Congress, as well as by sponsors and producers. The scheme contained what we consider to be the essentials for ANGTS construction, namely, federal guarantees and equity participation by North Slope producers. The President and energy legislators on Capitol Hill are against the scheme because they do not want the government to back lucrative rates of return for "Big Oil." Northwest is opposed because it does not want its 100% ownership of the ANGTS tampered with; and producers dislike the plan because their ownership would be disproportionate with their financial commitment. However, Lipton's proposal represents the considered opinion of an outside source that current financing plans are unworkable, and it tends to confirm the belief that they must be altered in some way. While this specific scheme has been rejected, we expect its general thrust to be adopted eventually. Indeed Lipton's main concern may only have been to stir up debate and provide the initial impetus for change.

The Lipton proposal would have included the conditioning plant in project expenses and established an initial fund of \$11 billion to cover the total estimated cost. Two over-run pools would also have been set up: the first a \$5.5 billion fund consisting of 90% producer and 10% sponsor monies, and the second a government-backed fund of \$10 billion. The over-all capital structure would have been 75% debt and 25% equity. This plan differed somewhat from a proposal Exxon submitted in October of 1979, calling for a similar over-all capital structure, but allowing producers to put up 40% of debt and equity, with conditioning costs borne by sponsors.

Before Congress will ever consent to such a comprehensive revamping of ANGTS financing, Northwest itself will have to admit that its original funding schemes cannot succeed. In our opinion, this confession of failure is inevitable. At that point -- since such an admission would largely defeat the purpose of having chosen Northwest in the first place -- Congress is likely to strike down Northwest's total control of the ANGTS. That of course, is not to say that it will entirely eliminate the Northwest sponsors from the pipeline project. We see diluted Northwest ownership, as envisioned in the DOE and Exxon proposals, as the most likely outcome (though it will only come about over the strenuous objections of John MacMillian). However, to instill true confidence in institutional lenders it might be necessary to bring more than just the North Slope producers in on equity participation; other transmission companies might also be required. This would further erode Northwest's position.

At issue in Congress will be not the necessity of producer participation but its extent and form. Congress will probably favor a degree of control over pipeline construction by ARCO, Exxon and Sohio, but its attitude on the producers' role in pipeline operation is less certain. As mentioned, Northwest has been contemplating a scheme whereby producers would have equity participation in the building of the ANGTS, as well as a guaranteed rate of return on investment once the pipeline was finished, but with no management role after completion. Congress would no doubt favor this scheme as a way of obtaining producer monies while avoiding long-term producer control. However, it is unlikely that producers would readily forego all operating rights over a project into which they have poured billions of dollars. So when the inevitable new financing plan is authorized, we expect that Congress -- unless it prefers massive consumer surcharging or outright federal ownership of the pipeline -- will have little choice but to strike some bargain with the North Slope companies.

This is likely to be a very long, drawn-out process. We doubt that any serious action will be taken during 1980. Legislation may well be introduced after the elections, during the Congressional session commencing in 1981. But debate on such a controversial topic will occupy many months, so that a new ANGTS financing plan will probably not go through until late next year at the earliest. At that point it will still be necessary to complete the engineering studies (which provide the basis for cost estimates) and arrange for financing. Construction could then begin in 1983 with the first gas flowing in 1987.

William Stoops  
Adam Sieminski  
(202) 659-8030

Appendix 1

Ownership of Prudhoe Bay Oil, Gas and Pipelines

<u>Company</u>	<u>TAPS <sup>1/</sup></u>	<u>Crude Oil <sup>2/</sup></u>	<u>Natural Gas <sup>3/</sup></u>	<u>Possible ANGTS <sup>4/</sup></u>
ARCO	21.00	20.38	35.7	15/22.5
Exxon	20.00	20.38	35.7	15/25.5
Sohio	33.34	52.96	26.1	10/15.0
BP	15.84	-0-	-0-	--
Mobil	5.00	2.08	.8	--
Phillips	1.66	2.03	.8	--
Amerada Hess	1.50	0.54	.2	--
Union	1.66	-0-	-0-	--
Chevron	-0-	0.84	.5	--
Getty	-0-	.55	.2	--
Other <sup>5/</sup>	-0-	.23	.1	60/40
	<u>100.00</u>	<u>100.00</u>	<u>100.0</u>	<u>100</u>

Calculation of Gas Ownership

<u>Company</u>	<u>Associated Gas</u>	<u>Gas Cap</u>	<u>Total <sup>6/</sup></u>
ARCO	20.38	42.24	35.68
Exxon	20.38	42.24	35.68
Sohio	52.96	14.59	26.16
BP	-0-	-0-	-0-
Mobil	2.08	.27	0.81
Phillips	2.03	.26	0.79
Amerada Hess	.54	-0-	0.16
Union	-0-	-0-	.17
Chevron	.84	.40	0.53
Getty	.55	-0-	.17
Other	.23	-0-	.07
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

<sup>1/</sup> Percentage ownership in the Trans-Alaska Pipeline System, after the July 1974 expansion agreement.

<sup>2/</sup> Crude oil ownership of the Prudhoe Bay pool, producing mainly from the Sadlerochit reservoir, but also the Shublik, and Sng River formations. (The Prudhoe Bay field also contains the separate Kuparuk and Lisburne formations.) These figures are subject to revision under the unit agreement, as the reservoir characteristics become more understood.

<sup>3/</sup> Natural gas ownership is subject to several uncertain activities. First, the Prudhoe Bay pool contains both associated gas as well as a gas cap, each with different ownership patterns. Second, there is still much disagreement over the amounts of each type of gas in place, and over the extent to which each can be produced. See table of calculations on gas ownership.

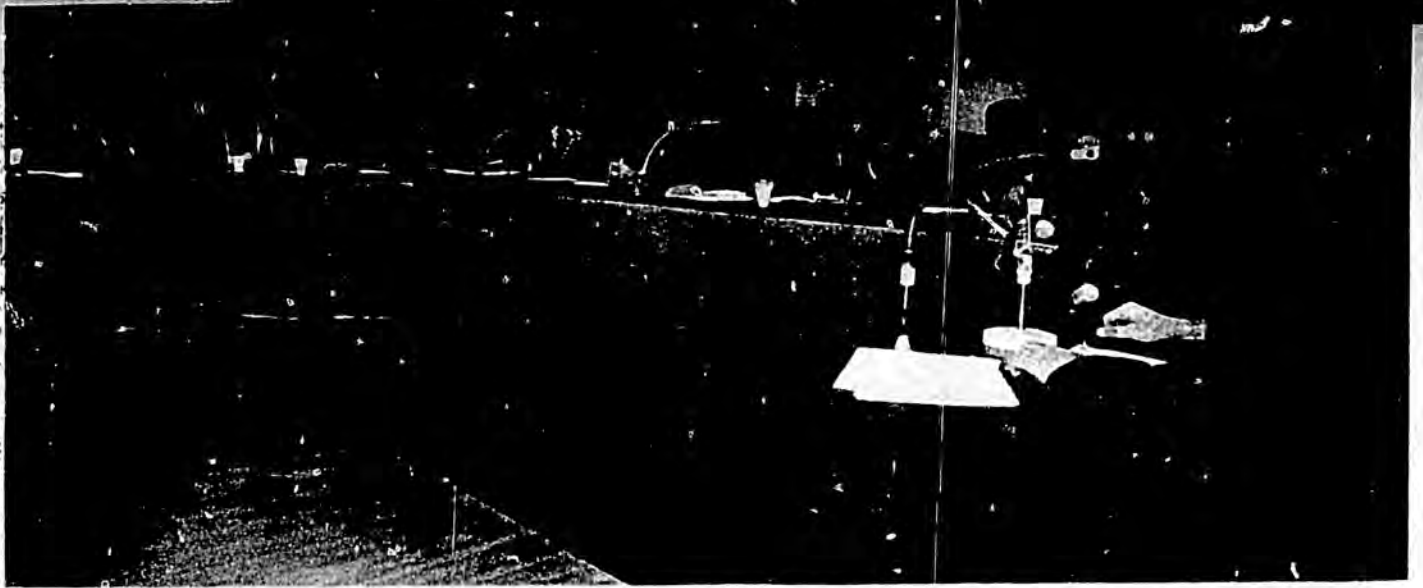
<sup>4/</sup> Possible percentage ownership in the Alaska Natural Gas Transportation System if the three major gas producers take proportionate shares totaling either 40% or 60%.

<sup>5/</sup> Crude oil and associated natural gas producers include: Placid (.04), Louisiana Land (.04), Marathon (.04), and the Hunt family (.09). In the case of the gas pipeline, there is still great uncertainty over the possible equity ownership, but if the gas producers were to own a total of 40% for example, it might be apportioned as shown.

<sup>6/</sup> Total gas ownership is based on an assumed apportionment of produceable gas of 30% associated in the oil rim and 70% in the gas cap.

SCOMM

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**IMPACT PANEL**—Members of the legislature's joint interim pipeline impact committee listened to city and borough officials Monday at hearings in the Fairbanks

city council chamber. From left are Sen. Ron Rettig, Rep. Dick McVeigh, Rep. Selwyn Carrol, Sen. Keith Miller, Rep. Robert Hartig and City Manager Wally Droz.

(Staff photo)

## Area officials talk of impact

By DENNIS FRADLEY  
Resources Editor

City and borough officials Monday made their needs known to members of the legislature's joint interim pipeline impact committee at hearings in the city council chamber.

Chaired by Sen. Ron Rettig, R-Anchorage, the panel is conducting hearings across the state this week to determine some of the problems that will be created once construction of the trans-Alaska pipeline begins.

Fairbanks Mayor Harold Gillam opened the testimony and told the legislators the state doesn't need to meet the impact problems, it just has to provide the people in the communities the tools to do the job themselves.

The tools Gillam mentioned were backing for municipal bonds, investment of state funds into local banks to lower interest rates, and opening land for the people to develop.

City Manager Wally Droz followed Gillam and was more specific with requests. Droz cited more than \$27 million in capital improvements already made by the city to meet the expected population expansion.

These improvements were in the area of sewer and water line additions, expansion of electric generating facilities, additional police and fire vehicles, and numerous other new facilities.

The city urgently needs, however, improvements for its

electrical, water and telephone services, Droz added.

"The city of Fairbanks requires assistance from the state to meet its power requirements in two areas," he said. "Firstly, we must get a commitment from the state to sell us oil and gas from its share of royalty oil and gas from the North Slope fields at the nearest point of delivery from pipelines carrying oil and gas which we have reason to believe will be in the North Pole area," Droz told the legislators.

"Secondly, the City of Fairbanks requires financial assistance."

A dual-fueled generator—capable of burning either natural gas or oil—would cost \$6.5 million, according to Droz, while a coal-fired unit would cost \$15 million.

He said utility rates in the area were already too high.

Other items needed by Fairbanks to meet the impact problem include additional water treatment and storage facilities, and new facilities for the telephone system.

Droz also cited needs for a slight buildup in the police and fire departments.

When asked what kind of assistance Fairbanks would be seeking from the state, Droz replied: "Whatever we can get." He said a grant would be his first choice and a loan second.

Borough Mayor John Carlson said the five-year delay in construction of the pipeline has been on the government's side,

since the government has been able to gear up for impact. He cited the land zoning and recreation improvements as examples.

He estimated the borough administration budget would be increased \$700,000 for impact related problems.

It was in the borough school system, however, that the more serious problems were seen. Business Manager Bill Case told the legislators that he believed studies done on impact to date were conservative in the estimates of increased student enrollment. These studies show a 20 per cent increase for the Fairbanks North Star Borough school system.

Case gave the panel estimates of the increased costs solely to pipeline-related impact. These figures went from \$1.8 million in 1974-75 to \$38.9 million in 1967-79. He said the state would have to provide money to meet these needs.

Chuck Rees spoke for the

school board and told the legislators the board is on record favoring 100 per cent funding for schools by the state.

Rees cited three other areas where state assistance is needed: possible guarantee for the 12.8 million bonds recently approved, assistance to supply power to the Wainwright schools to keep them open, and purchase of mobile classrooms for use during the boom period.

In addition to Rettig, members on the committee include Sens. Clifford Groh, R-Anchorage, Keith Miller, R-Anchorage, Terry Miller, R-Fairbanks, and Reps. Andrew Warwick, R-Fairbanks, Lavell Wilson, R-Tok, Tom Fink, R-Anchorage, Robert Hartig, R-Anchorage, and Dick McVeigh, D-Anchorage. Rep. Selwyn Carrol, R-Fairbanks, sat in with the panel as an observer.



# Alaska State Legislature

## Senate

JUNEAU, ALASKA

February 27, 1976

Senator Chancy Croft  
President of the Senate  
Alaska State Legislature  
State Capitol, Pouch V  
Juneau, Alaska 99811

Representative Mike Bradner  
Speaker of the House  
Alaska State Legislature  
State Capitol, Pouch V  
Juneau, Alaska 99811

RE: Interim Report of the Joint Gas Pipeline Impact Committee

Dear Mr. President and Mr. Speaker:

Please consider this to be a letter of transmittal of the Interim Report of the Joint Gas Pipeline Impact Committee existing pursuant to H.B. 258 "The Gas Pipeline Impact Committee", Chapter 170 SLA 75. I request that this letter of transmittal, together with the report, be read into the appropriate Journal in each house.

As an aid to the interpretation of the Interim Report, I submit the following as being my understanding of the sense of the Committee:

1. The Committee does not intend to suggest that the Commissioner of Natural Resources or the Royalty Board enter into unreasonable agreements with prospective purchasers. It is the sense of the Committee that Alaska should indicate that it is a "willing seller" of a portion of its gas and is seeking a "willing buyer" on terms which will reserve as much gas as possible for future use to meet Alaska's internal domestic and other needs. The Committee would expect the executive to negotiate the best possible agreement. Understanding, that when such an agreement is negotiated, it may or may not be acceptable to the Legislature. It may be that the executive will negotiate the best possible agreement, at the same time recommending against its implementation on the basis that too little is received by the State and too much given by the State. We believe that it is imperative, however, in the conduct of the people's business, that such a tentative agreement be made public and its merits debated.
2. We do not wish to tie our negotiator's hands by quantifying the word "substantial" as used in paragraph #7 in the Committee's findings, and paragraph #1 of the Committee's recommendations.

3. The Committee does not suggest an arbitrary time deadline for our executive negotiators. We do point out, however, for the agreement to be finalized, legislative approval is necessary and a special session should be avoided if possible.
4. We do not intend in any manner to preclude negotiations for use of royalty gas within the State of Alaska and the further exploration of petrochemical and domestic uses. The major thrust of the Committee's recommendations is based on the belief that a Trans-Alaska pipeline is essential for future domestic and petrochemical in-state use options of North Slope gas.
5. Pursuant to other action by the Committee, the following have been introduced by the respective Rules Committee by request:

SCR 85/HCR 107                    "Relating to the Impact on Alaska of a Trans-Canada Gas Transportation System"

SB 685/HB 848                    "An Act Making a Special Appropriation to the Department of Natural Resources for the Purpose of Conducting Negotiations with Prospective Purchasers of North Slope Natural Gas and Providing for an Effective Date"

SB 686/HB 850                    "An Act Relating to Waste of Oil and Gas and Providing for an Effective Date"

SB 687/HB 849                    "An Act Relating to the Leases of State Land for Oil and Gas into taking of Royalty Gas from them and Providing for an Effective Date"

6. Finally, and most importantly, our recommendations are based on the facts and circumstances as they exist today.

The situation may change at any time rendering the presently recommended strategy inappropriate. For example, it has been suggested that the Federal Power Commission may conduct allocation proceedings nullifying contractual sales commitments. Gas may be more or less deregulated. The recent request of the President for authority to make the final route decision subsequent to January 1, 1977 may effect the political climate. It may be determined, as has been suggested by some, that neither the Trans-Alaska nor the Trans-Canada line are economically feasible at this time.

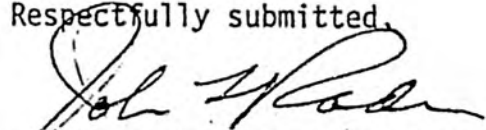
The recommendations of the Committee rely strongly on the advice of our consultant, Mr. Rush Moody, recently Vice-Chairman of the Federal Power Commission. The strategy may only be appropriate if the Federal Power Commission closes the certification hearings in May according to its present schedule and further certifies one route based on the precedents, principles, and considerations customarily employed in past certification proceedings admittedly more limited in scope and of much less national significance.

February 27, 1976

Page 3

The opportunity to use royalty gas to accomplish our public purposes as we perceive them may be lost unless we have substantially negotiated possible sale terms and are ready to move if and when the time arrives - which may be very soon.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "John Rader".

Senator John Rader, Chairman  
Gas Pipeline Impact Committee

JR/kb

INTERIM REPORT  
OF THE  
JOINT GAS PIPELINE IMPACT COMMITTEE

This Committee, through public hearings and staff investigation, has become convinced that immediate action by the State of Alaska is essential if the citizens of this State are to receive maximum benefit from the State's natural gas resource.

The Committee will issue a full and complete report on its findings and recommendations at a later date, but is impelled to submit this interim report to the Legislature and the people of the State of Alaska because of the urgency of the present situation.

The Committee finds and concludes the following:

1. A federal decision authorizing the transportation of North Slope natural gas across Canada would be inimical to the interests of the State of Alaska. The State's resource would be drained, its people denied access to a premium fuel and raw material, its work force deprived of employment opportunities, and productive economic growth would be thwarted.
2. A federal decision authorizing the transportation of North Slope natural gas across the State of Alaska to an open port will serve the best interests of the State.
3. The level of benefits, and burdens reasonably to be expected by the State as a consequence of any decision on a North Slope gas transportation system are of such magnitude that the routing decision must be regarded as critical to the future of the State. Action to secure a Trans-Alaska routing must be pursued as expeditiously as possible; no reasonable step should be left untaken.
4. The position of the state as owner of a one-eighth royalty in natural

gas and natural gas liquids produced from State-owned lands on the North Slope creates an immediate opportunity for effective State action which can assist in securing a Trans-Alaska transportation system.

5. Affirmative, aggressive action by the Governor, the Commissioner of Natural Resources, the State Royalty Board, and the Legislature with respect to the State's royalty gas is imperative.
6. Effective use of the State's royalty gas, to serve the best interests of the State, requires:
  - a. The State must elect to take its royalty share of natural gas and natural gas liquids in kind.
  - b. The State must commit a portion of its royalty gas to purchasers who will assist in securing approval of a Trans-Alaska transportation system, and who will thereafter utilize such a Trans-Alaska system.
7. Present levels of natural gas demand in Alaska permit a commitment of a portion of the State's royalty gas to purchasers outside the State; while every effort must be made to retain a substantial part of Alaska's gas for present and future in-state needs, it is in the overall best interests of the State to offer for sale outside the State, a substantial portion of the State's royalty gas to purchasers who can, and will, assist in securing authorization of a Trans-Alaska transportation system.
8. Those persons and firms interested in the construction and operation of a Trans-Alaska transportation system can materially alleviate State unemployment problems, and the State should, in striking a bargain for the commitment of State resources to a Trans-Alaska

system, secure appropriate commitments for the hire and training of Alaska residents in the construction and operation of such a system.

9. Finally, the risk that non-action by the State, or delayed action by the State, will cause the selection of a Trans-Canadian routing, and the risk that the State will lose substantial benefit of its natural gas resource are so great, it is the sense of this Committee that State action must not be delayed.

BY REASON OF THE FOREGOING, IT IS THE RECOMMENDATION OF THIS COMMITTEE THAT:

1. The commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with interested out-of-state purchasers to reach definitive sales and/or exchange agreements covering disposition of substantial portions of the State's royalty gas on the best obtainable terms.
2. The Commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with natural gas transporters involved in the proposal for a Trans-Alaska system to reach definitive transportation agreements covering the State's royalty gas sold for out-of-state use, and the State's withdrawal of the unsold portion of its royalty gas from the system for in-state use; appropriate commitments should be obtained with respect to hire and training of Alaska residents.
3. The arrangements and agreements so negotiated should be presented to the Legislature for ratification prior to the end of the Second Session of the Ninth Legislature to avoid, if possible, a special session.
4. The Legislature should hold itself ready for immediate consideration

of and prompt action on, the recommendations of the Commissioner and Board.

5. Such arrangements, contracts, and agreements as are negotiated by the Commissioner and Board and approved by the Legislature should be incorporated into the pending applications for a Trans-Alaska transportation system, presented to the Federal Power Commission by the appropriate transporter-applicant, and approval thereof obtained in the pending Federal Power Commission proceedings.
6. The Legislature should adopt SCR 66 and further seek the active cooperation of all owners of North Slope gas in support of the Trans-Alaska pipeline route.

# The big scramble for North Slope gas

Under provisional deals between Prudhoe Bay producers and Lower 48 gas utilities, roughly a third of huge field's 26-27 trillion cu ft would go to Midwest, a fourth to West, 15% to East, with a fourth uncommitted.

HOWARD M. WILSON  
West Coast Editor

THE pattern for dividing Prudhoe Bay's natural-gas reserves among transmission companies and utilities has emerged in the piecemeal filings of financial deals before regulatory agencies.

Although it's just a pattern, subject to wide changes it means that, for now, more than one-third of the 26-27 trillion cu ft of gas in the largest hydrocarbon deposit found in the Western Hemisphere is so far committed to the Lower 48 Midwest, about a quarter to the West, and nearly 15% to the East. About a quarter is still uncommitted.

The pattern is strictly tentative for an important reason: Prudhoe Bay producers have made a series of provisional agreements with potential gas customers under which the customers will help defray the cost of developing Prudhoe Bay production and bringing the oil and gas to market. Whether the bulk of these financial arrangements will pass muster before the regulatory agencies is the question.

For most of the nation, the Federal Power Commission is the controlling agency. For California, it's the California Public Utilities Commission.

Who gets what. Four North Slope producers and eight gas purchasers are involved in the transactions.

In addition, the State of Alaska, owner of one-eighth of the gas as royalty, will be negotiating later for the sale of its share. Several owners of a small portion of the gas — more than 10% — have made no commitments.

Compiling statistics on how much each producer owns at Prudhoe Bay and, consequently, how much each buyer will be getting is tricky at best. The field unit agreement, under which each producer will be assigned a specific share of production, is still being worked out.

Atlantic Richfield Co. and Exxon Co. U.S.A., each with more than 30% of the reserves, or 7-8 trillion cu ft with the state's share subtracted,

have made a rash of deals separately in the past few months with seven companies.

Three of Exxon's four deals have been disallowed by the FPC, but Exxon hopes to obtain a rehearing to change the agency's mind. The fourth Exxon deal is pending before the California PUC.

ARCO's deals, differing from Exxon's in the financing approach, are yet to be decided by FPC and PUC.

Standard Oil Co. (Ohio) and BP Alaska, which are operating under a complex merger arrangement, committed their share of Prudhoe Bay gas, estimated at 5.5 trillion cu ft, to separate buyers several years ago.

The largest buyers — or potential buyers — are Pacific Lighting Corp., Los Angeles, and Northern Natural Gas Co., Omaha, each of which can draw on close to 4 trillion cu ft of North Slope gas reserves.

Columbia Gas System, Wilmington, Del., will get about 3.5 trillion; Pacific Gas & Electric Co., San Francisco, about 2.3 trillion; Michigan-Wisconsin Pipe Line Co., Detroit, nearly 2 trillion; and Panhandle Eastern Pipe Line Co., Houston, and Texas Eastern Transmission Corp., Houston, each about 1.4 trillion.

All the estimates are rough and are subject to a variety of conditions and interpretations. While they reflect the reserves dedicated by the producers, some contracts may terminate after 20 or 25 years, while some are for the life of the field.

Uncommitted are more than 3 trillion cu ft held by the State of Alaska and about 3.6 trillion held by several companies owning lesser portions of the field.

How it works. The estimate that the Midwest will get more than one-third of the gas, the West a quarter, and the East 15%, comes from industry sources close to Prudhoe Bay developments.

The figures are based on the assumption that North Slope gas will flow through the proposed Alaska-Canada pipeline route, which would move gas directly to both the Mid-

west and West Coast. However, both producers and purchasers say that if the rival El Paso project wins out (it would move all the gas to southern Alaska and, after conversion to liquefied natural gas, to the West Coast), similar amounts would be made available to midwestern and eastern markets either through physical movement of the gas or through exchanges.

What this means is that daily throughput of gas depends on the speed with which Prudhoe Bay oil production is increased to pipeline capacity of 2 million b/d.

Industry estimates place production of associated gas and gas from the gas cap at about 2.25 to 2.5 billion cfd at peak production. The amount going to each purchaser presumably would be in proportion to the reserves dedicated to him.

The price of the gas will be negotiated at the time it starts to market.

Contracts generally are written to guarantee, as firmly as possible, that the seller will get the highest current price for gas less transportation costs, and the buyer will pay no more than for other gas coming into the market at the time. If gas prices are still being regulated by FPC, the sales contracts will, of course, reflect its rulings.

Just when the gas will flow depends on the speed with which the FPC and, if required, Canadian agencies clear the way for gas-pipeline construction to start. The best guess for completion is 1980 at the earliest and more likely, 1981 or 1982.

The financing. The concept behind purchaser assistance in financing the acquisition of gas reserves through interest-free loans was established several years ago by FPC, which has allowed gas pipelines to include the cost of such projects in their rate bases.

The purpose is to encourage finding and developing new supplies of gas for the interstate market and to provide a source of capital for the producer.

Exxon has estimated that \$2 billion

has been advanced for such projects in recent years.

Gas purchasers are willing to share the financing, because it means a greater supply of gas at a time when they are running short.

Thus, the advance financing of North Slope gas development has major plusses for both seller and buyer.

The seller — the producer — is laying out billions of dollars to develop the field and build the oil pipeline. His borrowing power may be stretched, and he needs all the financial help he can get.

The buyer—the pipeline company or utility — needs to know several years in advance that he will have a major new gas supply. He must build the facilities to handle it. And he can gauge his other gas-acquisition efforts accordingly.

The use of such a principle has drawn fire from consumer advocates because of the growing concern over higher natural-gas rates and because of the sheer size of the Prudhoe Bay project.

The ARCO deals. ARCO, using Degolyer & MacNaughton data, places its gas reserves on the North Slope at just about 7 trillion cu ft. This excludes the State of Alaska's one-eighth royalty.

ARCO has split its reserves among Pacific Lighting (60%), Panhandle Eastern (20%), and Texas Eastern (20%).

The Pacific Lighting deal differs from the others in two respects. It is subject to PUC approval, not FPC, and Pacific Lighting will pay the interest on a \$420-million loan — not advance capital. ARCO, in turn, will sell a production payment in known reserves for this amount to a third party which will do the actual borrowing from the banks.

Pacific Lighting's payment to ARCO will be about \$320 million to reimburse ARCO for the financing costs of the \$420-million production payment. Because of the possibility that the Internal Revenue Service will require Pacific Lighting to pay tax on revenue it collects to pay ARCO, the company's distribution subsidiary has asked the PUC for a rate increase of nearly double \$320 million. If a favorable ruling comes from the IRS, refunds would be given to gas customers.

The contract is especially advantageous to Pacific Lighting, because it

runs for 20 years with extensions at the buyer's option. The deal is attractive to ARCO because the \$420-million in production payments would have a fast drawdown of just 18 months. Also, the deal would guarantee that most of the gas would go to ARCO's home base, Los Angeles.

Should the agreement fail to win final approval, and should another deal involving Exxon and PG&E also fail, plans would be jeopardized for building a western leg of the Arctic Gas project to move Alaskan gas to the Pacific Coast.

The ARCO deal with Pacific Lighting has an Aug. 2 deadline.

The proposed sale contracts to Panhandle Eastern and Texas Eastern by ARCO are identical.

Each pipeline would grant an interest-free loan of \$150 million to ARCO. The loans would be advanced in increments, starting with \$16.4 million. The amounts are keyed, in part, to development expenses as they occur over about 5 years.

Panhandle Eastern's application for approval of the transaction has been filed with the FPC and should be set for hearing shortly. Texas Eastern will be filing its application soon. Both will be asking that rates be increased as payments are made.

In all, ARCO would be getting loans of \$300 million, interest-free, from Panhandle Eastern and Texas Eastern and \$420 million in advance production payments made possible by Pacific Lighting's payment of the interest.

This total of \$720 million is less than one-third the \$2.5 billion which ARCO estimates it must pay to develop Prudhoe Bay oil and gas production.

The Exxon deals. While using the same principle as ARCO in obtaining advance funds from potential buyers, Exxon has proposed a new wrinkle which has run afoul of FPC thinking.

Calling the advances financial-assistance payments, Exxon has made agreements whereby it will collect an estimated \$650 million from four pipeline companies.

The money represents the interest Exxon would pay if it were to borrow capital for Prudhoe Bay development. Exxon may borrow the money for which the payments may be used as interest, or it may choose to generate the capital fund internally.

FPC took the position that if Exxon doesn't need to borrow money, it should not receive payments to pay

an assumed interest.

Exxon counters that the company is, in effect, assuming the debt-raising obligations and should not be penalized in obtaining the payments under the FPC's long-standing policy. It has asked for a rehearing. If denied, Exxon has a number of options to pursue.

The four agreements reached by Exxon and the amount of the proposed assistance payments are with Northern Natural (\$170 million), Michigan Wisconsin (\$170 million), Natural Gas Pipeline (\$135 million), and PG&E (\$175 million).

The FPC's adverse ruling affects all the agreements except PG&E's, which is currently before the California PUC for decision.

In return for the payments, the companies would get from Exxon a commitment of its Prudhoe Bay gas over a 20-year term. This may be renegotiated to 25 years if pipeline financing by Exxon covers 25 years.

The agreements also contain provisions obligating the pipeline companies to purchase ownership in gas-gathering, gas-conditioning, and gas-compression facilities at Prudhoe Bay.

Exxon has not said what this will amount to in dollars, but it will run into the hundred of millions. This cost, under the federal Natural Gas Act, can be placed in the utility's rate base, Exxon says.

Negotiations on the sale of the Prudhoe Bay gas facilities, which are under construction, will begin soon between Exxon and the buyers.

Similar provisions for purchase of facilities are contained in the ARCO agreements.

BP-Sohio's deals. Almost forgotten in the concern over the ARCO and Exxon financing plans is the fact that BP Alaska and Sohio committed their share of Prudhoe Bay gas 3 years ago with little fanfare.

Although the British and American companies have merged, they still retain separate identities and make separate contracts. The complex merger agreement also creates problems in determining just how much gas is involved in their respective deals.

Sohio committed all its gas to Columbia in return for a \$175-million loan which will be repaid out of Sohio's sale of its Prudhoe Bay crude and over a period not to exceed 42 months after the crude starts mov-

ing. Columbia delivered its \$175-million loan over a 3-year period which ended early this year.

The arrangement differs from those of Exxon and ARCO in that Columbia's is a nonrecourse loan. Should no oil ever be sold, Columbia would not be repaid. In the case of Exxon and ARCO, should no gas be delivered within a specified time, the advanced funds would be returned to the gas companies.

BP Alaska, a subsidiary of British Petroleum Ltd., committed its gas to Northern Natural in return for a \$30-million prepayment for gas and \$20 million to cover exploration and production costs in the U.S. over a 5-year period starting in February 1972.

Northern Natural can recover 80% of the \$20 million out of production.

Both agreements have been approved by FPC.

The amount of gas that BP Alaska and Sohio will sell to their respective buyers depends on the speed with which Prudhoe Bay comes on production. While they own more than half the oil reserves, they have something less than 30% of the gas.

One estimate of their gas reserves, not counting the royalty gas, is 5.5 trillion cu ft. Columbia, through Sohio, would get about 3.5 trillion and Northern Natural, through BP Alaska, 2 trillion.

The figures may be off the mark because, under the merger agreement, Sohio gets all the Prudhoe Bay gas which is produced in conjunction with Sohio's first 600,000 b/d of oil. This means 600,000 b/d net to Sohio. When oil production rises above this figure, the amount above 600,000 goes 7% to BP Alaska and 25% to Sohio.

In effect, this means that if the field never produces more than 600,000 b/d net to Sohio, BP Alaska would get nothing. But if the trans-Alaska oil pipeline is filled to its 2-million-b/d capacity by the time the gas starts moving, BP Alaska's share of the gas would rise sharply.

Columbia's contract for the Sohio gas is more binding than contracts of most or all of the other utilities.

The agreement has a clause which guarantees that Columbia will get the Sohio gas if it meets the highest price offered. Generally the other agreements, while expected to form the basis for a satisfactory negotiation of the final gas-sale contract, do not carry such provisions.

TABLE 1

DISTRIBUTION OF PRUDHOE BAY RESERVES<sup>1/</sup>

Producer	Estimated Reserves (Tcf)	Reserves Committed To:	%	Committed Volume (Tcf)	% of Total	Daily Volumes <sup>2/</sup> (Bbl/d)	
						East	West
Exxon	8.70	PG&E	30	2.60	10.00		327
		Northern	25	2.18	8.39	264	
		Mich-Wis	25	2.18	8.39	264	
		Nat. Gas Pipe	20	1.74	6.69	210	
Sohio	5.50	Columbia	60	3.30	12.70	400	
		Northern	40	2.20	8.46	265	
Arco	7.00	Pac. Light.	60	4.20	16.15		527
		Panhandle	20	1.40	5.38	169	
		Tex. East.	20	1.40	5.38	169	
Others	1.55	Uncommitted	100	1.55	5.96		195
Alaska	<u>3.25</u>	Uncommitted	<u>100</u>	<u>3.25</u>	<u>12.50</u>		<u>408</u>
Totals	26.00			26.00	100.00	1741	1457

*<6% except state*

<sup>1/</sup> Based largely on information from transcript of June 13, 1975, and "PG&E Progress," May, 1975.

<sup>2/</sup> Assumes deliverability of 3.5 Bcf/d from Prudhoe less fuel to various delivery points. The split is approximately 55/45, East/West.

Memò: Gas Impact Committee  
From: Eric  
Re: Royalty Board Meeting 11/10

First testimony was El Paso, John Bennett, VP;

Bennett pushed for commitment of royalty gas to El Paso.  
--The only way Alaska can use in-kind royalty gas is with an Alaskan line.

--"El Paso wants the state to use as much royalty gas in state as possible." They want to purchase gas that is "surplus to the state's demands" and provided for a 'banking clause' that would allow the state to sell any surplus gas they had reserved for state use (up to 1/2) and then credit that surplus for future years requirements. Example; The state reserves 200 mcf for state use.

We only use 150 mcf (per day)--El Paso would purchase the 50 mcf, and then credit the state, and allow use of 250 mcf at some future time in the contract if the state wants to.

--They want a commitment from the royalty board in the 'next 60 days, or so'. They say some commitment very important to the FPC, and will aide their political clout in obtaining western states backing in congress.

Arlon Tussing questions;

"Isn't it possible to take royalty gas in-kind from a credit agreement--trade North Slope gas for Cook Inlet gas, and use Cook Inlet gas intra-state?" (Answer//possibly...)

"Do you think the commitment of our royalty gas, or half of it--6% or 7% of NS reserves will really pull any weight with people in the western states? Won't they get gas from either line? (answer//It's the most important tool the state has.)"

El Paso is willing to pay 10¢ mcf 'front money' to the state. This would be \$300 million if all our reserves were committed. The state would have to pay back, El Paso would pay interest--and pass it along on their tariff.

The board indicated they might come to some decision in a December meeting.

The balance of the meeting discussed use of Cook Inlet royalty Gas. Alaska Natural Gas would like a portion of the State's royalty gas. Phillip's is presently shipping gas LNG to Japan, and indicated that they felt they should be allowed to continue to utilize royalty gas for that purpose. The board made no decision.

-----  
Regulations and definitions were discussed

Commissioner Guy R. Martin  
Chairman, Alaska Royalty Oil and Gas  
Development Advisory Board  
Department of Natural Resources  
Juneau, Alaska

I have been authorized by the El Paso Company to make a formal proposal to purchase the State of Alaska's royalty gas which is excess to the State's needs in Alaska. The following is a draft Memorandum of Agreement which sets forth El Paso's proposal:

(Quote)

WHEREAS, THE EL PASO COMPANY (El Paso), either singly or in conjunction with others is willing to construct and operate facilities to transport natural gas in a large diameter pipeline from the North Slope of Alaska across Alaska to a point on the south central coast, providing outlets for markets enroute, and thence by LNG tankers to markets in the lower forty-eight states ("The Alaska Project");

WHEREAS, the implementation of the plan contemplated by the Alaska Project is in the maximum interest of Alaska and the nation in coping with the critical energy shortage; and

WHEREAS, the State of Alaska ("the State") is entitled to take in kind its royalty share of natural gas produced on state-owned lands within Alaska ("Royalty Gas");

NOW THEREFORE, to the end that the Alaska Project may be realized and the State's objectives achieved, the parties hereto agree as follows:

1. El Paso agrees that the Alaska Project will be constructed and operated in a manner suitable to the handling of the State's Royalty Gas to achieve its objectives herein set forth;

2. The State, having indicated a desire to make its Royalty Gas available for use within the state, will authorize such gas to be delivered to the Alaska Project for transportation to such points along the route of the pipeline as it shall designate;

3. Those quantities of the State's gas determined by it to be surplus to its economic and sociological needs ("Surplus Gas") shall be sold to and purchased by El Paso at the terminus of the pipeline;

4. The charge for the transportation of the State's Royalty Gas shall be that fixed by the appropriate regulatory agency;

5. El Paso shall pay the State for the Surplus Gas at a rate equal to the highest price paid by any responsible purchaser from time-to-time for gas of which the State's Royalty Gas is a portion;

6. If from time-to-time the State shall have available to it additional quantities of Royalty Gas, El Paso agrees to transport and/or purchase such additional quantities of gas on the same terms and conditions set forth herein;

7. The term applicable to the purchase of the Surplus Gas shall be for a period of such years and for such amounts as shall be determined by the State to be surplus to its needs. The State agrees to quantify these amounts and to enter into a further definitive agreement to implement the Alaska Project within one month after signature of this agreement.

8. The State may withdraw any portion of its Surplus Gas from sale to El Paso whenever additional gas is made available to El Paso by others in a volume equal to that withdrawn by the State;

9. At the end of the term of the agreement which will be entered into pursuant to paragraph 7 herein, the State shall have the option to sell and El Paso agrees to purchase the volumes of such gas then determined by the State to be surplus to its economic and sociological needs for an additional term of similar duration and upon the same terms herein set forth;

10. The undertakings of both the State and El Paso are subject to the receipt of all requisite government approvals, provided, however, that either party shall have the right to cancel this agreement upon thirty (30) days written notice to the other party if El Paso's application to construct and operate the Alaska Project is denied by the Federal Power Commission, or if

the certificate which may be issued contains conditions which are unacceptable to El Paso, or to the State, or conditions which render El Paso unable to perform its contract with the State; and

11. At the appropriate time, the State and El Paso will execute a definitive agreement which shall incorporate the general principles covered by this Memorandum of Agreement and which shall include other terms and conditions as may be required and agreed upon.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 1975.

THE STATE OF ALASKA

EL PASO COMPANY

By: \_\_\_\_\_

By: \_\_\_\_\_

(End Quote)

Prompt execution of such an agreement will achieve the following:

- A. Express to the Federal Power Commission the State's position on ownership of its royalty gas while being transported within Alaska.
- B. Preserve the State's freedom to determine the best uses of its royalty gas within the State, while insuring a ready market for the surplus royalty gas.
- C. Insure that the State receives the best price for its surplus royalty gas.
- D. Demonstrate by affirmative action the State's support for the Trans-Alaska Gas Pipeline, thereby strengthening the position of El Paso in the current hearings before

If the Board wishes to revise the agreement, discuss its provisions which El Paso representatives, or requires additional data from El Paso, we are prepared to respond promptly.

Thank you for your consideration of our proposal.

JOHN C. BENNETT

VICE PRESIDENT

EL PASO ALASKA COMPANY

D. Demands by administrative action the staff a support.

...for the El Paso-Alaska Gas Pipeline, hereby strengthening

the interests of El Paso at the current exchange before



DOW CHEMICAL U.S.A.

October 30, 1975

BENNETT BUILDING  
2030 DOW CENTER  
MIDLAND, MICHIGAN 48640

The Honorable G. R. Martin  
Chairman  
Alaska Royalty Oil & Gas  
Development Advisory Board  
Pouch M  
Juneau, Alaska 99801

Dear Mr. Martin:

Attached is data on a possible petrochemical facility in Alaska. An ethane cracker was chosen for simplicity, plus it allows Alaska to consume a product less "exportable" than crude oil. The capital cost estimates are for Western Europe or a U.S. Gulf Coast location, and should be escalated for location and inflation.

We are interested in further discussion, and would like to meet with you at your convenience.

Very truly yours,

*O. S. Andras*

O. S. Andras  
Director of Hydrocarbons  
Hydrocarbons Department

cas

Enclosures

*Board would like to have presentation.*

DEPARTMENT OF  
NATURAL RESOURCES

NOV 3 1975

RECEIVED  
JUNEAU, ALASKA



## ETHYLENE AND ETHYLENE DERIVATIVES COMPLEX IN ALASKA

The following data has been compiled from Dow Chemical Company records. Outlined is a possible petrochemical facility that could be located in Alaska. Ethane would be steam cracked into ethylene and fuels. Ethylene would be converted into low density polyethylene and crude ethylene glycols (via ethylene oxide). The market for glycols is presently outside Alaska and finishing ethylene glycols in Alaska, followed by shipping would create quality problems. This project, therefore, contemplates finishing crude glycols outside Alaska.

### Project Scope

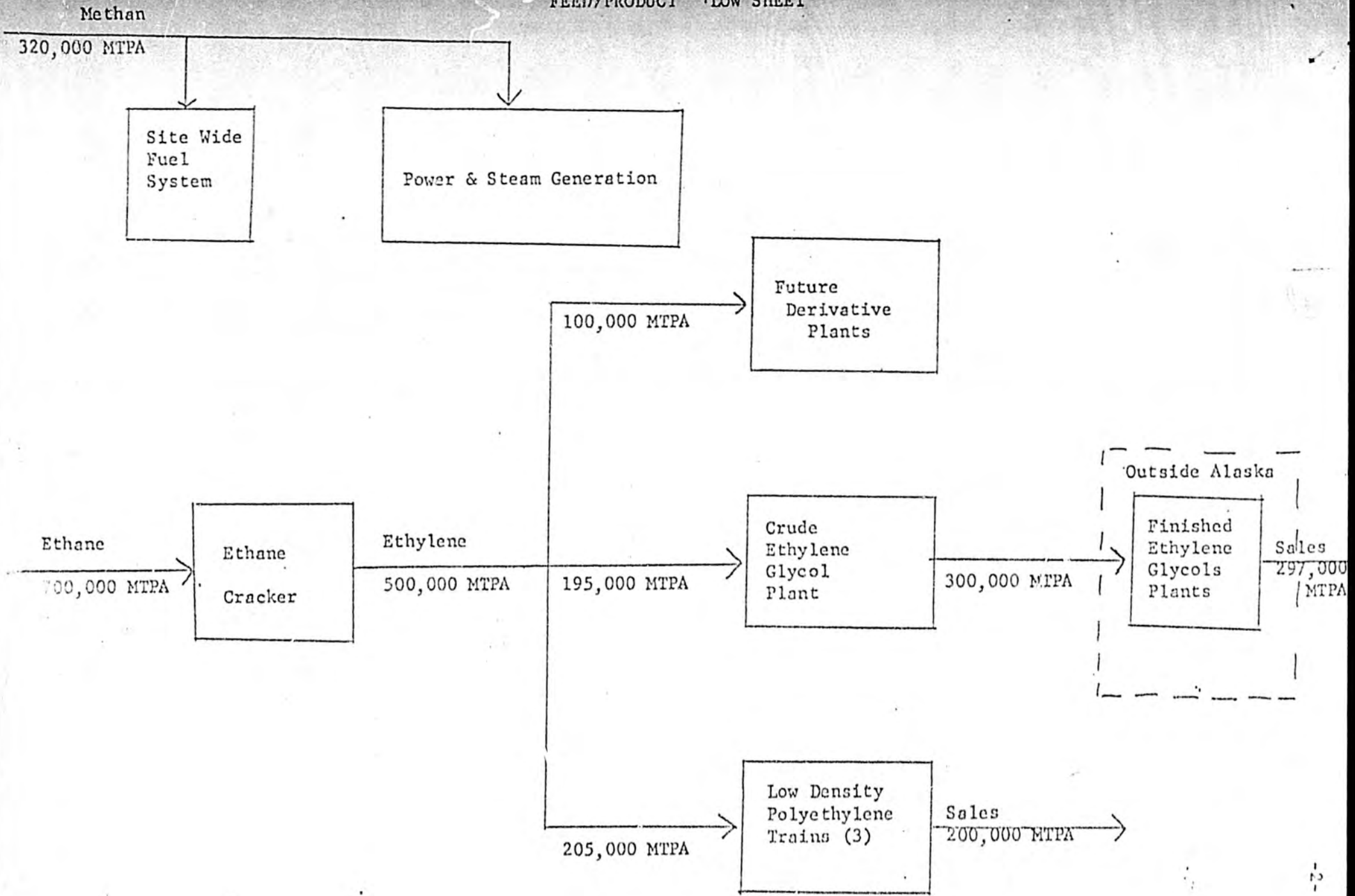
Ethylene plant	(500,000 metric tons per annum = MTPA)
Low density polyethylene plant	(200,000 MTPA)
Crude ethylene glycols plant	(300,000 MTPA)
Product storage and handling facility	
Utilities generation and distribution facility	
General service facilities	

### Estimated utilities, catalyst, chemical and feedstock requirements

#### Utilities

Steam	70 MT/hr.
Methane	320,000 MTPA
Power	52,000 KW
Potable Water	400 M <sup>3</sup> /hr.
Cooling Water	40,000 M <sup>3</sup> /hr.
Nitrogen	1,500 NM <sup>3</sup> /hr.

FEED/PRODUCT FLOW SHEET



Catalyst

Dow's long life catalyst is included under cracker investment. The ethylene oxide plant uses 105 MTPA of catalyst.

Chemicals

	<u>Used at</u>	<u>Total (MTPA)</u>
Caustic soda (100%)	Cracker, Ethylene Oxide	1,800
Ethanol (100%)	Cracker	100
Activated Alumina	Cracker	40

Feedstock

Ethane gas (700,000 MTPA)

Assume the following analysis:

Methane	Volume %	5 max.
Ethane	Volume %	91 min.
Carbon Dioxide	Volume %	2 max.
Sulfur Components	Volume PPM	200 max.
Nitrogen		traces
Propane		balance

Operating manpower

Supervisory	70
Skilled	390
Non-skilled	<u>60</u>
	520

Timing

Start-up operations would be approximately five years after project agreement (which would include provisions for feedstock and fuel).

Process engineering would require approximately two years with construction to begin thereafter.

Capital Estimates

Cost in U.S. Dollars  
Mid-1975 U.S. Gulf Coast  
(Million Dollars)

1. Site Development	20
2. Ethane Cracker	110
3. Low Density Polyethylene	70
4. Crude Ethylene Glycol	70
5. Utilities	40
6. Feed, product handling and storage	30
7. General Services Facilities	20
8. Personnel Facilities	<u>20</u>
	380 <sup>(1)</sup>

(1) Estimates are based on mid-1975 costs for a U.S. Gulf Coast location.  
For Alaska, a location factor must be applied to these estimates.

Environmental Impact

The need is recognized by Dow Chemical Company to provide an appropriate environmental impact assessment produced by an independent firm/or firms. This document would serve as a basis for the granting of permits from both the State of Alaska and Federal authorities. It would cover all aspects of the environmental including land, air and water.

~~CONFIDENTIAL~~  
~~DO NOT DISSEMINATE~~

Tennessee Gas Transmission  
A Tenneco Company



Robert C. Thomas  
Vice President

Chamber of Commerce Building  
P. O. Box 2511  
Houston, Texas 77001  
(713) 229-2275

August 28, 1975

Mr. Guy R. Martin, Commissioner  
Department of Natural Resources  
State of Alaska  
Pouch M  
Juneau, Alaska 99801

Dear Mr. Martin:

In response to communications with Alaskan officials, Tennessee Gas Transmission, a Tenneco Company, has been developing a method for contracting the royalty reserves owned by the State of Alaska in the Prudhoe Bay Field. We have designed a method which provides the necessary benefits to Tennessee Gas and we request your evaluation of the benefits which can be derived by the State. We are attaching a memorandum which outlines the framework of our approach in some detail.

In our opinion the key issue involved in the sale of the right to contract this gas is the routing of the gas pipeline from Prudhoe Bay. If the State desires the pipeline to cross Alaska, the royalty gas should be contracted to an interstate organization which can supply additional support for this route. We feel the State, with this new support and combined with existing backing, can successfully influence the routing of this market outlet. This could protect the future of Alaska through creation of jobs and insure that progress is achieved in a manner consistent with the Alaskan way of life.

In summary, our proposal would allow the State to receive:

1. Support for a trans-Alaskan system.
2. An initial cash payment to be repaid at a later date.
3. A portion of the gas for use in Alaska
4. Maximum permissible wellhead price.

The company would receive:

1. The right to contract for the purchase of the State's Prudhoe Bay royalty gas.

## Tennessee Gas Transmission

Mr. Guy R. Martin, Commissioner

August 28, 1975


Page 2

2. Recovery of their initial payment to the State at a later date.

With the publication of the Department of Interior study concerning the relative merits of the alternate market systems, time becomes more critical. Decisions will be made in the near future which will affect the pipeline routing. We do not feel that rumor of a U. S. - Canadian agreement dictates a Canadian routing because the basic problems confronting this route have not yet been solved. Our analysis of the facts now indicate a trans-Alaskan route can be completed at an earlier date thereby creating economic benefits for our company, the State and the consumer.

We suggest the State consider a negotiated contract covering all their Prudhoe Bay royalty reserves. A competitive bid sale cannot obtain comparable benefits.

We are prepared to immediately enter into negotiations with the State concerning these royalty reserves. We request a meeting with you after your review of these recommendations. We will be prepared to meet on any acceptable date.



Robert C. Thomas

cm

Attachment

MEMORANDUM

CONTRACTING OF PRUDHOE BAY GAS

STATE OF ALASKA

In late May, 1975, Tennessee Gas Transmission Company received a letter from the Commissioner of Natural Resources for the State of Alaska requesting proposals for the purchase of the State's royalty gas from leases in the Prudhoe Bay Field. We have communicated with Alaskan officials and discussed the needs of the State to be met in contracting the gas and the ability of Tennessee Gas Transmission or the industry to structure a mutually advantageous proposal.

We have reviewed carefully the ramifications of contracting or securing the rights to contract these gas reserves from the State. Our procedure in reviewing this situation was to determine the benefits necessary to us before we could offer to contract the gas and the benefits to be obtained by the State before they could justify the selling of the right to contract their royalty reserves. The benefits listed below represent what is in our best interests and what we assume to be in the best interests of the State.

1. Benefits Which Must Accrue to the State

In order to justify selling the right to contract the royalty natural gas reserves, certain benefits should accrue to the State. The more significant ones considered are:

- a. The company purchasing the right to contract the reserves should be capable of giving maximum support to a market outlet across the State of Alaska.
- b. The State should receive substantial front-end money.

- c. Some of the gas should be available for use in Alaska.
- d. The maximum possible wellhead price should be paid at the wellhead for the reserves when produced.

2. Benefits Which Must Accrue to the Purchaser

There are still unknown timing factors and substantial risks associated with purchasing the right to contract Prudhoe Bay gas. To compensate for these risks, certain benefits must accrue to the purchaser. These are

- a. The front-end payment must be financeable eliminating the necessity for the company to make a large capital advance in a single year.
- b. The front-End payment must be recoverable at a particular point in time, perhaps out of a percentage of natural gas revenue or other guaranteed type arrangement.
- c. The right to contract all of the State's royalty gas in Prudhoe Bay must be secured. A minor percentage may be reserved by the State for use within Alaska, but if not used will be included with the gas marketed by the purchaser of the rights.

We have worked toward an approach that would meet these requirements.

In the consideration of various methods of financing, three limiting factors immediately surface. They are (1) the constitutional or statutory limitation on State debt for longer than one year, (2) FPC regulations controlling advance payments and their anticipated expiration at year end, and (3) the capital and

debt position of most pipeline companies. The State does not qualify under current FPC regulations for receiving advance payments.

There are several other factors which must be considered in this decision. Plans are now being made for pipeline routing which will drastically affect the future of the State of Alaska. We see the contracting of royalty gas as leverage supporting the routing of the pipeline across Alaska. This leverage will diminish rapidly with time and will completely disappear if not used. Despite the rumors of a U. S. - Canadian agreement covering a Canadian pipeline route being initialled by the two governments, we now feel a trans-Alaska project can be completed at an earlier date thereby creating economic benefits for our company, the State of Alaska and the natural gas consumer. We base this analysis partially on the fact that the Canadian problems related to natives claims and the rights of the Provinces have not been resolved. We question these can be resolved in a reasonable length of time. It is also possible that some type of U. S. Federal assistance in the form of financial guarantees or new legislation will be required for the successful completion of a pipeline. This would be difficult to obtain for a Canadian route.

We feel there are substantial volumes of additional gas to be discovered in Northern Alaska in the future. This future gas will go to market through the route selected at this time. These volumes could be the energy source for future industrial growth within Alaska if the market outlet is now established through the State.

There has been much speculation about the economics of a market outlet for Prudhoe Bay gas and the effect it will have on the future wellhead price of this gas. This speculation is due to the substantial cost overruns being experienced by major engineering projects throughout the world. A recent study by Tenneco indicates the capital cost of the trans-Alaska pipeline

the liquefaction plant, LNG ships, and receiving facilities, when escalated to the year of expenditure, to be \$8.8 billion, or 57% greater than the recently published U. S. Department of Interior study. After adding a \$.50/Mcf wellhead price, this capital cost would yield regasified LNG at the Los Angeles city gate at a cost of \$2.58/Mcf in 1982. If Tenneco's projection of capital costs should be low by a factor of 50%, which is highly unlikely, the Los Angeles city gate price will increase to \$3.54/Mcf. According to our market analysis, however, this gas will be saleable in the interstate market. We do not wish to minimize the problems of financing that relate to the escalating project cost, but the escalation certainly does not render this gas valueless at the wellhead.

A negotiated sale of the right to contract these reserves is the most advantageous method. A competitive bid sale is not appropriate and it cannot accomplish the many objectives nor provide the benefits envisioned. This is supported by the following:

1. A competitive bid sale should be made on a standard basis for all bidders. This is preferable only when all bidders have equal capabilities and price is the only variable.
2. All bidders could not supply the same degree of effectiveness in the support of the Alaskan route.
3. The unknown risk factors such as date of delivery, routing, natural gas regulation in the U. S. and many other factors which must be taken into consideration will result in lower cash bids on a competitive sale. Provision for some of these uncertainties can be made in a negotiated sale.
4. Competitive bidding would suggest the breaking up of the royalty reserves into smaller packages for sale. These smaller reserves would attract neither the cash bids nor the substantial support for the routing that will be required.

We would propose the following approach as one meeting our requirements and interests and accomplishing the objectives we have assumed for the State. We have divided it into four parts for the purpose of review.

1. Pipeline Route Support

As of this date, Tenneco has not actively supported either of the projects designed to deliver North Slope gas. With the securing of the right to contract the State royalty gas and with the current facts now indicating a trans-Alaska system will offer the quickest and most assured method of getting this gas to market in the lower 48 states, we would be prepared to support the Alaskan route.

2. Capital Contribution

- a. Tenneco will make available to the State an amount in excess of \$100 million for the right to contract all of the royalty natural gas reserves in the Prudhoe Bay Field.
- b. These funds will be made available to the State over a three year period according to its needs. The amount of the funds advanced will be dependent upon the drawdown schedule which will be agreed upon by the parties prior to the execution of the agreement.
- c. All financing to be arranged by Tenneco.
- d. There will be no recovery of the advanced funds for a period of three years following the date of the advance.
- e. We will consider that each drawdown will constitute a separate advance, and that such advances will be recovered out of a percentage of revenue from the

royalty gas production beginning three years after the drawdown and continuing over a recovery period of five years. In the event gas sales have not begun by the beginning of the recovery period, the recovery will be made initially from revenue derived from a percentage of royalty oil production until natural gas production begins. According to our interpretation, this advance would not be classified as debt on the books of the State since repayment is to be made solely from a percentage of revenues to be generated by the sale of the State's natural gas and/or oil.

3. Gas Available for Alaskan Use

Tenneco recognizes that some of the State's royalty gas may be required for use within the State. However, the major source of gas for future use within the State will be available from new reserves found and transported through the system now considered for Prudhoe Bay. We are confident this new gas will become available as the natural gas demand grows in Alaska.

Tenneco would consider a reservation by the State of up to 10% of the royalty gas production for use within Alaska so long as the pipeline, plant and shipping design would accommodate it. The State would own this gas and pay the applicable transportation tariff. In the event this gas was not used within the State, it would be sold to Tenneco under the contemplated contract.

4. Pricing

The gas produced at Prudhoe Bay will flow into interstate commerce and under current regulations would be subjected to control by the U. S. Federal Power Commission. Tennessee Gas is also a company regulated by the FPC. For this reason, we are unable to guarantee a specific wellhead price.

We feel the best assurance for maximum possible pricing lay in the requirements and market potential of the purchaser. Tenneco's interstate pipeline systems have average current requirements for supplying existing customers of 3.8 Bcf per day making us one of the largest interstate systems in the U. S. The majority of our current market consists of the higher premium residential and commercial market.

We can contract to pay the maximum price permitted by the FPC and are willing to do so. Our market analysis indicates that the wellhead price will be at least \$.50/Mcf in the early 1980's, and that it will increase on an annual basis as the project matures. In addition, we do not expect that deregulation, in whatever form it could be established, would have the effect of reducing the wellhead price below this figure.

We propose that Tenneco (through Tennessee Gas Transmission Company or a subsidiary) and the State immediately enter into negotiations for the purpose of purchasing the right to contract the State royalty gas in Prudhoe Bay and securing support for a trans-Alaska market outlet.

# Thomas wants more El Paso info

11/11/75  
ADN

Lt. Gov. Lowell Thomas Jr. aimed a mild rebuke at El Paso Natural Gas Co., the company proposing the trans-Alaska gas pipeline route Monday, indicating lack of technical information on the proposed line was leaving questions open in efforts to sell it.

Thomas, who spent about five weeks

## Anchorage

(Continued from page 1)

supplying the area, or enough to serve about 25,000 homes.

Anchorage Natural Gas has written to the four major Cook Inlet producers — Union Oil Co., Marathon Oil Co., Phillips and Shell Oil Co. — in an attempt to secure commitment for additional reserves for the Anchorage area, and received unfavorable responses, Teel said.

THE GAS COMPANY also found that competition for the remaining gas reserves in the Cook Inlet area has increased substantially as supplies for West Coast cities decline.

The competition by cities such as Portland and Los Angeles has led to higher pricing on gas sold locally, the company said.

Because of the competition, Anchorage Natural Gas formed a subsidiary, Gas Supply Corp. of Alaska, to explore for natural gas. Gas Supply Corp. has invested more than \$300,000 to date and has participated in the drilling of an exploratory well at the mouth of the Big Susitna River. The well was plugged and abandoned, but further exploration is contemplated, the company said.

THE EXPLORATION funds are from "retained earnings," and do not affect the company's utility operating expenses, Teel said.

John Horn, manager of natural gas and liquefied natural gas sales for Phillips, told the royalty board the state's best interest would be served by continuing to allow Phillips to take the royalty gas. Horn said Phillips "spent our money and took the risk" to commercially develop North Cook Inlet when markets were not available, and Phillips has invested sums of money predicated on a continued supply from the field.

Horn also said his company is concerned that any activity like the Alaska Gas proposition would render Phillips a public utility subject to Federal Power Commission jurisdiction.

in September and October on a publicity tour of cities in the Lower 48 to promote the merits of the Alaska route, told the Anchorage Chamber of Commerce considerably more information was available on the competing proposal for a pipeline through Canada.

CITING "tremendous efforts" by Alaskan Arctic Gas on behalf of the Canadian line, Thomas said "so little is known" about the El Paso proposal "in comparison to the other system."

Thomas said there was "more explaining to do" about the technical aspects of El Paso's proposal to build a pipeline from the North Slope to Prince William Sound, liquefy it and ship it to the West Coast.

He said people he encountered on his tour did not understand that gas delivered to the West Coast would mean more gas available in other parts of the country through displacement and reversal of gas flow in domestic pipelines. He said he likened distribution of gas to a reservoir in which gas pumped in at one end increased the level of gas at the other end, but indicated it would help the case for the Alaska route if more information on displacement and reversed gas flow were available.

ON THE OTHER hand, he said Alaskan Arctic Gas had considerably more explaining to do about the environmental consequences of the Canadian route.

Thomas said the "reception was far better than I imagined it to be" on his tour, which hit 28 television stations, 13 newspapers and two magazines.

Thomas said he met with three editors of Time Magazine and four top editors of the Readers Digest. He said the Time editors were interested but did not seem intent on publishing a story right away. However, the Readers Digest commissioned a story on the gas pipeline route immediately as well as another on Gov. Jay S. Hammond, he said.

THOMAS also said he had a telephone talk with William Randolph Hearst, publisher of a chain of newspapers. Thomas said Hearst wasn't interested in discussing the pipeline but intended an all-out push for the Alaska route when the time came. "All you need is to kick me in the butt a little bit," Thomas quoted Hearst as saying.

Thomas said he gained points in North and South Dakota by landing in a Cessna 170 he was ferrying from Kansas to Alaska for Hammond. He said the name of his father, the radio commentator, also gave him access to certain circles, including the Dutch Treat Club, a select group of publishers and writers in New York.

AN EL PASO official who attended the chamber luncheon said he did not think Thomas' remarks on the lack of technical information on the Alaska line were meant as "a jibe" at El Paso.

## ANCHORAGE DAILY NEWS

# Anchorage firm seeks state gas

11/11/75  
ADN

By ROSEMARY SHINOHARA  
Daily News Staff Writer

Southcentral Alaska residents could use up present natural gas supplies available to Alaska Gas and Service Co. as early as 1985, the company said in a presentation to the state Royalty Oil and Gas Development Advisory Board Monday.

Dale Teel, president of the firm that distributes natural gas to Anchorage residents, warned of potential future shortages and urged the state to sell its royalty share of natural gas produced from North Cook Inlet for use here.

THE GAS IS presently shipped to Japan.

While a long-term problem exists in total supplies available to Alaska Gas and Service Co., one portion of the company's supplies could be exhausted this winter — a portion sold to the Bernice Lake power plant of Chugach Electric Association.

Alaska Gas, known locally as Anchorage Natural Gas, has two supply contracts, a large one called the "Anchorage" contract and a smaller one called the "Nikiski" contract.

NINETY PER CENT or more of the gas from the "Nikiski" contract is sold to the Chugach Electric plant, and heavy use of the plant could result in exhaustion of the remaining reserves during the coming winter, Anchorage Natural Gas documents indicate.

The "Nikiski" contract was for 10 years ending May 1 of 1977, and it provided for 10 million cubic feet of gas per day, from 10 billion cubic feet of reserves. At the current level of sales, the reserves will be exhausted

sometime next year, before contract expires, the gas company said.

The balance of Alaska Gas supply under the "Anchorage" contract would last until 1991 under present rates of consumption. But Teel said population growth could shorten the life of the present reserves considerably, possibly using them up by 1985.

THE ROYALTY gas that Alaska Gas buys from the state is produced from the North Kenai field by Phillips Petroleum Co. and liquefied for shipment to Japan.

A Phillips representative spoke in opposition to Alaska Gas' proposal to purchase of royalty gas now used by Phillips. An Anchorage Municipal Light and Power spokesman said the city utility favors the proposal.

The Royalty Board indicated it would consider the plan further at a meeting later this month or next month and the board would then make a recommendation to the legislature which convenes in January.

IN HIS presentation to the board, Teel said the gas utility is offering to pay the same price the state would otherwise receive from Phillips, or 50.45 cents per thousand cubic feet.

Commitment of the state royalty gas would provide an additional 5.5 billion cubic feet of natural gas per year for

(Continued on page 2)

# El Paso Makes Second Gas Proposal

The El Paso Alaska Co., has made its second proposal to the state's Royalty Oil and Gas Development Advisory Board for purchase of the state's royalty gas at Prudhoe Bay.

"There's nothing more important to us now" than a commitment of the state's royalty gas, said El Paso Vice President John Bennett Monday.

"We have no gas to offer anyone now," he told the five officials. The board advises the legislature on the disposition of the state's one-eighth royalty share of oil and gas.

Bennett's proposal included an offer to "bank" the state's gas so that if the state did not wish to use all of its gas in the state for the first few years of gas production, it could sell it to El Paso at "a rate equal to the highest price paid by any responsible purchaser," and then take the gas back at a later date.

Bennett separated the state's royalty gas into two categories the gas that could be used within the state and the remainder that would have to be exported.

If the state could not take all its share during the first few years of the pipeline because petrochemical plants had not been completed, it could take

what it had not used back at a later time, he explained.

Board Chairman Guy Martin, the state's commissioner of Natural Resources, asked Bennett to compare his company's offer with one made by Tenneco, a larger firm.

"I guess you have to ask yourself do you want to give the leverage (the guaranteed delivery of gas would give) to El Paso or Tenneco," he said.

Tenneco executive Robert C. Thomas came to Alaska for the meeting accompanied by former Interior official Jared Carter, an attorney represent-

ing Tenneco.

Bennett said his firm's second proposal did not replace the original proposal to buy the state's roughly 3.25 trillion cubic foot share of the Prudhoe Bay gas cap.

"Both are open proposals," Bennett emphasized. He said his firm is willing to be flexible with regard to any agreement it might come to with the state.

Committing its gas to El Paso, he suggested, would "smoke out" others interested in the state share and would "let them know they'll have trouble if they don't cater to us."

The gas banking proposal, he suggested, would require the approval of the Federal Power Commission which regulates the natural gas industry.

Constructing a gas pipeline across the state with a liquifaction plant at its terminus, a fleet of cryogenic tankers and regasification facilities outside would require El Paso to take on a number of partners, Bennett said.

In addition to Martin, the board includes Commissioner of Revenue Sterling Gallagher, economist Arlon Tussing, University of Alaska professor Don Triplehorn and Alaska Brick Co. executive Dick Lyon, a former Union Oil Co. executive.

"If the certificate (for the gas line) were issued tomorrow, frankly we'd be in the position of selecting partners," Bennett told the packed meeting room at the division of lands in Anchorage.

Anchorage Natural Gas

President Dale Teel made a request to the board to sell the utility its royalty share of production from the Cook Inlet field. Teel said he had not discussed his proposal with Phillips Petroleum, the company that discovered the field in 1962 and is the sole producer in the gas field.

"We could use the gas as soon as the board makes its recommendation to the legislature and they approve it," he said.

"It involves no FPC approval or new construction," he said.

Phillips's manager of natural gas and liquefied natural gas sales, John Horn, objected to the utility's proposal.

Horn noted that when his firm discovered the gas field it

looked for markets on the U.S. West Coast, in Alaska, Hawaii and Japan. Before striking a deal to take all the gas to Japan in cryogenic tankers as a liquid.

"It finally developed Japan was the only market," he explained.

Arco, Sinclair (now Arco) and Skelly, which had all been partners in the field, "all checked out and left us alone," Horn recalled.

"We spent more than \$125 million for a platform, pipelines, an LNG plant and transportation system to Japan" which is comprised of two liquefied natural gas tankers, Horn told the board.

"It involved a lot of traumatic decisions," he said.

"Alaska has benefitted substantially from our willingness to do this," he said.

Thomas  
Reviews  
His Tip

The final draft of a Department of the Interior study comparing Canadian and Alaskan gas pipelines predicts the Canadian project would slip 1 1/2 years behind schedule and have cost overruns amounting to \$2.4 billion, according to Lt. Gov. Lowell Thomas Jr.

In a report to the Anchorage Chamber of Commerce yesterday on a trip Outside to promote an Alaska route for the pipeline from the North Slope, the lieutenant governor said the report estimated the Alaska route might encounter a cost overrun of \$900 million and a six-month delay.

Thomas said he made two trips Outside to promote the Alaska route for the estimated 26 trillion cubic feet of natural gas at Prudhoe Bay because of the sudden realization that Congress might take the decision in its own hands and make a decision as it did on the outline.

Economic decisions with regard to the interstate shipment of natural gas normally are made by the Federal Power Commission.

During the more than four weeks the lieutenant governor spent promoting the gas line he visited 23 cities in 16 states, he told the chamber. He appeared on 28 television stations, at least half of which taped the shows; normally for 15 to 30 minutes at a time. The ABC "AM America" program was perhaps the most widely viewed of any of the programs. Thomas also said he had interviews with 13 newspapers including one Scripps-Howard paper that syndicates its stories to other papers.

A luncheon meeting with Reader's Digest Editor Hobart Lewis and three of his editors will result in a story on the gas line in the widely circulated publication's January or February issue, Thomas said. "They also commissioned a story on Governor Jay," Thomas said with a smile. Jay Hammond and Thomas were elected together a year ago.

In New York, Thomas talked with Time magazine's Senior Editor Marshall Loeb and two other editors but said he came away with the feeling "they were interested but didn't seem to have any impetus to do anything about it right away."

A speech before the Dutch Treat Club in New York, a gathering place for editors, publishers and critics, was a "fantastic opportunity to plant some seeds," Thomas said.

"I think there was only one reception that wasn't good—a station in Minneapolis," Hammond told his luncheon audience at the Anchorage-Westward Hotel.

Articles

## El Paso offer on state gas

11/12/75 ADN  
John Bennett of El Paso Alaska, one of two companies proposing to build a pipeline to move North Slope natural gas to market, spoke on the company's offer to buy the state's royalty gas from Prudhoe Bay in a meeting Monday with the Alaska Royalty Oil and Gas Development Advisory Board.

El Paso made a formal proposal to purchase state royalty gas last June, but the board has yet to form a position on the offer.

Bennett, vice president of El Paso, suggested the possibility that the company could advance money interest free to assist the state in a time of financial crisis in exchange for obtaining some or all of the state royalty gas later.

The agreement proposed by El Paso would limit state gas sold to the company to gas which would be excess to needs within the state.

ANCHORAGE  
DAILY NEWS

# Bill mandates Canada gas line

By MARK PANITCH

Our Washington Correspondent

(c) 1975 Anchorage Daily News

WASHINGTON — In an apparent effort to end the costly and longdrawn battle over how to get Alaska's North Slope gas to Lower 48 markets, Arctic Gas is quietly seeking congressional support for a bill that would mandate construction of its trans-Canadian pipeline.

Within the past two weeks Arctic Gas lobbyists have queried several House members about co-sponsoring such legislation. At least one member has sent a draft bill to the Office of the House Legislative Counsel to be analyzed for constitutional flaws.

ARCTIC GAS officials refused to discuss the proposed legislation. William Brackett, Arctic Gas vice president and head of the firm's Washington office, told the Daily News: "I can neither confirm nor deny the existence of that document."

However, The Daily News has obtained a copy

of a draft bill which sources say was produced by Arctic Gas.

The main features of the bill are: immediate certification by the Federal Power Commission of Arctic Gas to build the pipeline and an almost total limitation on judicial review of actions taken by Arctic Gas in the course of building the pipeline.

Senate sources indicated that Arctic Gas may have begun to feel increased pressure recently from Canadian members of the consortium who reportedly are starting to look with interest at potential all-Canadian alternatives.

AN EDITORIAL in the Oct. 25 Toronto Globe and Mail notes that the Canadian government has purchased an interest in another Canadian gas project and suggests that there isn't enough capital in that country to finance two major pipelines simultaneously. Apparently the government-backed project would get preference.

"There is potential for the Canadian members to defect if there isn't some movement," the Senate

11/13/75  
ADN  
source said. "This bill may be an effort to break the deadlock and head off any possible defections."

El Paso Alaska Co., which is seeking to build a trans-Alaska gas pipeline and connect to the Lower 48 via a fleet of liquified natural gas (LNG) tankers, had previously indicated that it would not try to short-circuit the administrative process. Both companies are vying before the Federal Power Commission for the right to bring North Slope gas south.

MEMBERS OF ALASKA'S congressional delegation reportedly have considered introducing legislation to mandate the trans-Alaska route. However, the closest that has come was a bill introduced several weeks ago by Sen. Mike Gravel, D-Alaska, that would force all administrative action relating to the gas line to be completed by next summer. However, the Gravel bill does not specifically favor either route.

Members of the Alaska congressional delegation were not available for comment in Washington Wednesday night.

# Officials To Talk Oil

SEATTLE (AP) — Canada's plan to phase out oil exports to the United States underscores the need for both state and federal governments to discuss oil transportation on Puget Sound, say industry, government and environmental spokesmen.

"This piecemeal approach to oil problems is taking us to disaster - economically, environmentally and every other way," William Brewer, energy assist to Gov. Dan Evans said Thursday.

Virgil McNabb, of the Western Oil and Gas Association, said a solution is needed "so oil companies can plan with some certainty."

Canada's proposed 1980 cutoff, announced Wednesday, "confirms what we've been saying for three years," said Bob Lynette, president of the Coalition Against Oil Pollution.

Canadian officials said oil exports to the United States probably will be phased out by 1980 rather than the previously announced cutoff in 1983.

Washington state's four major refineries get about 22 per cent of the Canadian oil.

As the Canadian crude is cut back, refineries located in the Midwest will get preference for deliveries over those located on the coast, Jack Robertson, regional Federal Energy

Administration chief said.

But Robertson said the reduction in exports would cause no immediate hardships on Washington's four major refineries.

John Vandervelde, a spokesman for the Arco refinery at Ferndale, said the cutoff of Canadian oil to that facility would make "no difference whatsoever. This plant was designed for North Slope oil and we actually had to make a few modifications to run Canadian through."

However, Mobil, Shell and Texaco refineries are not so fortunate, since they are older and have been designed to handle the lighter Canadian oil.

## Many Share Gas Dollar

ADT  
11-9-75

NEW YORK (UPI) — The motorist "has a legitimate concern" about the rising price of gasoline, the American Petroleum Institute says.

"The price of gasoline has been rising over the past two or three years and, quite frankly, the motorist wonders why," the API said.

"Are the oil companies ripping him off at the pump? What about those windfall profits he's been reading about? Are they the reason the price has risen?"

No, said the API in a recent report breaking down where every penny of the price of a gallon of regular goes — a procedure it notes is difficult to do with any precision.

API said actual costs vary substantially among oil companies for a number of reasons: type of crude used, where it comes from and at what price; refinery efficiency; transportation and marketing factors among others. To break out one product — in this case motor gasoline — from the many products made from crude oil in the refinery stream can result at best in

a "guesstimate," the API said.

Bearing all this in mind, it offers the following:

Out of a hypothetical gallon of regular gasoline costing 58.7 cents at the pump, the API said, the oil company makes an average of 2 cents profit, also hypothetical, but a "ballpark figure, based on government estimates and company testimony." The profit margin, it said, has remained constant for several years, before as well as after the Arab oil boycott and the 400 per cent increase in the cost of foreign crude.

In fact, said the API, federal and state governments take six times as much in taxes as the companies earn in profits.

The API noted in using the profit figure of 2 cents per gallon that, while Exxon has reported making that much, Standard of California says it earns 1.5 cents, Mobil 1.4 cents, and Phillips Petroleum and Texaco one cent.

"This profit may be derived from the sale of crude oil, from marketing operations, or from a combination of

operations in the production, refining and marketing areas, depending on the individual company," the API explained.

The largest single piece of the pie is the 21.5 cents, or 36.7 per cent of the total, that goes to cover the cost of crude oil at the wellhead.

The next largest chunk is the 12 cents, or 20.4 per cent of the total, for state and federal taxes. The federal excise tax is 4 cents per gallon. While state taxes vary, the API assumed an average of 8 cents per gallon in its calculations.

The third largest piece of the 58.7-cent pie is the 10.7 cents, or 18.2 per cent, that goes to the dealer "to cover his operating costs at the service station and, hopefully, "a profit for his endeavors."

According to the API breakdown, 7 cents, or 11.9 per cent, covers transportation costs: two cents for transportation of crude to the refinery, three cents for moving gasoline to the terminal, and another two cents to get it from the terminal to the service station.

## Canada Line Plan Finds Sponsor

ADT  
11/14/75

By BETTY MILLS

Times Washington Bureau

WASHINGTON — William Brackett, vice chairman of Alaskan Arctic Gas, has been lobbying hard on Capitol Hill in recent weeks on behalf of his consortium's proposal to bring gas through Canada to Lower 48 markets.

Brackett has apparently found at least one sponsor for legislation to mandate the Canadian pipeline route, Michigan Congressman Phillip E. Ruppe.

Ruppe said he intends to offer a bill that would direct the Federal Power Commission and the Interior Department to issue permits to begin construction of the Arctic Gas pipeline.

Ruppe believes the Arctic Gas project "is not only in the interest of the gas-short Midwestern states, but of the

entire nation."

Ruppe said congressional intervention is necessary because the regulatory agencies may take too long to get the natural gas flowing to Lower 48 markets.

"We already face serious shortages this winter," Ruppe said. "I believe that to delay further in these deliberations would cause even more discomfort and economic dislocation in the years ahead than is necessary or tolerable."

Sen. Mike Gravel, D-Alaska, who has pushed forward with a bill that would mandate a commission decision by June 30, 1976, believes the Arctic Gas tactic will backfire.

"My move has obviously panicked them," Gravel said in an interview. "I don't see Congress acting until the FPC acts. This is just an embarrassment to

them and a stupid tactic."

Gravel and other observers in Washington believe an expedited decision by the commission will result in a ruling for the all-Alaskan gas line project proposed by the El Paso Co.

Alaska's Republicans in Congress disagree with Gravel's analysis and believe it will be detrimental to the El Paso cause if the issue comes up in Congress this winter.

The Arctic Gas legislation, Sen. Ted Stevens said, "is an unfortunate effect of Gravel raising the issue. The impact of trying to accelerate the FPC decision is such that Arctic Gas is now convinced the decision should be made by Congress sometime this winter."

Stevens said, "It will be almost

(See Page 2, Col. 7)

## Canada Line Finds Sponsor

(Continued From Page 1)

almost impossible to get a fair hearing on that issue if it comes up at the height of this winter's natural gas shortage. And in an election year, the issue can be demagogued to death."

Young agrees with Stevens' claim that "time is on our side."

"If Congress acts before the FPC rules, due to political

pressure and a cold winter with natural gas in short supply, we could be in real trouble," Young said.

The GOP Congressman favors a low-key approach, saying "we will lose now if we have public hearings, and the media gets wind of this."

# Anchorage Daily Times

# Gas Pipeline Panel Forms To Push For Alaska Route

By BARBARA ZANDER  
Times Staff Writer

ANT 7/24/75

Pushing for an all-Alaska gas pipeline and developing a framework to deal with the state's natural gas were two goals the legislative gas pipeline committee set for itself at its organizational meeting yesterday. The committee, created during the last legislative session, picked Rep. Willard Bowman, D-Anchorage, as chairman. Rep. Mike Bradner, D-Fairbanks, told the committee he thought the group should work on achieving a balance between one of the richest energy sources and the high cost of

energy for Alaskans. He said he hopes the committee can help reduce the cost of energy. Sen Terry Miller, R-Fairbanks, said the first priority should be to get a favorable decision from the Federal Power Commission for an all-Alaska pipeline to carry gas from the North Slope. It would be liquefied in southern Alaska and transported by tanker ship Outside. A competing plan would be to transport the gas Outside by pipeline through Canada. Rep. Nels Anderson, D-Dillingham, said Outside firms should not be allowed to do the major portion of the development. Bradner said if the decision favors a trans-Canada line then maybe "our function becomes more important." Bowman expressed concern about apathy among the citizenry about the gas line. He believes the issue needs to be brought before the public. First to testify yesterday was Beverly Isanson, representing the Organization for Management of Alaska's Resources which is pushing for an all-Alaska line, and backing a proposal by El Paso Natural Gas Co. She suggested five areas of study: Work with other state legislatures; Consider legislation for the primary processing of the gas; Consider strict control on exporting gas from the state; Control the road along the pipeline, and dispose of royalty gas. Sen. John Huber D-Fairbanks, suggested that liquefying the gas at the site might be a way to get out from under the Federal Power Commission. He referred to changing the gas to methanol.

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EDITORIAL PAGE

# Anchorage Daily Times

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Managing Editor

Page 8

Thursday, July 24, 1975

## The Gas Pipeline

### TWO STATE GOALS

THE LEGISLATIVE committee on gas pipeline impact can render a great service to the people by pursuing the course charted Monday night.

The committee set two goals:

1. To use its influence to encourage an Alaska route for the pipeline, rather than a route through Canada, and

2. Develop a program for the handling of the state's royalty gas, which will be 12½ per cent of the total Prudhoe Bay reserve. If the reserves total 26 trillion cubic feet, the state stands to get 3 trillion plus 250 billion cubic feet of its own.

There can hardly be much of anything in the world more important to the economics of this state than those two goals.

ALTHOUGH the two goals appear to be separate, they really are one. Neither can be achieved in satisfactory fashion without the other.

The royalty gas can be used to create a compelling pressure on the producers to route the pipeline through Alaska. The committee received testimony showing that terms of pipeline right-of-way leases might make the Alaska route more attractive, if not downright compulsory.

The state can also insist that it will take delivery of the gas in kind

and at an ocean terminus. This would require the Alaska route.

THE FIRST STEP toward its goal might be for the committee to convince the state's commissioner of natural resources to quit talking with gas companies about buying the state's royalty gas. Once it is sold, the state will lose its clout.

If the state should sell to an eastern gas company, it would then be throwing its support behind the Canadian route for the pipeline. This would defeat the purpose set by the committee and would also thwart the desires of a majority of Alaskans.

The committee might also consider finding ways to attract the oil companies that own the Prudhoe Bay reserves to join Alaskans in supporting the Alaska pipeline route.

We have never heard that the companies have taken a stand on the route. Many of them have contracted with eastern gas companies for the sale of their gas reserves, which must imply their support of the Canadian route.

The legislative committee has made a commendable start in its approach to the pipeline and the handling of the gas. It is important that the committee succeed in achieving the goals it has set.

8/16  
ADT 1975

## Lease Sales Could Aid State Revenue Balance

The state is going to spend \$120 million more than it takes in both this year and next, and by fiscal year 1977 an additional source of income will be required to stave off total bankruptcy.

That was the report from Commissioner of Revenue Sterling Gallagher to the state's Royalty Oil and Gas Development Advisory Board.

Gallagher said the state's budget for the 1976 fiscal year will be between \$630 million and \$650 million, with revenues expected to total from \$510 million to \$520 million.

That leaves a deficit of about \$120 million, the commissioner told the Alaska Oil and Gas Royalty Advisory Board, in spite of the newly-enacted tax on oil and gas reserves.

Gallagher said he also expects a deficit of \$120 million to \$150 million the following year, which will very nearly deplete the general fund balance, including \$190 million in securities.

"This definitely shows the need for an additional cash input in fiscal year 1977," he told the board.

Commissioner of Natural Resources Guy Martin, who heads the board, noted that possible state oil and gas lease sales or sales of state royalty oil or gas are not included in Gallagher's predictions.

"Those are things which could be done to close the gap," he said, adding, "We are likely to have a decision in the near future on a lease sale."

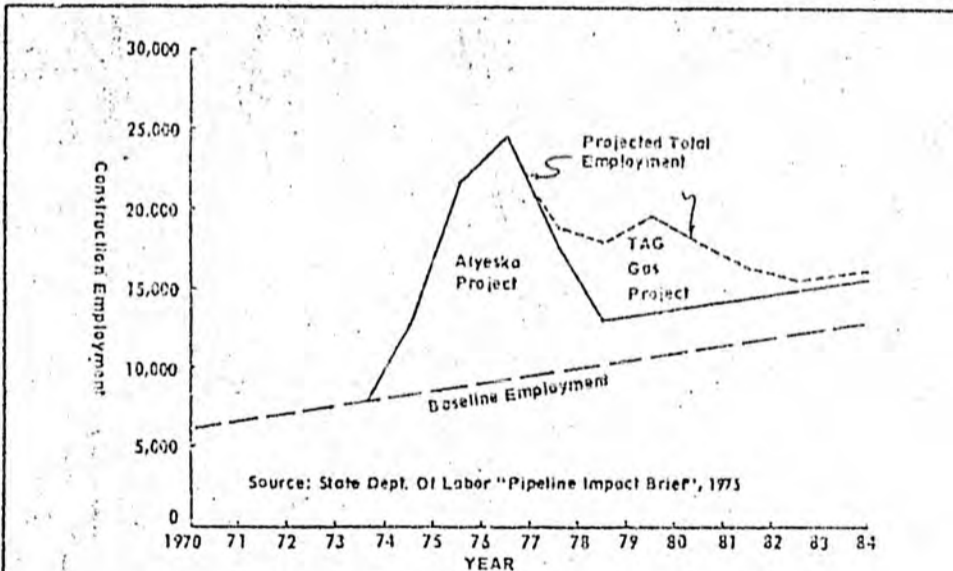
Gallagher said decontrol of old oil on the national level could have a significant impact on Alaska's state finances. For instance, if the price of old oil is left to the market, the state's anticipated deficit for fiscal year 1976 could be cut in half.

Favorable economic activity in the state caused Gallagher's department to underestimate revenues by 13 per cent this year, when the most it had ever been off before was five per cent.

"This is due to inflation," the commissioner said, "and a sliding scale income tax which you can't predict 18 months in advance. Alyeska has more people on the payroll than we expected."

The 1977 state budget probably will be \$720 million to \$750 million, Gallagher said, "and could go as high as \$780 million depending on how fast inflation takes off after the recession's recovery."

Both Gallagher and economist Arlon Tussing, members of the board, said they believe the "bloom is off" Alaska's inflation and they expect it to keep pace with national inflation from now on.



STATE PROJECTS GAS LINE EMPLOYMENT

The dotted line shows the estimated construction, the solid line shows the pipeline

# Five Plan Gas Line Testimony

Only five persons have signed up to testify on a draft environmental statement for a trans-Canadian gas pipeline proposed by Arctic Gas.

Although today was supposed to have been the deadline for signing up, a Bureau of Land Management spokesman said anyone wishing to comment still may do so. Preference will be given to those who have registered, however.

The hearings, dealing with the 9,000-page statement prepared by the Department of the Interior, are to begin at 9 a.m. both Thursday and Friday at the Performing Arts Center of the University of Alaska, Anchorage.

Those signed up are Gov. Jay Hammond, Jerry McCutcheon, Peter Scholz of the Alaska Center for the Environment, Jack Hession of the Sierra Club, and Virginia Dapiatz of the Upper Cook Inlet Chapter, Alaska Conservation Society.

In addition to the Anchorage hearings, hearings are planned in Fairbanks Sept. 29 and 30 and in Juneau Oct. 2 and 3.

The draft environmental statement deals only with the pipeline application of Arctic Gas because El Paso Alaska,

(See Page 2, Col. 1.)

## Gas Offer <sup>7/25/75</sup> Is Unveiled

Former state oil and gas director Homer Burrell said this morning that a "major oil and gas producer" has offered to guarantee financing of a trans-Alaska gas pipeline in exchange for a commitment of the state's one-eighth royalty share in the Prudhoe Bay gas.

Burrell, testifying at a public hearing on Interior's Arctic Gas pipeline environmental assessment, said the pipeline offer is lying in the desk drawer of Commissioner of Natural Resources Guy Martin and has not been publicly revealed.

Burrell also said that recent discoveries on the North Slope, previously unreported, mean that a trans-Alaska gas pipeline will be built, regardless of what decision is made by the Department of the Interior.

## Five Will Testify On Plan For Line Through Canada

(Continued From Page 1)

a trans-Alaska gas pipeline, has not applied for a right-of-way permit from Interior. However, El Paso's proposal for a combined pipeline-tanker route is dealt with in the draft study as one of the alternatives to an all-overland pipeline.

Presiding at the Alaska hearings will be Administrative Law Judge John Rampton of Salt Lake City. Other panelists will be Carl Starch of the Department of the Interior's Denver office,

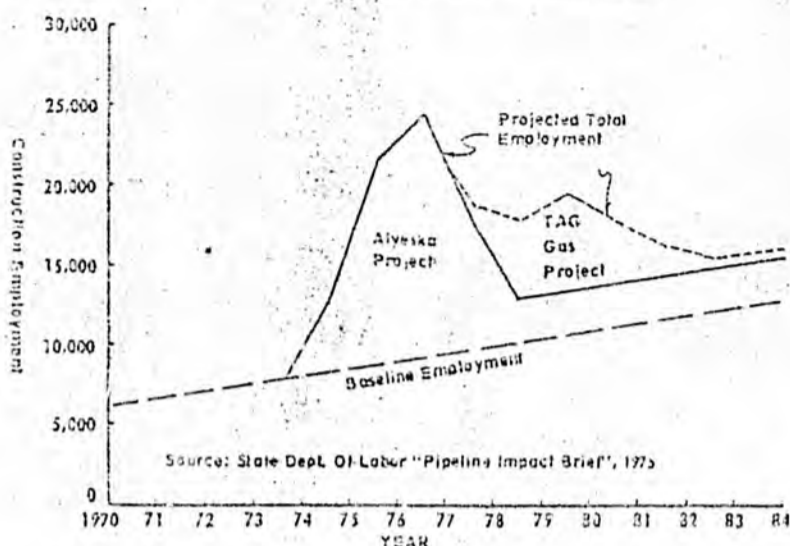
and Tom Schoder and Jim Coan of Anchorage, who are members of the environmental impact study team who focused on the Alaska portion of the gas pipeline. Schoder is a natural resource specialist and Coan is an engineer for the Bureau of Land Management.

At the Juneau hearings, Starch will be replaced by Al Leonard of Denver.

Schoder said the final environmental impact statement hopefully can be completed by the first of

January and printed by early February. Then it will go to the President's Council on Environmental Quality.

"It will still be up to the Department of the Interior to respond to the application (from Arctic Gas) pending before it, to either accept or reject it," Schoder said. "It's hard to say when that decision will be made. If there is a gas shortage this winter, it could involve action in Congress and that could have a bearing on the timing of this thing."



### STATE PROJECTS GAS LINE EMPLOYMENT

The dotted line shows the estimated effect that construction of a trans-Alaska gas pipeline would have on the state's employment picture after the Alyeska oil pipeline is completed. Instead of a rapid decline, from close to 25,000 to slightly over 10,000 employed in

construction, the gas pipeline would pick up the slack as oil pipeline employment stops to drop off and continue employment opportunities through 1982. A peak of 5,100 workers would be employed in a gas pipeline.

## Organization Requests State Gas Commitment

Members of Omar (Organization for Management of Alaska's Resources) have urged the state's Royalty Oil and Gas Development Advisory Board to commit Alaska's excess gas to El Paso Natural Gas Co.

"It is imperative that we take action to assist the only carrier that has applied for a trans-Alaskan (gas) pipeline," Robert C. Penney told the board.

And he asked the royalty board and Governor Jay Hammond to express to state leaseholders on the North Slope "our extreme displeasure" at their support of a trans-Canadian route for the gas pipeline, as proposed by Arctic Gas.

"We believe these acts will additionally secure the flexibility for the state to assure the use of our royalty gas within Alaska for heat, fish processing or industry, et al," Penney said.

Beverly Isenson, executive director of Omar, referred to testimony presented to the Federal Power Commission by a Canadian constitutional lawyer who says the provinces have the power to levy discriminatory taxes on pipelines and resources passing through their boundaries.

And she pointed to the economic consequences of a pipeline through Alaska. The trans-Alaska oil pipeline has had the positive effect on lowering the state's unemployment rate to lower than it has ever been, and of giving natives jobs and contracts, according to Mrs. Isenson.

"It's a healthy situation," she said, "and not merely growth for growth's sake."

She referred to a chart which shows how a trans-Alaska gas pipeline will pick up the slack for employment as the oil pipeline work force decreases.

Commissioner of Natural Resources Guy Martin, who heads the board, noted that

"many points you have raised in favor of a gas pipeline through Alaska this administration also supports.

In regard to El Paso's bid for the state's excess gas, Martin said, "We're requested information continuously" for the last 18 months, and it was not until Sunday that the state finally received a proposal.

"We're really asking for two commitments," added Homer Burrell, an Omar representative and former director of the division of oil and gas. "We want you to recommend that the state's royalty gas be transported through an all-Alaska pipeline, and we want you to commit the state's excess gas to El Paso."

Penney said, "The more I'm in this, the more scared I am that the pipeline won't go through Alaska, and the more sure I am that it should."

While supporting a trans-Alaska gas pipeline, some members of the advisory board said they think it is possible to overrate the commitment of gas to El Paso as a factor in the Federal Power Commission's selection of a pipeline route.

Commissioner of Revenue Sterling Gallagher said, "The gas (from Prudhoe Bay) will be committed to whatever pipeline is built."

And economist Arlon Tussing said, "The only way the commitment of gas to El Paso can make a difference is as a backstop for financing, because El Paso is much weaker financially than Arctic Gas."

Commitment of the state's excess gas to El Paso "would increase the strength of the company's corporate profile," he said.

William Fackler, deputy commissioner of natural resources, expressed the opinion that "if someone gets the certificate (for a pipeline), they'll get the financing."

# Martin Expects Leasing Delay <sup>9/30/75</sup>

By FLIP YODD  
Times Staff Writer

Fresh from a week of discussions in Washington, D.C., the state's commissioner of Natural Resources said he fully expects a 60 to 90-day delay in leasing offshore oil and gas tracts in the Gulf of Alaska.

Guy R. Martin, the state's legal adviser in Washington under the Egan administration, said the delay would not bring the proposed sale into compliance with the state's standards for the sale.

"Don't be misled," he warned his Greater Anchorage Chamber of Commerce audience. "I think you'll find we're not opposed to the federal leasing program per se," but the state would like to see "50, 75 or 100 changes" in

the federal leasing plan. So far the federal government has opposed any changes to its proposed offshore leasing program, he said.

The state's three-man congressional delegation has been "coming together" on the offshore issue. Both Sen. Mike Gravel and Rep. Don Young

have come closer to the state's position recently, he said.

When the governor met with President Ford, outer continental shelf issues came up, he said. The subject was brought up "in the context of working out any differences with the federal government and the oil companies" that will develop the shelf, Martin said.

In his week in Washington Martin met on outer continental shelf issues with Assistant Secretary of the Interior Royston C. Hughes, who is in charge of program development and the budget. He said he plans to meet Friday with Federal Energy Administrator Frank Zarb, Thomas Kleppe — if he is confirmed as interior secretary —

(See Page 2, Col. 4)

## Problems Unresolved

"Not enough has been said" about unresolved problems with the proposed trans-Canada gas pipeline, says Commissioner of Natural Resources Guy Martin.

A recently revealed treaty proposal between the U.S. and Canada, "actually created more problems than it resolves," Martin declared.

Left unresolved, he said, would be problems of taxation, setting of rates, sharing of pipeline capacity and pipeline costs, provision for expansion and interruption of throughput.

(See Page 2, Col. 5)

# Martin Expects Leasing Delay

(Continued From Page 1)

and a group of state representatives about the outer continental shelf.

Martin, who served as legislative assistant to the late Alaska Rep. Nick Begich, said his visit to the nation's capital came during a key week in writing amendments to the Alaska Native Claims Settlement Act. While on the congressman's staff he helped write the original bill which became law in 1971.

Martin said he believes the bill to amend the claims settlement act would have the greatest influence on the state's natural resources of any currently contemplated legislation. Generally he classified the four proposed amendments he discussed as "technical and housekeeping matters."

"Some correct problems and inadequacies that couldn't have been foreseen at the time," he said.

The four proposed amendments include:

— A provision that would allow village corporations to merge with other village corporations and villages to merge with regions. Martin indicated he is not aware of any provisions that would allow regions to merge with other regions. There is a threat of small villages "being co-opted and overpowered by large ones," he said.

— A provision to nullify a legal decision that allows natives to bring suit against the state, oil companies and other for trespasses on their land before the claims act was passed in 1971.

Martin said he and Sen. Ted Stevens have made strong statements in opposition to this provision of the bill and that the state had to take its stand in opposition to the natives.

"As we see it the state represents taxpayers who may become defendants in the suit and the state had no choice but to act as it did," he argued.

The state's concern is so strong that Hammond raised the issue with the President a couple weeks ago, he said. "and we were disappointed a presidential decision was not

the bill, but anticipate a response from the President soon."

— A provision to liberalize the easements section of the bill. The burden of enforcing the restrictive provisions would fall largely to the state, he said. Transportation, utility and recreational corridor recommendations by the Interior Department "flew in the face of established corridors," the commissioner argued. If the recommendation becomes law, it would result in almost guaranteed trespasses, he said.

— A provision to modify the present "tragic and inequitable land selections" that the Cook Inlet Region may be forced to make. The selec-

tions on Pt. Woronzof, Campbell airfield east of Anchorage and the Swanson River oil field, he said, "have completely been resolved as issues."

"I can say there is work still to be done on this," Martin said, but the state is looking for land trades that would be acceptable to all parties.

The state will soon find itself in a very unusual position as a major regulator of the oil industry in this country while at the same time being a large owner of oil and gas, he said.

He estimated that Alaska, through its one-eighth royalty share of production would have reserves making it between the fifth and 10th largest oil company in the country.

Returning to the issue of

outer continental shelf development, he emphasized that only one other state, California, has more than one federal lease sale proposed while Alaska is slated to have nine or 10 in the next three to five years.

"There was no way we could compare the Beaufort Sea and the Gulf of Alaska and not conclude that the Beaufort Sea was better," as an area of future oil exploration, he said.

Martin promised the state would give at least five months advance notice of a state sale in the offshore area to the east of Prudhoe Bay and predicted it would be held in 1976.

"Retention of our natural gas as long as it can be done is one of the most important things we can do."

## Treaty Proposal 'Creates Problems'

(Continued From Page 1)

Martin said the treaty, coupled with the Federal Power Commission's delay in pipeline proceedings, produced a "psychological low" a few weeks ago.

"Although we are far from out of the woods" in the effort to win a trans-Alaska gas pipeline, Martin said, the situation is "hardly as bleak" as had been thought.

"The issue is still up for determination," he said, with "a lot of capability to decide in Alaska's favor."

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YOUR JEWELRY HAS  
REMEMBER

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throw it away

Carl's Spens

AND GIL

Northern Lights Sho  
279-272

# State Rebukes Gas Line Study

The Hammond administration chided the Interior department today for failing to initiate its own studies of a proposal to build a trans-Alaska natural gas pipeline.

Although El Paso Natural Gas Co., proponents of the project, have refused to file for necessary permits, a state spokesman said information was "readily available" and should have been included in a draft environmental impact statement of North Slope gas development.

Asst. Atty. Gen. Fred Boness told the second day of a federal hearing here on the impact statement that additional data, including actual field experience, was available from builders of the Trans-Alaska oil pipeline.

"Interior's decision not to make full use of this data," Boness said, "and to conduct a proper environmental analysis of the Trans-Alaska route is most unfortunate."

El Paso has declined to seek a right-of-way permit from the Interior department, a move that procedurally thwarted extensive studies. The com-

pany has maintained it wants a clear indication whether the pipeline will be built through Alaska or Canada before committing funds to environmental studies.

Boness said unanswered questions raised by the impact statement had been noted in a state study released in April and forced officials "to conclude that the Arctic gas plan cannot be accomplished for the price and in the time frame they are projecting."

The administration has estimated that a trans-Alaska line could be completed at least two years earlier than a Canadian line, in part because of pending native land claims in Canada.

A full critique of the impact statement by the administration, Boness said, would be made before Oct. 27, the deadline set for public comment.

There were few kind words yesterday at public hearing here on the Interior department's 9,000-page draft environmental impact statement concerning a

(See Page 2, Col. 5)



JERRY McCUTCHEON  
Would File Suit



HOMER BURRELL  
Address Hearing

## And Go

seawide paving project that has about 30 miles of asphalt go into nearly complete, says Central District Engineer Jack Spake. To receive new black coats before gives them white ones are Ingraham streets and Minnesota

Port Access Road, which has about \$12 million of the highway is open for traffic. The only work remaining there is a (See Page 2, Col. 1)

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# State Rebukes Gas Study

(Continued From Page 1)

proposed Arctic Gas pipeline system.

About 30 persons attended the morning session, at which Homer Burrell, former director of the state's division of oil and gas, testified that a pipeline through Canada, as Arctic Gas proposes, "would represent an unwise, irretrievable and irreversible commitment of resources to the legal, political and economic whims of a foreign country."

On the other hand, Burrell said a pipeline through Alaska, combined with a liquefaction and tanker system, would mean significant tax and other economic benefits to the United States.

Burrell charged that the state has received, but has not revealed, an offer from a "major oil and gas producer" to guarantee financing of a trans-Alaska gas pipeline in return for a commitment of the state's royalty gas at Prudhoe Bay.

He said it is a violation of state discovery and public information laws for the state not to make public this offer, which he said is on the desk of Commissioner of Natural Resources Guy Martin.

Burrell said that recent discoveries on Alaska's North Slope — as yet unreported — will mean that a trans-Alaska gas pipeline will be built regardless of what interior decides in regard to the Arctic Gas proposal.

He wore two hats for his testimony — one representing his own point of view and the other as a representative of the Organization for the Management of Alaska's Resources.

Burrell presented legal testimony on behalf of Robert Hartig: "Within the last two weeks, efforts by Canada and the United States to reach agreement on the paving of the Alaska Highway went awry because of Canada's refusal to grant a permanent right-of-way, even though the United States in turn agreed to advance the cost of construction. Canada claimed that such a grant would be in degradation of its sovereignty."

Hartig said he didn't intend that as a criticism of Canada,

noting that Canada "would be irresponsible if it failed to seek its best interests."

However, he said, "It would cause any reasonable person to look with a jaundiced eye at a U.S. financed pipeline through Canada, even with the proposed treaty."

Jerry McCutcheon, testifying as a private citizen, said the draft environmental impact statement is "so grossly inadequate that it constitutes a circumvention of the law."

He said that if the study is not sent back to the Interior department's task force for a more complete study of alternatives, he may prepare for possible court action.

"I have taken the federal government to court on a similar matter and won," he said.

McCutcheon said the draft statement fails to deal adequately with an alternative trans-Alaska pipeline and tanker route. It does not emphasize adequately the alternative of deregulation of natural gas, which he said would alleviate a shortage of natural gas. Neither pipeline would solve that problem, he insisted.

Nor, he said, does the

statement present a picture as a "combination of alternatives." It "fails to set forth that coal is the only fossil fuel to which this country can and must turn now or later."

The "squandering" of \$10 billion to \$20 billion on a gas pipeline "not only postpones the time but also squanders the nation's ability to turn to coal."

He said, "It is strange that the state administration has known since March 1975 that both proposed gas lines are not financially feasible, and yet made no mention of this to the Alaskan public."

"The construction of either (line) reduces the long-term supply of gas by absorbing the capital that would be available for far more economically developed gas supplies within the south 48 states."

"One comes away with the feeling that you wrote a justification of the line rather than an honest and factual report setting forth the facts, all the facts, to the best of your ability, in an honest labor."

Virginia dal Paiz, representing the Upper Cook Inlet chapter of the Alaska Conservation Society, said, "Under no circumstances can a pipeline be built through the Arctic Wildlife Range."

She said her organization cannot endorse the Arctic Gas proposal, but neither can they endorse any other route until an application is made for a right-of-way and an environmental impact statement is developed.

Alaska can be valued for its "livability or its extractability," she pointed out, lamenting that Alaska seems to be viewed as a "giant socket" to which the nation can be plugged to solve its energy problems.

"Overpopulation is the root of the problem," she declared. "Until that is controlled, it will be a never-ending situation of demand exceeding the supply."

The hearing continued this morning. Next week, hearings will be held in Fairbanks on Monday and Tuesday and in Juneau on Thursday and Friday.

Administrative Law Judge John Rampton of Salt Lake City is conducting the hearings. Panelists include Tom Schoder and Jim Coan of Anchorage, two members of the gasoline environment impact statement team.

Comments from hearings in Alaska and elsewhere in the country and written comments, which will be accepted until Oct. 23, will be incorporated in a final environmental impact statement on the proposed pipeline project.

## Anchorage Daily Times

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## Winter's Threat Curtails Two Services

The threat of winter has prompted two Anchorage departments to issue notices of discontinuation of services.

The Anchorage Water Utility is canceling all fire hydrant use permits, effective Wednesday. The utility is preparing the hydrants against freezing.

Special day-to-day permission, may still be obtained by hydrant foreman, Ford Johnson, if weather permits.

Also effective Wednesday, the Public Works Department will not issue permits for pavement cuts for any utility connections except in emergencies.

Cuts for emergency connections must be authorized by Public Works Director Jim Swing.

## MASONIC CALENDAR

FRI., SEPT. 26  
Scottish Rite  
8:00 P.M.

MASONIC TEMPLE  
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9/18

## Registration for gas line hearing

Anyone wishing to testify in the public hearings on the trans-Canadian natural gas pipeline environmental impact statement are urged to contact the local Bureau of Land Management office by Monday.

The draft environmental impact statement on Arctic Gas consortium's pipeline proposal is 9,000 pages, and 17 volumes, long. Copies of the statement are available at the local BLM office, the Fairbanks Environmental Center and local libraries.

Public hearings are to be held here Sept. 29 and 30, from 8 a.m. to 10 p.m. each day at the Traveler's Inn. Hearings will also be held Sept. 25 and 26 in the Anchorage Performing Arts Center, and Oct. 2 and 3 in the Baranof Hotel in Juneau.

The statement says Arctic Gas's proposal to build the Alaskan portion of the line in winter is not feasible, that its maintenance plans are unreasonable in terms of environmental damage and its analysis of effects on wildlife are inadequate.

It also continually points out that the pipeline will forever destroy the wilderness characteristic of the Arctic National Wildlife Range.

Fairbanksans will probably be most interested in the first volume of the statement, which is an overview of the following 16, and the three-volume first part which deals with the 195-mile Alaskan portion of the primary route.

Also interesting to Alaskan reviewers is the single volume on the trans-Alaskan pipeline alternative proposed by El Paso Natural Gas Co.

The Alaskan section of the 6,230-mile pipeline is to be built in the first three years of a project which will extend over eight years. In order to avoid having to build a permanent road across

the wildlife range, Arctic Gas proposed to build the Alaskan portion entirely in winter from snow or ice roads.

Gas from the Prudhoe Bay oil field would enter the 48-inch diameter line at 25 degree temperature and 1,680 pounds of pressure. Four 15-acre gravel pads will be built in the Alaskan portion for compressor stations to be added in later phases of the construction.

"The winter construction schedule in the arctic, as outlined by the applicant, without all-weather accessibility is highly idealistic and dependent on many variable-uncontrollable considerations, and is not considered feasible," the statement says. "Schedules proposed, especially for the arctic, are highly idealistic."

"Design criteria for the arctic and subarctic conditions are not considered adequate; therefore further efforts are needed to prevent pipeline failure in order to mitigate adverse environmental impacts."

Once the pipe is buried, however, the need for maintenance may cause environmental damage more severe than that resulting from the initial construction because of the lack of roads providing access, the statement adds.

M

# Gas line treaty nears <sup>1.57</sup> 9/22

By PETER J. BERNSTEIN  
© 1973 Newhouse News Service

WASHINGTON — The United States and Canadian governments have reached agreement on the main points of a treaty regarded as an essential step for construction of a 6,230-mile pipeline to carry Alaska natural gas down Canada's Mackenzie Valley to the United States.

The treaty is expected to be signed during Secretary of State Henry Kissinger's visit to Ottawa, scheduled for Oct. 14.

The treaty, a U.S. official said, would provide for "non-interference" in the

inter-country flow of oil and gas. "We're down to just a few remaining issues," the official said. "These should be wrapped up in the near future."

THE PIPELINE, planned by a consortium of 18 U.S. and Canadian companies, would deliver 4.5 billion cubic feet of natural gas a day to most of the United States and Canada. This would provide much-needed heating fuel for millions of homes and businesses, plus fuel for industry.

Sponsors of the 48-inch line say gas should be moving to main points in the U.S. four years after the start of con-

struction. But they point out that plans for the pipeline are moving so slowly through complex regulatory proceedings in Washington and Ottawa that it may be 1982 at the earliest before the gas could start flowing.

Administration and congressional sources expect that President Ford will ask Congress early next year for a legislative license for the trans-Canadian route. Some members of Congress want to take action sooner.

OFFICIALLY, the U.S. and Canadian governments are not committed to the line proposed by the consortium. But they

are leaning strongly toward it.

El Paso Natural Gas Co. has made a competing proposal to lay a pipeline along the same corridor as the trans-Alaska oil pipeline now under construction, and then to transport the gas in liquefied form by tanker ships from Alaska to a port near Los Angeles.

The Federal Power Commission (FPC) is studying which route to certify. Its hearings, which began last May, are expected to last another two years.

# Proposed Canada Gas Line Draft

FAIRBANKS (AP) — A proposed trans-Canadian gas pipeline has drawn fire from residents of this Interior Alaskan city during Interior Department hearings on the proposal which would tap Prudhoe Bay's natural gas fields.

The hearings here are the second round in public testimony on a draft environmental

impact statement for the proposed gas line which Arctic Gas wants to build from Alaska's North Slope through Alberta to the midwestern United States.

The hearings began in Anchorage last week and will be held in 11 U.S. cities, including Juneau later this week.

So far the public forums have failed to attract

widespread attention. Testimony in Fairbanks Monday originally was to have been presented only by persons who registered in advance with Interior's Bureau of Land Management. But because of a lack of interest, the hearing officer opened the sessions to anyone who wanted to speak to the issue. The Fairbanks hearings were

scheduled to continue today.

Sen. Ted Stevens, R-Alaska, submitted written comments to Interior and said the trans-Alaska natural gas pipeline route is the only one which offers consumers uninterrupted service of natural gas.

Stevens' Washington office issued a statement saying the consumer should be included

as an integral part of the EIS pipeline to skin off estimated 25 trillion cubic feet of gas at Prudhoe Bay.

He criticized the department for not investigating in an all-Alaska route such one being proposed by Enbridge Natural Gas Co., which is competing with the Arctic Gas consortium of American and Canadian companies for

# El Paso Draws Fairbanks Fire

as an integral part of the draft EIS pipeline to skin off the estimated 25 trillion cubic feet of gas at Prudhoe Bay.

He criticized the department for not investigating in-depth an all-Alaska route such as the one being proposed by El Paso Natural Gas Co., which is competing with the Arctic Gas consortium of American and Canadian companies for per-

mission from the Federal Power Commission to build the pipeline.

Although El Paso has not filed for the necessary permits which must be issued by Interior in order for it to cross federal lands involved in an all-Alaska route, Stevens said such action apparently is not necessary.

"I believe that in the interest

of saving valuable time that the draft EIS should have explored both routes in depth," The Republican senator said. "Obviously the trans-Alaska route must be examined thoroughly if the alternative is to be objectively reviewed.

In Fairbanks, William B. Morrice, port director for the Alaskan city of Valdez, spoke against the granting of right-of-way permits by Interior for the trans-Canadian line. Instead, Morrice urged consideration of a trans-Alaska route to a tanker port and liquefaction plant in the Valdez area.

Celia M. Hunter, president of the Alaska Conservation Society, called for a slowdown in the development of new pipelines until an energy transmission network can be designed that minimizes waste of natural resources.

Dr. David R. Klein, speaking for the Alaska Chapter of the Wildlife Society, said the draft EIS failed to serve the purpose of the environmental impact assessment procedure because its volume and organization does not facilitate a review and it doesn't cover adequately many important aspects of the pipeline's construction.

Klein said the Wildlife Society is a professional organization with about 80 professional biologists as members in Alaska.

The impact statement does not adequately consider the effects snow road construction will have on North Slope vegetation, he said, and the effects of the project's use of water will have on fish which spend the winter in North Slope streams.

Mrs. Hunter joined Klein in criticism of ice road construction for the Arctic Gas project, which plans to install the 195-mile Alaskan portion of the pipeline in one winter with temporary snow or ice roads.

"Already proliferation of pipelines, from what is essentially one arctic petroleum province, is in the offing," Mrs. Hunter said. She listed six proposed pipelines which would be used to transport arctic oil to southern Canadian and United States consumers.

"One properly built trunk line could serve the entire arctic province for perhaps a century. Proliferation of inadequate pipelines is in the long haul wasteful of all resources and therefore ultimately uneconomic."

She said it has been reported that snow would be scraped from everywhere within a 10-mile wide swath along the proposed Arctic Gas route in order to construct the ice road, although that is not mentioned in the EIS statement.

The statement calculates only 30 per cent of the water needed to make the road is available, she said.

## A THOUGHT FOR TODAY

The future holds something good for the people who have faith in it.  
H. L. HOLLS

DATSUN Sales & Service  
SUNSET  
MOTOR CO.  
4748 Seward Hwy.

## Thomas Begins Gas Line Tour

JUNEAU (AP) — Lt. Gov. Lowell Thomas Jr. embarks today on another swing through the Lower 48 states to promote a trans-Alaska natural gas pipeline route.

Thomas returned only two weeks ago from a similar journey through the Midwestern and Western states where he appeared on numerous television shows and news programs as well as granting interviews to scores of newspapers and magazines.

Thomas expects to be gone from Juneau two to three weeks and concentrate his promotional efforts on the East Coast.

"I will be finishing up what I started out to do," he said. "It will be the same kind of thing."

Thomas said during his last trip the general reaction to a trans-Alaska natural gas pipeline was good and his journey was "a very satisfying experience. It is not often you have a chance to plead the case for a proposal which has so many advantages.

"It is also gratifying," the lieutenant governor said, "to see such broad support from virtually all quarters of Alaska."

# Calif. gas line plan scrapped

SPOKANE, Wash. (AP) — Plans are being shelved for construction of a 1,119-mile pipeline leg to bring Alaska North Slope natural gas to the Los Angeles area, a spokesman for the project said Monday.

Lower estimates of Alaska natural gas availability have resulted in a decision to inform the Federal Power Commission and Interior Department that the leg of the \$9.6 billion pipeline project will not be needed, Interstate Transmission Associates (Arctic) spokesman William Sawyer told a hearing.

Sawyer said that ITAA is revising its application filed with the two agencies. Sawyer said the company wants to transport 600 million cubic feet per day of Alaska natural gas, half of what had been applied for.

"The 600 million cubic feet figure represents the amount of gas ITAA may reasonably expect to have

available to transport when the deliveries of Alaska gas begin in 1980," he said.

The proposed 36-inch Los Angeles leg line would have connected with the main 42-inch line bringing gas from Alaska to the Canadian border at Eastport, Idaho. It then would have crossed part of the Idaho Panhandle, Eastern Washington, eastern Oregon, western Nevada and would have terminated at Cajon, Calif.

Instead, Sawyer said ITAA is proposing to put 150 million cubic feet of gas into the Northwest Pipeline Corp. line at Spokane, send 250 million cubic feet to Pacific Gas Transmission at Stanfield, Ore., for transportation to Southern California and ultimately deliver the remaining 200 million cubic feet to California through the existing pipeline system of El Paso Natural Gas Co.

Sawyer said that a section of another pipeline which would also start at Eastport, and run to Rye Valley, Ore., will be slightly relocated to run through Idaho's Moyie River Valley.

Opposition had been voiced by local farmers on the Moyie route.

Land disturbed when a natural gas pipeline in 1961 still shows that damage, Rosalia farmer Dube told the federal hearing.

Dube said any future pipeline construction show more concern for the environment.

His testimony came at a Bureau of Land Management hearing on a draft environmental statement for a proposed 36-inch natural gas pipeline parallel an existing line, carrying Alaska Canadian natural gas to West Coast markets.

# Canadian route hit by Alaskans

FAIRBANKS (AP) — A proposed trans-Canadian gas pipeline drew fire from residents of this city during Interior Department hearings on the proposal which would tap Prudhoe Bay's natural gas fields.

The hearings here are the second round in public testimony on a draft environmental impact statement (EIS) for the proposed gasline which Arctic Gas wants to build from Alaska's North Slope through Alberta to the Midwestern United States.

THE HEARINGS began in Anchorage last week and will be held in 11 U.S. cities, including Juneau later this week.

So far the public forums have failed to attract widespread attention. Testimony in Fairbanks Monday was originally to have been presented only by persons who registered in advance with Interior's Bureau of Land Management. But because of a lack of interest, the hearing officer opened the sessions to anyone who wanted to speak to the issue. The Fairbanks hearings continued Tuesday.

Sen. Ted Stevens, R-Alaska, submitted written comments to Interior and said the trans-Alaska natural gas pipeline route is the only one which offers consumers uninterrupted service of natural gas.

STEVENS' Washington office issued a statement saying the consumer should be included as an integral part of the draft EIS.

The Senator said time is crucial for construction of a natural gas pipeline to skim off the estimated 26 trillion cubic feet of gas at Prudhoe Bay.

He criticized the department for not investigating in-depth an all-Alaska route such as the one being proposed by El Paso Natural Gas Co., which is competing with the Arctic Gas consortium of American and Canadian companies for permission from the Federal Power Commission to build the pipeline.

ALTHOUGH El Paso has not filed for the necessary permits which must be issued by Interior in order for it to cross federal lands involved in an all-Alaska route, Stevens said



Sen. Ted Stevens

such action apparently is not necessary.

"I believe that in the interest of saving valuable time that the draft EIS should have explored both routes in depth," the Republican senator said. "Obviously the trans-Alaska route must be examined thoroughly if the alternative is to be objectively reviewed."

In Fairbanks, William B. Morrice port director for Valdez, spoke against the granting of right-of-way permits by Interior for the trans-Canadian line. Instead, Morrice urged consideration of a trans-Alaska route to a tanker port and liquification plant in the Valdez area.

CELIA M. Hunter, president of the Alaska Conservation Society called for a slowdown in the development of new pipelines until an energy transmission network can be designed that minimizes waste of natural resources.

Dr. David R. Klein, speaking for the Alaska chapter of the Wildlife Society, said the draft EIS failed to serve the purpose of the environmental impact assessment procedure because its volume and organization does not facilitate a review and it does not cover adequately many important aspects of the pipeline's construction.

Klein said the Wildlife Society is a professional organization with about 80 professional biologists as members in Alaska.

THE IMPACT statement does not adequately consider effects snow road construction

will have on North Slope vegetation, he said, and the effects of the project's use of water will have on fish which spend the winter in North Slope streams.

Klein said the sparse snow over on the pipeline route protects vegetation which plays an important role in the food chain for arctic animals, and also provides dens for polar bears and other North Slope creatures.

Mrs. Hunter joined Klein in criticism of ice road construction for the Arctic Gas project, which plans to install the 155-mile Alaska portion of the pipeline in one winter with temporary snow or ice roads.

"ALREADY proliferation of pipelines, from what is essentially one arctic petroleum province, is in the offing," Mrs. Hunter said. She listed six proposed pipelines which would be used to transport arctic oil to southern Canadian and United States consumers.

"One properly built trunk line could serve the entire arctic province for perhaps a century. Proliferation of inadequate pipelines is in the long haul wasteful of all resources and therefore ultimately uneconomic."

She said it has been reported that snow would be scraped from everywhere within a 10-mile wide swath along the proposed arctic gas route in order to construct the ice road, although that is not mentioned in the EIS statement.

The statement calculates only 30 per cent of the water needed to make the road is available, she said, but does not offer suggestions on where the remaining 70 per cent could be found.

Mrs. Hunter speculated the ice road probably would be torn up by heavy equipment faster than it could be maintained, that the grade in some areas is too steep for a simple ice road, and that it probably would not protect the delicate arctic soil.

## LIMOUSINE DRIVER

BALTIMORE (AP) — Shari Fioriglio, mother of four, is Baltimore's first female limousine owner-driver.

Mrs. Fioriglio started her limousine service in 1973 with a second-hand Cadillac.

ABT 10/13/75

# Canadian Blasts Gas Line Campaign

FAIRBANKS (AP) -- A leading member of the Canadian Parliament says trans-Alaska natural gas pipeline supporters are presenting a number of untrue and misleading statements in campaigning against a trans-Canada pipeline route.

Jean-Jacques Blais, vice chairman of the House of Commons Committee on National Resources and Public Works, read and commented on the text of testimony prepared by Anchorage lawyer Robert L. Hartig for the organization for the Management of Alaska's Resources (OMAR), a group which supports a trans-Alaska pipeline route.

The testimony was read by OMAR representative Homer Barrett at a Department of Interior public hearing in Anchorage two weeks ago.

Blais, in Fairbanks with oth-

er members of his committee Friday, took exception to most of the remarks in the testimony, and elaborated on Canada's policies in energy affairs.

Blais said OMAR is wrong when it says the provinces of Saskatchewan and British Columbia are controlled by the socialistic New Democratic party advocating government ownership and control of major industries.

The Ontario Liberal said Saskatchewan has not expropriated all oil and gas rights within the province, as the testimony states, but all resources are still in the hands of private enterprise. He said there is a refinery in Saskatchewan owned by a cooperative and it purchases oil from local producers, and there has been a rise in prices because of a rise in govern-

ment royalties.

Blais said the trans-Canada pipeline proposal would not go through Saskatchewan, but would cross the Northwest Territories and the province of Alberta. "The latter is an extremely conservative province, with a small 'e' in the American sense, and it is the energy province of Canada."

Between 1968 and 1973, Blais said, more than half of Alberta's oil production was exported to the United States. Presently the exports total about 600,000 barrels of oil per day.

Canada has no pipeline running from its western oil-producing areas to its eastern cities, Blais explained, and the oil exported from western areas to the United States must be made up from about 900,000 barrels a day imported to the East Coast from Venezuela

and the Middle East.

When foreign oil prices began to rise two years ago, he said, Canada was caught in a bind paying world oil prices that are now at about \$11.50 a barrel while exporting similar amounts of oil to the United States at its national price of \$8 a barrel.

To maintain its balance of payments, Blais said, Canada had to raise the price of oil sold to the United States. This resulted in a drop in exports when U.S. consumers stopped buying the Canadian oil, so the Canadian national government then had to put a 10 cents per gallon sales tax on gasoline sold in Canada.

Blais took exception to many remarks by a prominent Canadian legal authority, W. B. Williston, cited in OMAR's testimony.

El Paso Alaska filed Will-

iston's testimony in its arguments before the Federal Power Commission for a trans-Alaska gas pipeline and has used the testimony in campaigning against a competing trans-Canada line.

Where OMAR's quote of Williston's testimony said U.S. investments in Canada are "rigidly restricted by the Foreign Investment Review Act of 1973," Blais said the act is not rigidly enforced.

Where OMAR states import and export licenses for a pipeline must be granted by the Canadian National Energy Board (NEB), Blais said the issue is a "red herring" because the NEB will already have granted permission for the pipeline and a treaty now being written will guarantee the terms of the pipeline's operations.

"We're reasonable men," Blais said. "It's the same situation now where our own oil goes through the United States without licenses or interference from the state of Maine (where oil from Canadian offshore provinces cross the United States.)"

Where OMAR said the Canadian cabinet must approve both the export licenses and pipeline certifications, Blais

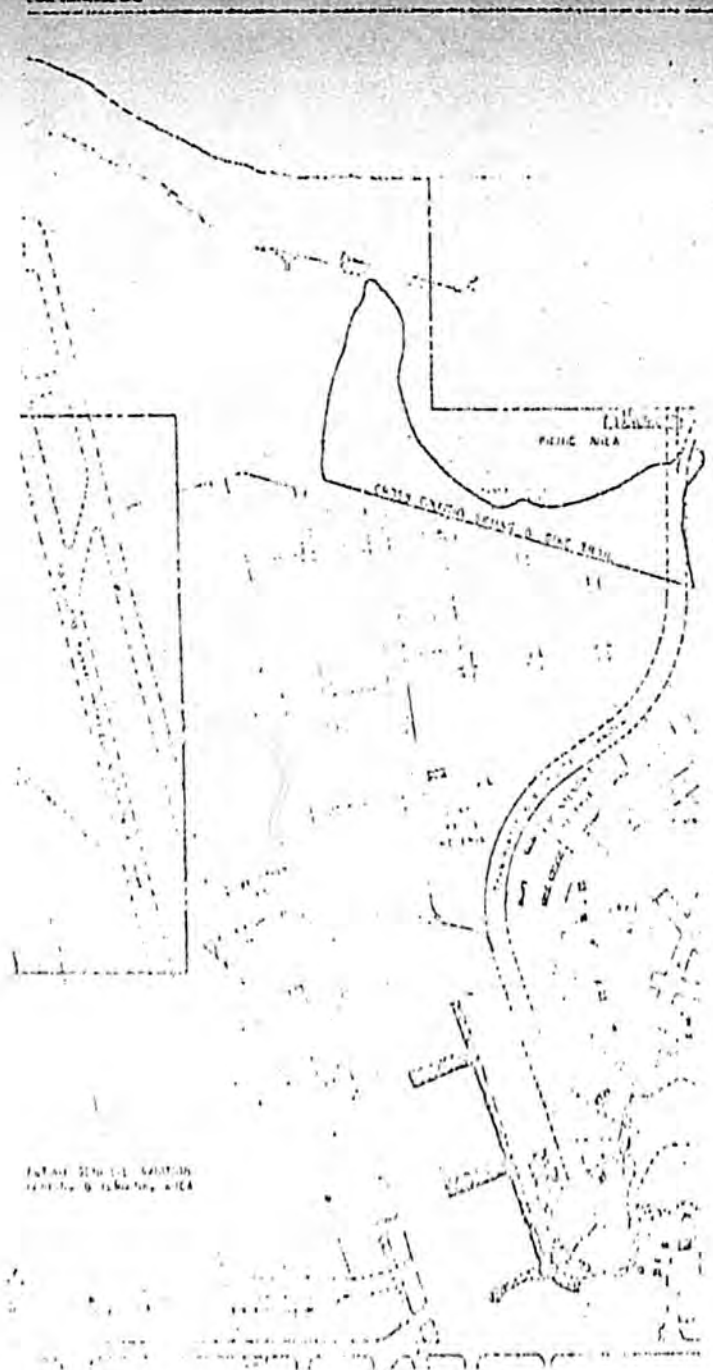
said this would be merely a matter of course since the major questions will have already been dealt with by the NEB.

Where OMAR said the cabinet's decision would be subject to judicial review, Blais said, "I'm not aware of any judicial review of a cabinet decision, except if the final decision constitutes a breach of national justice."

OMAR says the Mackenzie Valley inquiry into native land claims "could result in an indefinite delay in pipeline approval, but Blais said the inquiry will run at the same time as the NEB hearings and there is no question of delay from it.

"The native rights have been extinguished in the Northwest Territories, and the federal government (in the inquiries) has undertaken a review of the compensations granted," Blais explained. "The national government has asked Native groups for briefs in the matter, and they should be presented in a short period of time."

Blais said it is not true that the Canadian government can impose income, gross receipts and other taxes on the pipeline, because that would be a violation of the upcoming treaty.



**SIBERIAN AIRPORT RECREATION AREA.**

Environmental impact study. West of the proposed runway, plans could include an 18-hole golf course and a trap and skeet range. East of the runway, land might be used for skiing and hiking trails and a public picnic area.

# Study Compares Pipelines

A Rand corporation study for the California state assembly has concluded that the Arctic Gas proposal to build a natural gas pipeline from Alaska across Canada "appears to be as good as, or superior to" the El Paso proposal to build a trans-Alaska pipeline "based on California's interest in the decision."

However, the study says "future actions of the Canadian government could alter this comparison."

The Rand team compared the two pipeline systems on the basis of five criteria, noting that "the choice between these two proposals promises to be the most significant determinant of California's gas supply from 1980 into the 21st century."

The Rand team said the Arctic Gas system "is likely" to have both lower direct and indirect costs than the El Paso system, would be more reliable and could be completed sooner "because planning is further advanced, poses less safety risks than the El Paso system with its liquefied natural gas link and would have less adverse environmental impacts in California."

However, the study says, "because actions by the Canadian government could diminish or eliminate the apparent superiority of the proposed Arctic Gas system," the state of California "should not make an immediate commitment to either the Arctic Gas proposal or the El Paso proposal."

"Instead," the report says, "a task force of the involved (California state)

commissions and agencies should determine and communicate to the U.S. Department of State, an acceptable range of conditions for the terms of a potential agreement between the U.S. and Canada, governing the Arctic Gas system.

"Of particular importance here are conditions regarding sharing of pipeline capacity and transportation costs, future expansion of the line and reliability of deliveries. If there are reasonable assurances that these conditions will be met, California should support the Arctic Gas proposal."

The report was made to the California State Assembly Committee on Resources, Land Use and Energy. The findings were included in a preliminary "executive summary," presenting the major results of the project "to identify and analyze energy policy issues facing the state of California." It is dated Sept. 25.

The team said results will be covered more fully in a forthcoming report. Part of the funding for the project, the report says, came from the Rockefeller Foundation, the federal government and Rand

Inc., in addition to the California state assembly.

The Rand team recommended that California "take the initiative to forestall major commitments of Canadian gas to the United States," adding that "affected states should work to ensure equitable international sharing of transitory Canadian gas shortages."

## Accountants To Meet Tomorrow

Bob West, assistant director of finance and administration for the Port of Seattle and national vice president of the National Association of Accountants, will conduct a seminar for the board of directors of the local chapter tomorrow.

This seminar will be from 4 to 6 a.m. at the Anchorage-Westward Hotel. Cocktails will be served at 6 with dinner at 6:30.

Gene Davis, division director for career education of the Anchorage School District, will speak.

Natural gas supplies the majority of California's consumption of primary energy, other than for transportation, the study states.

Liquefied natural gas "can be a useful addition to California's gas supplies if other less costly and more reliable sources are unavailable on a timely basis," Rand advises. "However, other sources of gas should be encouraged so that California is not locked into a heavy dependence on LNG."

## Legal Notice 116

NOTICE OF HEARING  
THE COMMISSIONER OF THE  
DEPARTMENT OF COMMUNITY  
AND REGIONAL AFFAIRS  
FOR  
THE LOCAL BOUNDARY  
COMMISSION

Hereby give notice, pursuant to AS 44.13.020, that a hearing will be held on the petitions for detachment and incorporation as a borough, of the Chugach-Eagle River Area.

The hearing will be held on Wednesday, October 12, 1972 in the library of Chugach High School, commencing at 7:00 p.m.

Copies of the petition, maps and pertinent documents are available for inspection at the offices of the Department of Community and Regional Affairs, 311 West Fourth Avenue, Anchorage, Alaska 99501.

Persons wishing to submit written testimony prior to the hearing may submit their statements to the Department of Community and Regional Affairs, 311 West Fourth Avenue, Anchorage, Alaska 99501.

Lee McAnaney  
Commissioner  
Pub. Oct. 11, 11, 13, 1972

# Conservationists comment On gas pipeline route proposal

ADT  
10/14/75

EDITED BY PETERSCHOLES

On September 25 and 26, Anchorageites were invited to testify on a 19-volume Alaska Natural Gas Transportation System Draft Environmental Impact Statement. The most remarkable thing about this hearing on the gas pipeline was that over a two-day period only seven people testified. The travelling panel of Department of Interior officials moved to Fairbanks on September 29 and 30, and were greeted by only slightly more enthusiastic "crowds."

The excerpted remarks below represent the thoughts of four individuals or organizations who presented testimony at the recent gas pipeline hearings.

Jerry McCutcheon

"It is strange that the Administration of the State of Alaska has known since March, 1975, that both proposed gas lines are not financially feasible and yet made no mention of this to the Alaskan public.

"It is, also, strange that this impact statement does not point out that deregulation is the only solution to the nation's gas supply shortage and that neither of these gas lines make any significant difference in the gas shortage of the United States. As a matter of fact, the construction of either reduces the long term supply of gas by absorbing the capital that would be available for far more economically developed gas supplies within the South 48 states...

"The environmental impact statement did not address the fact that if a gas line were not built and deregulation were used as an alternative, the gas could be converted to methanol. Methanol could be used as a substitute for or in addition to gasoline. The State of Nebraska is doing extensive studies in this area as well as the State of California. The impact statement failed to point out that methanol could alleviate the pollution problems, not only in Fairbanks and Anchorage, but also in Los Angeles and other major cities. Why was the fact left out that major educational centers are doing significant research today and that cars have been running on methanol for the better share of this century?"

Editor's Note - Mr. McCutcheon wrote this testimony prior to learning that Prudhoe Bay gas could be reinjected for in excess of eight years. If, indeed, reservoir simulation studies show that Prudhoe Bay natural gas can be reinjected for more than eight years, perhaps forever, without reducing the maximum amount of oil that can be produced over the life of the field, then McCutcheon feels the gas should be left in the ground until there is an economically sound, environmentally responsible way of transporting and using it.

Peter Scholes for the Alaska Center for the Environment

The Center objects to the fact that according to the impact statement there is no viable "no build" alternative. The natural gas at Prudhoe Bay cannot be flared. It can be reinjected for an unknown period of time, but after that time it cannot be reinjected without reducing the quantity of oil that can be recovered over the life of the field. Therefore, the only alternative is to produce the gas.

However, there is an important consideration here that the Center did not stress in its testimony. Contrary to my initial impression, Prudhoe Bay gas can be reinjected for a fairly long period of time, relative to the life of the field. My understanding is that preliminary results of Department of Natural Resources' reservoir simulation studies indicate that Prudhoe Bay gas could be reinjected for a period in excess of eight years after oil production commences. So, from a geological standpoint, we have time to spare in making a decision on if, when, and how to use the gas already discovered at Prudhoe Bay.

On reconsideration, the Center Board of Directors may be inclined to ask for a delay in production of the gas, especially since several economists are now calling into question the economic efficiency of using billions of dollars to transport proven reserves of only 26 trillion cubic feet, which is roughly equal to the amount of natural gas consumed by the United States in one year.

If the gas pipeline is to be built at this time it will be due to consumers pressuring political leaders in the Lower 48. The Center does not feel it can ignore such political pressure, nor do we feel it is acceptable to merely say, "Keep the pipeline out of the Arctic National Wildlife Range."

In the case of the natural gas pipeline, the Alaska Center for the Environment does not accept the pipeline routing alternative that would minimize the impact on Alaska.

At this time, prior to completion of the Federal Power Commission's proceedings, the Center favors construction of the gas pipeline in a utility corridor that is already in use with the provision that the pipeline should utilize to the maximum extent possible facilities that are already built, including highways, construction pad, access roads, material sites, camps, etc. The Center finds both the trans-Alaska pipeline corridor to Alaska Highway route (known as Arctic Gas's Fairbanks Route) and the trans-Alaska pipeline corridor to LNG-tanker route in keeping with its position.

Gordon Wright for the Fairbanks Environmental Center

"It is important to emphasize that when we talk of a gas

(Continued On Page 3)

## Conservationists comment

(Continued From Page 2)

pipeline through the Arctic National Wildlife Range we are really speaking of much more. The presence of a gas pipeline through the Wildlife Range could well stimulate oil and gas exploration and development within the offshore of the Wildlife Range, and it could predetermine the routing of a second oil pipeline. This potential for future development if the pipeline is constructed as proposed cannot be separated from the specific proposal we are here to discuss today. . . .

"Regarding social impacts and the trans-Alaska alternative, many Fairbanks-area residents are already sick of pipeline construction activities and their effect on people living in Fairbanks. The prospects of these impacts continuing for several years more is disheartening, although insofar as they would be directly related to gas pipeline construction these impacts would be temporary.

"A more long term concern is the wish of the Alaska business community that Prudhoe Bay gas could be used here in Alaska for industrial purposes. As we view it, the development of petrochemical or other industries in Alaska as a result of the availability of Prudhoe Bay gas would be a major disbenefit (sic) of the proposed trans-Alaska gas pipeline. . . . Beyond concerns with air quality, many longtime Alaskans view the industrialization of Alaska—the people, roads, and urbanization that would come with it—to mean the end of a lifestyle unique in this country. . . .

"In conclusion, we have serious reservations about the proposed Arctic Gas system, not only where it crosses the Arctic National Wildlife Range, but in its entirety. However, the Interior Department's consideration and presentation of all the alternatives is inadequate and prevents meaningful comparison of the options. Therefore, we believe it would be premature for us to state a preference for any single alternative at this time."

Stan Sanner for the Federation of Western Outdoor Clubs

"The concerns of the Federation extend beyond just safeguarding our recreational interests. With respect to transporting Alaska's natural gas to the Lower 48 states, our concern is that the alternative system selected is the one that is least objectionable over the entire length of its route in terms of environmental, social, and economic factors. In my view, each of the alternative routes has some virtues and some drawbacks. . . .

"In conclusion, I would have to say that this issue is an extremely complicated one. However, because they would cross the existing Arctic National Wildlife Range or its proposed extensions or the area proposed for inclusion in an International Arctic Wildlife Range, and because of the other impacts and resource commitments associated with the entire massive system, I do not support the prime Arctic Gas proposal or the other northern, trans-Canada alternatives.

"My tentative thinking is that one of the more southerly routes—either trans-Canadian or trans-Alaskan—would be least objectionable. The two obvious examples here are the Alaska Highway and trans-Alaska options, but perhaps there are other alignments that should be considered."

AP 4/20

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## *Alaska pushes gas line*

By The Associated Press

Gov. Jay S. Hammond flew to Sun Valley, Idaho, Sunday to seek support from the Western Governors Conference for a trans-Alaska natural gas pipeline.

A resolution proposed by Hammond said there was the potential for lengthy litigation over any pipeline from Prudhoe Bay that crosses the Arctic National wildlife Range into Canada. It said there were 14 Canadian and American environmental groups opposed to the Canadian route.

Following the conference, Hammond was to address two Chambers of Commerce — Wednesday in Moscow, Idaho, and Thursday in Seattle. He returns to Juneau late Thursday.



# COMPARE

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W PRICE

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## AVE 2.12

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LYESTER CREPE  
SOFT, FLUID

# Martin Blasts Lease Schedule

By BETTY MILLS  
Times Washington Bureau

WASHINGTON — The state is being forced to make decisions for the upcoming oil and gas lease sale in the Gulf of Alaska on the basis of inadequate information, Alaska Commissioner of Natural Resources Guy Martin said today.

Martin, speaking at a meeting of the Interior Department's advisory board on the outer continental shelf, said the state must plan for support facilities for the lease sale, now scheduled for January.

"On your schedule, with inadequate information, we have to make decisions regarding facility siting, industrial park and support measures and other things," Martin told Assistant Interior Secretary Royston C. Hughes. "There will have to be reasonable substantial exploration support facilities, beginning immediately with the sale. It is an extremely large impact for us."

Martin protested the Interior Department policy of withholding its "program decision option document," the final paper on which the Interior secretary makes a decision whether to hold a lease sale. The document

which lists the final alternatives for the secretary to consider before announcing a sale, is withheld from the states and the public.

"That would be one of the most useful documents we could have," Martin said, as the state plans for the impacts of outer continental shelf drilling. "We think it contains significant information that is now available to the states."

Martin also reiterated the state position in favor of a separation of the exploration and development phases of outer continental shelf drilling.

"There has to be a break to gain adequate information to do the job properly. We're having some frustration getting that break in the time we have," Martin said.

Hughes said legislation separating the two phases of leasing is "the wrong way to go and would cause unnecessary delays in the program."

Hughes said the department is concerned that a state may indicate it does not want to develop the oil, but rather keep it in the ground.

"We don't want to give the states a veto over these resources," Hughes said.

ADT

10/22/75

# Gravel Submits Gas Line Bill

Times Washington Bureau

WASHINGTON — Sen. Mike Gravel, D-Alaska, has submitted an amendment to natural gas legislation which would require the Federal Power Commission to make a decision on an Alaskan natural gas pipeline by June 30.

The amendment, virtually identical to legislation he introduced earlier this month, would mandate that all government agencies complete their work on the gas line case by June 30. Congress then would have 60 days to approve or disapprove the Federal Power Commission decision.

Judicial review of the decision would be through the

circuit court, appealable directly to the U.S. Supreme Court.

Gravel indicated he would not press for a roll call vote on the amendment, but said he wanted to bring the issue to the Senate's attention.

Sen. Ted Stevens, R-Alaska, who has said legislation on the gas line case is "premature," said in an interview today he probably would support the Gravel amendment.

"I've urged him to hold back," Stevens said. "I don't think we have the votes."

Stevens added, "This is an approach we may have to take ultimately, but not yet."

# Canadians seek o



FAIRBANKS (AP) — As if the trans-Canada natural gas pipeline hasn't enough detractors in Alaska already, three Canadian firms were in Fairbanks Tuesday meeting with local groups.

The Foothills Pipe Lines Ltd., often called the "Canadian El Paso," is proposing an all-Canada pipeline to bring gas from northern Canada to its southern cities — without Alaska involvement. Like El Paso Natural Gas Co., it is a pipeline common carrier company challenging the Arctic Gas consortium of major oil companies planning for a larger pipeline from Prudhoe Bay through Canada to the Midwest.

ALSO LIKE El Paso, the Foothills group is a smaller company springing up since the Arctic Gas consortium was formed to take advantage of new shifts in energy markets and technology.

The company is a joint undertaking of Canada's two largest pipeline companies, Westcoast Transmission Company Ltd. and Alberta Gas Trunk Line Company Ltd. The latter company was once a member of the Arctic Gas consortium, but dropped out to join the competitor.

Between the two sponsor companies, they carry more than 83 per cent of Canada's natural gas production, have built and operated 6,400 miles of pipelines, operate two of the largest gas processing plants in Canada and are the only companies who have successfully constructed and are presently operating a gas pipeline in permafrost areas north of the 60th parallel.

FOOTHILLS director of operations John Burrell explained the company's position to a meeting Tuesday afternoon with representatives of the Chamber of Commerce, Associated General Contractors, Organization for the Management of Alaska's Resources and Fairbanks Industrial Development Corporation.

Burrell said arguments between the two companies start Monday before the Canadian National Energy Board (NEB), a body and process

similar to the arguments now going on between El Paso and Arctic Gas before the Federal Power Commission in Washington, D.C.

Burrell said the Foothills system involved 817 miles of new 42-inch pipe being built in the Northwest Territories to bring gas from the Mackenzie Delta to the northern end of the member company's pipelines. The existing Canadian pipeline systems will then be expanded to distribute the added gas supply throughout Canada.

HE SAID THE major argument for the competing Arctic Gas route was to "piggyback" smaller reserves in the Mackenzie Delta to larger Alaskan gas reserves heading for the southern states.

Prudhoe Bay is estimated to have about 25 trillion cubic feet of natural gas and the Mackenzie Delta has only 8.5 to 7.5 trillion cubic feet of proven reserves.

Burrell said recent developments in government energy pricing policy have convinced the Foothills member companies that the present Mackenzie Delta gas reserve will pay for an all-Canada pipeline.

HE ADDED that his company estimates the undiscovered reserves in the Canadian north might bring the total as high as 39 trillion cubic feet, almost twice the Prudhoe Bay reserve, and Arctic Gas claims the undiscovered reserves total an even higher 50 trillion cubic feet.

A third company has recently estimated the Canadian north gas reserves at 250 to 300 trillion cubic feet, Burrell added, but this company might have considered reserves expected to be discovered in deeper water offshore areas that were not considered by the two applicants.

Canada is adopting a national energy pricing policy called commodity value pricing, Burrell explained, where all forms of energy are priced to the amount of energy they produce. The price of gas will be set at a price corresponding to what its energy would produce equal to a similar volume of oil, then a national base price will be set on the

Toronto commodity value price and prices in all other cities would be adjusted for differences in transportation costs.

THE CURRENT energy pricing system sets a price on the oil or gas at the wellhead, and the price consumers pay is the wellhead price less transportation and processing costs. Burrell explained the

Anchorage Daily News, Thursday, October 23, 1975-11

## own gas line

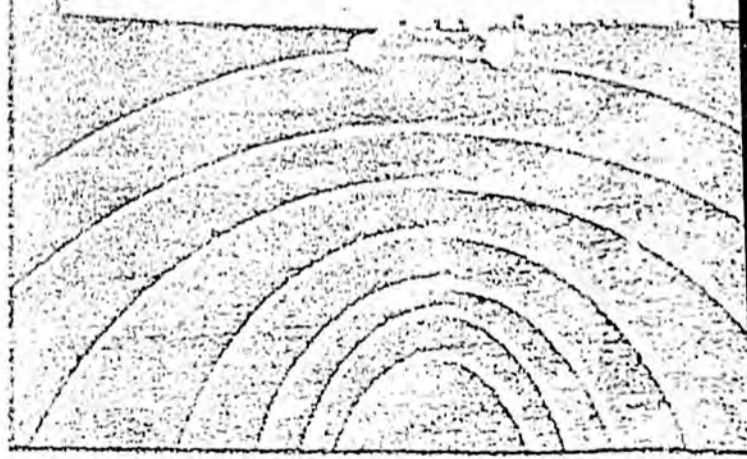
commodity value pricing as working in the opposite way. The government sets the price consumers pay and the oil and gas producers get the wellhead price left over when all the intervening costs are deducted.

The commodity value price at Toronto was recently set at \$1.25 per thousand cubic feet, Burrell said, and will rise to

follow oil price increases which will lift Canada's oil prices to match that of world markets over the next five years.

With this pricing system policy, Burrell said, Mackenzie Delta gas can provide enough return on the present reserves to insure financiers that bonds will be paid back.

### TO ALL PILOTS



#### SERVICE

El Paso (AP) — The El Paso Society has a new program for pet owners. The annual fee the society picks up a pet owner's pet. For more information, contact the society's manager, El Paso Society, 1234 Main St., El Paso, Texas.

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ADT 10/23/75

# Decontrol Bill Goes To House

WASHINGTON (AP)—Although the Senate voted to remove federal price controls from natural gas, the plan appears headed for the back-burner in the House. The bill, passed by the Senate 53 to 32 Wednesday, would mean higher prices for natural gas, despite amendments aimed at softening and delaying the impact on home owners. The administration backs the bill.

In addition to phasing out price controls over a 10-to-12-year period, the bill includes emergency provisions designed to avert a predicted shortage of gas this winter, which federal officials say could cost 500,000 Americans their jobs.

Reps. Harley Staggers, D-W.V., and John B. Dingell, D-Mich., who handle most energy legislation in the House, have said they see no way the House will consider repealing price controls on gas this year.

However, House leaders have indicated they will seek quick approval of provisions to avoid an immediate shortage.

The House insistence on separate handling of the immediate shortage and long-term pricing policy would

force the Senate and the Ford administration to back down and settle the pricing question later.

Four Eastern Republicans joined 28 Senate Democratic liberals in unsuccessfully opposing the natural gas bill. Only minutes before, on a 50 to 41 vote, the Senate chose the Republican approach over a Democratic proposal that would have treated the winter shortage but left federal price controls untouched.

Under the Senate bill, all controls on the price of "new" gas pumped from onshore wells would expire next April 4. Controls on "new" offshore gas would end on Jan. 1, 1981.

But as a result of an amendment approved Wednesday, the price of "old" gas would remain under federal controls forever.

That amendment has the effect of delaying for several years the price increases that otherwise would result if "old" gas were freed from controls as current sales contracts expire.

But even with that softening amendment, the Senate-passed bill would assure that within 10 to 12 years, there would be no federal controls on the price of any U.S. gas.

The Senate's proposal to avert a gas shortage this winter would allow gas-short pipelines serving nonproducing states to buy surplus intrastate gas at prices not to exceed the highest price paid in the producing states this summer.

That price would range from \$1.30 to \$2 per thousand cubic feet — which is up to seven times what some pipelines now pay for gas. All this expensive gas would go to industries and other large users, leaving the 32-cent gas for homeowners, farmers and other small

## ulations

deadline on the filing proposal. is a creature of Congress and it to set up Rules and regulations h the intent of Congress," Leader Thomas P. O'Neill said in :proposal.

e second FEC proposal to be Capitol Hill. The Senate earlier a commission plan which would ed lawmakers to report funds for personal and office expenses aign contributions and other

# NOTICE TO ALL PILOTS

## Blasting hazards along pipeline right-of-way

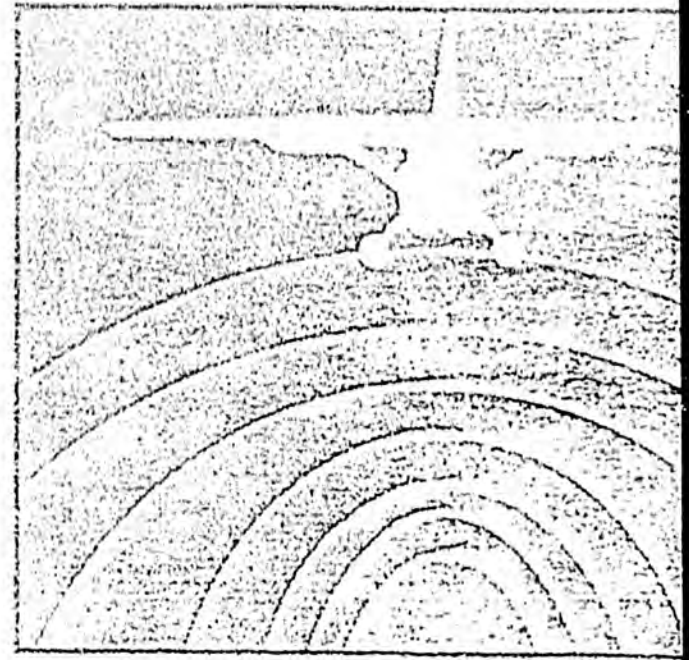
Continuous and intensive blasting along many portions of the trans-Alaska pipeline present severe hazards to aircraft. In particular, low-level flights through the passes or across the Valdez terminal site should be avoided. These are areas where heavy blasting activity is scheduled. To avoid possible flying debris, pilots should maintain an altitude of 1,500 feet above ground level, or a minimum of one mile from the right-of-way.

For specific blasting information, pilots may contact flight service station, or Alyeska Advisory Stations, on at Sheep Creek, Tonsina, Isabel, Daita, Livengood, F Old Man, Prospect, Caldfoot, Dietrich, Chandalar, Galbraith, Happy Valley and Franklin Bluffs Camp.

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# Alyeska pipeline

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# Senate Will Hold Gas Line Hearings

By BETTY MILLS  
Times Washington Bureau  
WASHINGTON — Sen. Mike Gravel, D-Alaska, today withdrew an amendment to the natural gas bill that would mandate a Federal Power Commission decision in the Alaskan natural gas line case by June 30, 1976.

Gravel withdrew the amendment, after several minutes of debate, when members of the Senate Commerce Committee pledged they would hold hearings on the matter.

Gravel was attempting to

tack the legislation on to the bill to remove price controls on new natural gas, which was approved later on a 58-32 roll call vote. Both Gravel and Sen. Ted Stevens, R-Alaska, supported the deregulation legislation.

Gravel said there was no reason to push for a vote on the issue, saying, "I'm persuaded there is going to be a constructive effort to hold hearings; this was not a delaying tactic. Bullying it through now could take me longer."

He said, "My tactic of

moving ahead is sound. The way we're going now, we may be able to win (approval of the trans-Alaskan gas line) without a fight."

Gravel's legislation would require the Federal Power Commission to make its decision in the gas line proceeding by June 30, 1976, with Congress then having 60 days to approve or disapprove the decision.

The Alaskan Democrat said the commission can meet that deadline and said an expedited decision would favor the

Alaskan route.

In floor debate with Sen. John Glenn, D-Ohio, Gravel said his amendment did not address the competing proposals for transporting natural gas through Alaska or via a Canadian pipeline.

Glenn said if a decision is made by June 30, 1976, "it would be almost certain that decision would have to go against the trans-Canada pipeline."

Glenn said Gravel's legislation would be "tantamount to dictating no

trans-Canada pipeline to serve the people of Wisconsin, Minnesota, Ohio, Michigan, the whole Midwest and much of the West Coast."

Gravel said, "All I am saying is that we are going to put aside a lot of bureaucratic nonsense and get an early decision on this matter rather than get into a situation like the Alaska oil pipeline where we lose four, five or more years on a decision."

Gravel said if the commission can make a decision by June 30, the Canadians should be able to do the same. "I think the Canadians will get on the stick if they want the line through Canada and will meet the criteria," he said.

Stevens, who relinquished the chair as presiding officer briefly to participate in the debate, said he shared Gravel's desire to accelerate the decision-making process in the gas line case.

However, Stevens said, "One of the great problems on this measure is whether or not we can have the support that we might have on an indepen-

dent bill." Stevens said if the Gravel amendment came to a vote and failed, it could be misinterpreted in Canada.

Stevens, who recently discussed the issue with Canadian industry representatives and government officials, repeated his contention that support is mounting in Canada for the Maple Leaf line and the Polar Gas line, which compete with the Arctic Gas proposal.

Support for the alternate routes may become so great in Canada "that we may not even have before us an issue as to the trans-Canada route for Alaska gas before they (the Federal Power Commission) are through," Stevens said.

Sen. Walter F. Mondale, D-Minn., opposed Gravel's amendment, saying he hoped Congress could avoid "the type of sectional debate such as we had over the trans-Canadian and Alaska (oil) pipeline."

Mondale said Gravel's amendment would delay congressional consideration of the transportation of natural gas from the North Slope.

## State Plea Wins Board Accord

Times Washington Bureau  
WASHINGTON — State members on the Interior Department's advisory committee on the outer continental shelf agreed Wednesday that the lease sale in the Gulf of Alaska deserves special consideration.

Following a caucus, the group issued a statement supporting the requests by Alaska and California for special treatment without referring specifically to the states' appeal for delays in their sales.

But Guy Martin, commissioner of natural resources, said, "There is nothing in the Interior Department program to indicate that they will accord us special treatment."

Martin said he expects the Gulf of Alaska sale to go forward in January, as scheduled.

Following the all-day meeting of the advisory board, of which Martin is a member, the commissioner said, "I've seen no evidence of any greater responsiveness to state concerns about the OCS (outer continental shelf) program."

He said, "We feel the Interior Department is putting the states in an adverse position by characterizing the state's efforts to get more of a role in the OCS process as obstructionism."

It was the first meeting of the new advisory board which includes policymaking representatives from

coastal states and representatives from the Interior Department and other governmental agencies."

Martin said the board is an improvement over the former panel of state representatives but that it needs to assert more of an advisory role.

Martin was appointed to a subcommittee to study the Interior Department's requirement for submitting development plans and operating orders once the leasing process is begun.

The advisory board agreed to meet in areas affected by offshore development. Its next session is scheduled for New Orleans early in 1976.

## Ford Plan Jackson Wins Board Thanks Rejected But Chairman Sees Problem

WASHINGTON (UPI) — Frank Danner, chairman of meeting, leaving only Jackson Federation of Natives, said by



ADT

10/25/75

# Canadian Discusses Line

By BETTY MILLS  
Times Washington Bureau  
WASHINGTON — Walter B. Williston, a Canadian legal expert on energy policy, has testified that the provinces can tax property within their area, but cannot regulate a pipeline.

In testimony Wednesday before the Federal Power Commission hearing on the gas line proposals, Williston said, "If the terms of the direct tax within the province were of such a character that the courts considered that they were attempting to regulate, that fiscal statute would not stand any more than if the fiscal statute attempted to sterilize the pipeline."

In questioning by Arctic Gas attorney R. Clyde Hargrove, Williston said a province could impose a property tax to recover the increase in land value because a pipeline carried natural gas.

Asked by Hargrove if a province could levy discriminatory taxes against one particular pipeline, Williston replied, "It (a province) could levy taxes that would in fact apply only to one particular pipeline in certain circumstances. It could not, in my opinion, just say we are going to tax this inter-provincial pipeline and not any other pipeline."

Administrative Law Judge Nahum Litt asked Williston if the federal power in Canada would supercede any provincial power if there were an attempt to regulate a pipeline.

Williston said the judge was correct, that the residual power in Canada is in the federal realm.

Williston is a partner in the Toronto firm of Fasken and Calvin, which has been representing the El Paso Co. for the past six years.

Williston said there is no limit to the amount of taxes the federal government of Canada could impose.

He said that in addition to certification of the pipeline, an export license would be required for gas leaving

Canada and an import license for gas entering Canada, so-called transit gas.

Williston said there would be no difficulty in obtaining these licenses for transit gas.

El Paso Attorney Paul R.

Connolly interrupted the questioning at that point, saying Arctic Gas originally planned to bring to the Lower 48 states export gas from Canadian sources which would not be transit gas but has

changed its position.

Williston said any price increases would not apply to transit gas "except in extraordinary circumstances." He said transit gas will not affect surplus supply of natural gas.

## Coming Attractions at Wometco-Lathrop Theatres

### Starts Sunday at Fireweed I

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Produced by Charles S. Seltzer, Jr.  
Directed by Richard Schickel  
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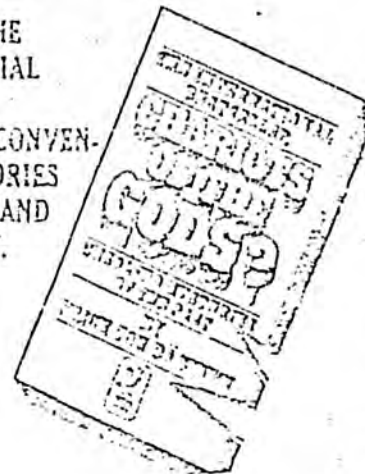
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Mountains in California  
have unusual names such as:  
Calico, Sheep-Hole, Old  
Woman, New York, Turtle,  
Iron, Granite and Marble.



1320

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ADN 10/25/75

# Task forces for energy, fishing

JUNEAU (AP) — Gov. Jay S. Hammond Friday answered calls by rural leaders for a special legislative session by announcing the formation of two study groups to look at fisheries and energy problems.

The "rural energy task force" and the "fisheries economic impact task force" were ordered to report their findings by Dec. 31.

THE RURAL Alaska Community Action Program (RuralCAP) requested a special legislative session in August to deal with economic and social problems stemming from badly depleted salmon fisheries and soaring fuel prices in the bush. Hammond has called such a move premature.

"The time has come to confront these problems together," the governor said, "in hopes of developing a

workable solution for both the short and long terms. It is my belief that task forces provide a mechanism by which the public can directly participate in solving problems and setting policy."

Bill McConkey, head of the Alaska Energy Office, was named chairman of the energy task force. It was to include representatives of the legislature, the Department of Community and Regional Affairs, the Bureau of Indian Affairs, RuralCAP, the Housing and Urban Development Agency, the Alaska Native Industries Cooperative Association, in addition to "industry representatives."

THE FISHERIES task force, Hammond said, was confronted with "an even more difficult problem, that of the economic stress faced by our fishermen during poor salmon seasons."

"Unfortunately, in the past the state reacted to each area or season individually," he said. "I want the state to develop a contingency plan to enable us to act rather than react..."

Among questions to be explored by both panels were the definition of a fisheries "disaster" and fuel "shortage," government regulation and the availability of public aid, and specific bills that could be introduced during the 1978 legislative session.

No representatives were named to the fisheries committee immediately.

However, Hammond said he would be asking for contributions from legislators, the commissioners of Fish and Game and Commerce and Economic Development and "individuals from Southeastern Alaska, Kodiak and the Aleutian Islands."

## Norway's king to visit Sunday

King Olav V of Norway is due in Anchorage Sunday and the city and its officials are preparing for the event following weeks of private conferences and 'bustle revolving around the occasion.

The king's scheduled activities Monday include a visit to the wildlife museum at Ft. Richardson and a buffet dinner at an Anchorage home, as well as a banquet in his honor. Tuesday the monarch flies to Prudhoe Bay for a look at the trans-Alaska pipeline oil fields.

This visit to the 49th state will be the king's last stop on an American tour.

## Bethel prosecutor is asked to resign

JUNEAU (AP) — Atty. Gen. Avram Gross Friday asked Bethel prosecutor Randy Luffberry to resign after he pleaded guilty to shooting an underless moose.

Luffberry was fined \$1,000 in Bethel district court Thursday. The misdemeanor carries a maximum penalty of \$5,000 and one year in jail. While praising Luffberry's performance as assistant district attorney, Gross said he was unsatisfied with "circumstances attending the investigation" into the incident.

Troopers reportedly interviewed Luffberry more than once to clarify statements he made following the shooting during late September in the Stony River district east of Bethel.



## A break in the acti

The Nome-Beltz Eskimo Dancer of Natives convention here Friday officials on the land claims settler

Such a step could have an effect on thousands of non-residents who have been locked in the state for work on the trans-Alaska pipeline. It was uncertain whether the effect on thousands of non-residents who have been locked in the state for work on the trans-Alaska pipeline. It was uncertain whether the effect on thousands of non-residents who have been locked in the state for work on the trans-Alaska pipeline.

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Gay named three basic approaches to life: the theistic, which holds that everything points to that in which everything finds its

## Prayer book revised

1975, The Christian Science Monitor

NEW YORK — The first extensive revision of the Book of Common Prayer for the Episcopal Church is currently in process of publication.

Though a revision was made in 1929 and minor changes have been introduced from time to time, the present effort — if approved — would constitute the most extensive change since the Episcopal Church was organized after the American Revolution and adopted its own version of the Anglican Prayer Book.

would have to leave his homeland. "I have heard him tell his story with such effectiveness that the mascara of Texas women runs," said Gay. "It is only the ultimate reliance on Almighty God that makes a true recovery possible," says Episcopal Bishop Robert P. Varley of Omaha, Neb.

He had been on a course that he now believes would have led to his death or insanity, through dependence on alcohol and pills, but he has gained a new grip on life.

His changed, brightened outlook is "almost indescribable," he said recently.

and drugs. But he has overcome it through what he terms the "tough love" of others and God. "There's no such thing as a happy drunk."

But now that he's off the bottled crutches, he says friends and associates have come back into focus as real people instead of objects, the memory blanks have filled in and he finds more time with his family.

"You're free to be the person God intended you to be rather than a slave," he says.

Bishop Varley, 53, head of Nebraska's 65 Episcopal parishes and missions with about 18,000 members, first told his story publicly in the Omaha World-Herald in hopes it would help others with similar problems.



272-5323

Sunday School ..... 9-45  
 Sunday Worship 8:30-11am  
 Fred P. Schoon, Pastor  
 Gordon H. Klein, A.C.E.

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**DEBORAH CASPERSON**  
 Funeral services for Deborah Ann Casperson, 20, will be held next week in Millbrook, Calif. An Alaska resident for 13 months, she was employed as a secretary for Superior Lumber Co. in Kenai, Alaska. Casperson, who was born Sept. 14, 1955, in San Francisco, leaves her parents, Mr. and Mrs. Russell K. Casperson, a brother, Allan, three sisters, Chris, Wendy and Carol, all of Millbrook, and several grandparents, including one in San Francisco, and several grandmothers, Gertrude Palmer, of Alameda, Calif., and several others in San Francisco and elsewhere.

**ROBERT O. BAUM**  
 Funeral services are pending for Robert O. Baum, 51, who had been employed as a construction engineer for Quality Asphalt Paving Co., and died Oct. 21. An Alaska resident for 23 years, Mr. Baum leaves his wife Carol, four stepsons, Richard Judd and James M. Baum, and several other relatives in Alaska.

**LINCOLN E. DAVIS**  
 Funeral services will be held at 3 p.m. this afternoon at the Chapel of the Chimney in Fairbanks for Lincoln E. Davis, Mr. Davis, 60, died in Fairbanks Oct. 23. He was a 25-year resident of the city and previously lived in Kodiak. A member of the Operating Engineers Local 302 since 1951, Mr. Davis, who was born in Sycamore, Ill., was a veteran of World War II and a member of the Fairbanks Elks Lodge. Mr. Davis is survived by his wife, Edna, and a sister, Mrs. Charles Gene of Hoonah, Alaska.

construction phase of the line, with 11 full-time employees retained to operate and maintain it once it is built.

The pipeline would be buried at least 30 inches below the surface and would cross 51.5 miles of state lands, including the Captain Cook State Park north of the Kenai industrial area.

It would cross eight creeks on the Kenai Peninsula and in Anchorage, as well as the Swanson River, and is capable of hauling 40,000 barrels of fuel per day.

The application, filed with the division Oct. 3, indicates the life of the pipeline would be about 40 years.

Tesoro decided against building the pipeline because of its relative lack of expertise in that field, a company spokesman said.

"We began talking with them in the preliminary study stage and they volunteered this on their own and they had some equity money to put into it," said Jim Smith, president of Tesoro Crude Oil Co.

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ANCHORAGE DAILY NEWS  
 not had a rate increase since 1950.  
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 "If Oliver's projections had been correct we wouldn't have this problem today," he said, noting that MLEP has not had a rate increase since 1950.  
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action, and we had an increase in fees for two lawyers in the temple, but even to concert with space is over with him.  
 an Avery and five Roberts had moments too, notably Mr. s clever singing of "Hallelujah" and I could have had a better day", but of course activities for the city, did with an ear for lyrics that strike everything sacred will join the so and want more.  
 re is more, tonight at 8 o'clock, 10:30 p.m.

Obituaries

Miller fuel line proposed

ADN 10/25/75

# Betty Ford Speaks On Women's Rights

CLEVELAND (AP) — First Lady Betty Ford said today that the "cloud of fear and confusion" must be lifted from the battle for the Equal Rights Amendment because it is vital to undo laws that lock men out of opportunities.

In remarks prepared for her first major speech on women's rights, the President's wife also advised men to stop under-valuing their own talents, especially in the home.

"We have to take that 'just' out of 'just a housewife' and show our pride in having made the home and family our life's work," Mrs. Ford said. Downgrading this work has been part of a pattern in our society that has undervalued women's talents in all areas."

Mrs. Ford came to Cleveland on a chilly, rainy day to speak before several thousand women on the opening day of a three-day Greater Cleveland Congress of International Women's Year Conference.

## Alaskans In Washington

# Report Asks Probe Of Pipeline Rule

By BETTY MILLS  
Washington Bureau

WASHINGTON — There are substantial questions concerning the Interstate Commerce Commission's regulatory authority over the trans-Alaskan Pipeline that should be considered by Congress, the staff of the Federal Trade Commission recommends.

The staff report on the petroleum industry in the Western states said the matter of ICC jurisdiction is important in analyzing the competitive consequences of the development of Alaskan oil.

"Under the circumstances, it would be timely and appropriate (for Congress) to give serious consideration to the question of pipeline regulation," the report said.

The document acknowledges that the portion of the transport of oil through TAPS in Alaska to interstate movement, and the pipeline will be operated as a common carrier. But because shipment through TAPS does not cross a state boundary, the staff asks: "In

these circumstances, does the ICC have the jurisdiction to enforce the common carrier obligation to require treatment of all shippers on an equal basis and to insure that reasonable rates are charged?"

According to the FTC staff, the possibilities under present law affecting regulatory jurisdiction over TAPS are the following:

— If the oil is moved by private tanker, as planned, from Valdez to the lower 48 states, ICC jurisdiction is clouded, and state jurisdiction is also unclear.

— If the oil is moved by common carrier tanker from Valdez to the lower 48, jurisdiction appears to rest with the ICC, but the tanker transport would be subject to the jurisdiction of the Maritime Commission.

— If the oil is exported from Valdez, the ICC would have regulatory jurisdiction.

— Some shipments of the oil could be moved from Valdez by common carrier to the lower 48 while other shipments could be by private tanker; under this option, ICC jurisdiction

could be a 'now you see it, now you don't' situation under current law.

The report points to competitive consequences within the petroleum industry that could result, beyond the immediate issue of regulatory control for the oil pipeline.

If substantial oil deposits are located in other regions of Alaska, including the Beaufort Sea area, "it may well be discovered by companies not involved in TAPS," the FTC staff said. "As shippers, those companies would be profoundly affected by the regulation of TAPS."

The question of state regulation under the Alaska Pipeline Commission Act is also unclear, the FTC staff said. The report describes the powers of the state commission as "substantially more pervasive than those of the ICC."

John R. Werner, chairman of the commission, wrote the FTC earlier this year that the state is studying the possibility of regarding TAPS as an intrastate line. However, Werner wrote, "I really feel that in the long run, we will be forced to accept direct federal regulation."

"Our role, however, will be to act as a protestant on behalf of the state of Alaska as a shipper of royalty oil and as one who stands to gain or lose substantially depending on pipeline rates," he said.

Meanwhile, the commission staff concludes that the effect on other Western states of Alaskan oil flowing through the pipeline is still difficult to determine.

"The flow of Alaskan crude could undermine the concentrated market structure in

District V (Alaska, Arizona, California, Hawaii, Nevada, Oregon and Washington) because the owners of Alaskan crude are not the leading refiners in the district," according to the report.

"However, if the leading District V refiners are the chief recipients of Alaskan oil by exchange agreements or other arrangements, those refiners could become more firmly entrenched within a concentrated market."

The staff concludes that the impact of Alaskan oil on other Western states must be evaluated before the FTC takes any action on refining in District V.

## Chicken Pox Wins In Heat; Becomes High School Hero

EDMONDS, Wash. (AP) — Chicken Pox was the hero of the day.

Pox, handled by Woodway High School junior Janice Erlang, easily became the champion chicken of the third annual Chicken Olympics Friday.

Held on the Woodway basketball court, the event is a benefit for the school German Club.

But the chickens squawked in many languages as they raced to see which bird could make it outside the center court jump circle first.

There were five heats. Pox won its heat and had the championship almost without ruffling its feathers.

Bertha and Peppers, entrants from Edmonds and Shorecrest highs, seemed confused and stayed in the center.

# Lohman Reviews Senate Role

By CHERYL PROBST  
Times Staff Writer

blatantly upset with the cooperative leadership in the Senate during the last legislative session. Bethel Senator George Hahnman is adding time between sessions, reassessing his

with resentments carrying forth from that.

"If I have to face those kinds of battles, that kind of resentment again in the next session from the majority party, then I want to dissociate from that," Hahnman said. It would "probably be more effective if

He apparently is happy over the amount the college received, but not at the method at which it was a.

According to budget documents, the governor submitted a proposed budget of \$55,000. The Senate finance

had been done, the Senate would have arrived at a budget recommendation comparable to the House's, he said.

Looking at the school's budget from another angle, Hahnman said it receives funding at \$93 per student credit

"very aggressive" telecommunications policy, the decentralization of the State-Operated School System and increased funding for the Kuskokwim College as some examples.

Croft says he has taken no action on Hahnman's desire to

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## Totem Chief Boasts Of Vessel Great Land

Special to The Times  
**NEW YORK** — The Great Land, the world's largest roll-on trailership introduced in the Seattle-Anchorage trade less than two months ago, already is winning "widespread shipper acceptance," says William B. Maling, president of Totem Ocean Trailer Express.

"Alaskan shippers have been as quick to appreciate the clear cut cargo flexibility advantages of pure roll-on transport as have shippers in the Puerto Rican and Middle East trades, where our first and smaller class of trailerships have been successfully operating for some time," Maling told newsmen attending a Totem press luncheon at the Whitehall Club.

The shipping firm is a rarity among ocean cargo lines in that it is in part owned by a major U.S. shipyard — Sun Shipbuilding & Dry Dock Inc., Chester, Pa., which owns 30 per cent of the \$80 million venture. Sun Ship claims to be world's leading designer and builder of pure roll-on vessels. The remaining 70 per cent is owned by Sun Oil, Sun Ship's parent company.

Maling said that Sun Ship

began looking at Alaska five years ago and liked the tremendous potential for growth for a high speed ocean carrier providing a service capable of carrying both regular and oversized cargo.

He said the Great Land has been designed to operate through the rigorous Alaskan winter months. The ship is 731 feet long and weighs 31,762 displacement tons. It has a top speed of 24 plus knots and can carry the equivalent of 338 40-foot trailers and 126 vehicles.

Like the previous roll-on ships Sun Ship built for the Puerto Rican and Middle East trades, the Great Land can take the full range of over-the-road transportation equipment, such as highway and rail piggy back trailers, autos on auto carriers, oversize cargo more than 40 feet long, mobile homes, steel pipes, boats, chemical tanks, buses, and industrial machinery.

Noting that The Great Land's speed makes possible an "over-the-weekend" express service from Seattle to Anchorage some 1420 miles away, Maling said:

"A substantial portion of the cargo we've been carrying is a direct result of the

construction program for the Alaskan pipeline. But of greater significance to Totem's long term prospects is our attracting that cargo that will be a major part of the Alaskan trade long after the completion of the pipeline."

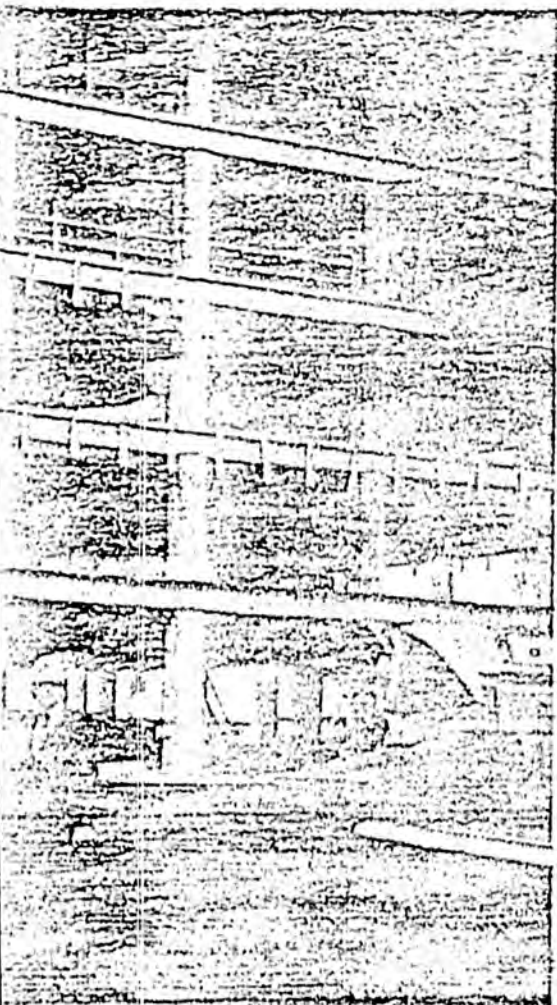
Totem's president also said that although the amount of cargo carried on the early voyages has been answering the question as to whether a second giant trailership would be introduced into the Seattle-Anchorage trade depended on a number of factors.

"We want to take time to make sure that the trade shows enough continued growth over and beyond the tremendous volume of traffic generated now by the Alaskan pipeline."

## Gas Option Is Confab Subject

**SAN FRANCISCO (AP)** — A proposal in which Pacific Gas & Electric Co. customers would pay \$275 million for the option of getting Alaskan natural gas from Exxon will be the subject of a special conference next Friday, the California Public Utilities Commission announced today.

Under the proposed agreement, PG&E rates would be increased enough to pay the equivalent of interest charges on a maximum of \$154



**BUILDING**

on the building with Norman Rokeberg of is handling lease arrangements. Just before is the eight-story companion Calais in background is the BP-Alaska building.

## Bill By Buying Big Packages

with reconstructed that natural granolas cost less cup raisins, 1/2 cup peanuts, real estate financial through

Seattle-Anchorage trade  
than two months ago,  
ady is winning  
spread shipper  
ance," says William B.  
B. president of Totem  
Trailer Express.

Alaskan shippers have  
as quick to appreciate  
ear out cargo flexibility  
tages of pure roll-on  
port as have shippers in  
Puerto Rican and Middle  
trades, where our first  
smaller class of  
erships have been  
successfully operating for  
time," Maling told  
men attending a Tote  
s luncheon at the  
Club.

Shipping firm is a rarity  
g ocean cargo lines in  
is in part owned by a  
U.S. shipyard - Sun  
Building & Dry Dock Inc.,  
er, Pa., which owns 50  
cent of the \$10 million  
re. Sun Ship claims to be  
s leading designer and  
er of pure roll-on vessels,  
remaining 70 per cent  
ed by Sun Oil, Sun Ship's  
company.

Maling said that Sun Ship

carrier providing a service  
capable of carrying both  
regular and oversized cargo.

He said the Great Land has  
been designed to operate  
through the rigorous Alaskan  
winter months. The ship is 731  
feet long and weighs 31,762  
displacement tons. It has a top  
speed of 34 plus knots and can  
carry the equivalent of 345-40  
foot trailers and 126 vehicles.

Like the previous roll-on  
ships Sun Ship built for the  
Puerto Rican and Middle East  
trades, the Great Land can  
take the full range of  
over-the-road transportation  
equipment, such as highway  
and rail piggy back trailers,  
autos on auto-carriers,  
oversize cargo more than 40  
feet long, mobile homes, steel  
pipes, boats, chemical tanks,  
buses, and industrial  
machinery.

Noting that The Great  
Land's speed makes possible  
an "over-the-weekend"  
express service from Seattle  
to Anchorage some 1420 miles  
away, Maling said:

"A substantial portion of the  
cargo we've been carrying is a  
direct result of the

attracting that cargo that will  
be a major part of the Alaskan  
trade long after the  
completion of the pipeline."

Tote's president also said  
that although the amount of  
cargo carried on the early  
voyages has been answering  
the question as to whether a  
second giant trailership would  
be introduced into the Seat-  
tle-Anchorage trade depended  
on a number of factors.

"We want to take time to  
make sure that the trade  
shows enough continued  
growth over and beyond the  
tremendous volume of traffic  
generated now by the Alaskan  
pipeline."

## Gas Option Is Confab Subject

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the subject of a special con-  
ference next Friday, the  
California Public Utilities  
Commission announced today.

Under the proposed agree-  
ment, PG&E rates would be in-  
creased enough to pay the  
equivalent of interest charges  
on a maximum of \$186.4  
million that Exxon would pay  
if it were borrowing the money  
needed for development and  
production. Actually, the funds  
would come from money  
Exxon already has.

The interest charges would  
amount to about \$161 million.  
But because of income tax that  
PG&E has to pay on revenues,  
customers would have to pro-  
vide \$275 million for the utility  
to raise the interest money.

This would amount to about  
75 cents a month on the aver-  
age residential customer's bill.

Under the agreement,  
Exxon would grant PG&E the  
right to negotiate for 30 per  
cent of Exxon's working  
interest in its gas reserves in  
the Prudhoe oil pool for a  
20-year period.

Exxon has set an Oct. 31  
deadline on signing the agree-  
ment.

## Big Packages

raisins, 1/2 cup peanuts,  
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third cup oil. Adding  
is, coconut or more  
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increase the cost.

"When will saving banks  
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continued subsidizing of

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savings no longer works as  
investors are beginning to  
recognize alternatives.  
Savings are again being  
withdrawn to take advantage  
of higher yields elsewhere.

While you can't "get around"  
rate ceilings directly, you can  
investigate the various no -  
load money - market funds  
that do invest in certificates of  
deposit over \$100,000 which  
are not regulated.

Treasury bills still require  
\$10,000 minimum but offer  
better short-term yields than  
passbook savings. Corporate  
bonds are another alternative.  
You may also express your  
opinion to your senator and  
congressman.

For a list of "Budget Motel  
Chains," send 10 cents and a  
long, stamped, self -  
addressed envelope to  
Managing Your Family's  
Money, in care of Anchorage  
Times, Box 40, Anchorage  
99510.



anchored off the Anchorage today, permitting space in the harbor of one of the traffic snarls in the city.

Ocean Trailer SS Great Land, delayed by a storm, expects to reach and leave today, at which time the vessel would move to its berth.

Ship started Wednesday in a dispute between and Sea-Land, which the latter yielded to court order to move to an adjacent space.

paratory order issued Wednesday night by Superior Court Judge Eben Lewis is scheduled for hearing at 9 a.m. Monday.

Meanwhile, it was taking about 25 hours to unload the SS Great Land instead of 15, according to Sea Star Stevedoring Co. General Manager Darrel Bahner. He said that with nine or 10 gangs working at four locations on the water front yesterday, a number of inexperienced men were dispatched to unload the Totem vessel.

"Out of a gang of 43 men, we had 31 with no experience on the Great Land," he said.

Unloading stopped at midnight when it became impossible to find fresh crews.

State Land Use Planning Commission.

It is a "useless" layer of bureaucracy that "favors special interests" and is a perfect spawning ground for political delays to Alaska Native Claims Settlement Act implementation, said federation board Chairman Jack Wick this morning.

"We've met every deadline of the settlement act," he explained. "I don't think the commission has met one."

"It's the consensus of the 12 regional corporations land managers that the commission knows to environmentalists," added Koniag Corp. landsman Lew Anderson. The men also charged the panel, created by the settlement act,

of Land Management causing unnecessary delays.

"The act says its implementation is to be expedited, and if the planning commission has been expediting things, I'd hate to see what a delay looks like," Anderson said.

The panel is headed by David Jackman, appointed by Gov. Jay Hammond, and co-chairman Burt Silcock, appointed by the federal administration.

Wick and Anderson said the environmentalist leanings of the Hammond administration and the protective trustee attitude of Interior's land agencies for which Silcock speaks, prejudices the purportedly neutral forum of the panel and its supposedly

Also, the less bureaucracy the better," Anderson added.

"Native groups take their problems to the commission and get lost in its paperwork, an example is an amendment to change 'group' settlement act regulations to make it easier for smaller-than-village hamlets to get some land, even if they are inside federal preserves of some sort."

"The commission does its job in compliance with interests of conservation groups and the bureaucracy," Anderson said of talks regarding the "group" problem between Koniag Corp. and planning commissioners last night.

"They do valuable studies for the state and natives," Wick admitted, "but as far as

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## Dr. Sullivan Instills Self-Respect

Dr. Leon Sullivan took to the podium at yesterday's 38th Opportunities Industrialization Center luncheon. The audience rose to a respectful standing ovation.

Sullivan, who has been in the state for several years, reflected as much as respect.

His reaction was one of teaching people enthusiasm and for themselves.

Years ago, Sullivan, pastor of Zion Baptist Church in Philadelphia, first Opportunities Industrialization Center in an Anchorage hall.

The center people for jobs and self-respect and their students.

Education without discipline leads to failure," Sullivan says of minorities.

Minorities would result if people were not self-respect.

Sullivan estimates 200 centers have been set up in more than 300 cities across the country, with an annual earnings of \$2 billion. The

organization, funded by a combination of federal funds and private donations, has offices in 43 states, Africa and the Caribbean.

Sullivan was in Anchorage yesterday to visit the local Opportunities Industrialization Center at 350 Commercial Drive as part of Opportunities Industrialization Center month.

Speaking at yesterday's luncheon, Sullivan announced a new "nationwide crusade to spread from Alaska to Maine to deal with the problems of the unemployed and unskilled of America."

Sullivan said he has "heard enough lamenting about this country's problems" and that "now is the time to begin a massive effort to solve them."

Speaking with the flourish of the Baptist minister he is, Sullivan told his listeners "the decay in the ghettos will be turned around and the needs of every American can be met in the most remote parts of Alaska" through the centers' nationwide programs.

"OIC emphasizes the importance of industry and productivity," he said. "Not industry in terms of smokestacks but in terms of the spirit of people to be productive."

## Alaska Pipeline Firm Plans Nikiski-A

(Continued From Page 1)

would be laid from May 17 to July 31.

The pipe would cross Turnagain Arm from Pt. Possession on the Kenai Peninsula to Campbell Point within Anchorage. The job probably would require the use of a pipe laying barge.

A large portion of the 14.4 mile crossing goes dry at low tide. On the flood tides, tidal bores 10 feet or more in height

frequently crash through two deep channels that cross the pipeline's path carrying all manner of flotsam including large trees into the arm.

The only other crossing of Turnagain Arm was completed in 1961. The Alaska Pipeline Co. which supplies natural gas to Anchorage laid two pipelines farther east with considerable difficulty. Oil companies that have laid pipelines on the bottom of the Cook Inlet to carry crude oil

and natural gas from the 14 production platforms have experienced consistent difficulties with their pipelines. Several have been abandoned because they broke so frequently.

In addition to moving petroleum products refined at Nikiski to Anchorage, the pipeline has the potential for carrying cargo from tankers to the tank farms along the Anchorage waterfront which are maintained by Tesoro, Texas Inc., Standard Oil Co. of California, Shell Oil and Union Oil Co.

The proposed route calls for the line to skirt the Army's Campbell Point Nike missile site along the western edge of Anchorage International Airport to the Chugach Electric Association right of way along Northern Lights Boulevard to the Alaska Railroad tracks. From there it would cross the mud flats and the mouth of Ship Creek to the waterfront tank farms.

Tesoro had discussed building the line several years, but instead chose to let Gulf Interstate handle the project because of its expertise in pipeline work and Tesoro's relative lack of experience in that area, said a company spokesman.

"We began talking with them in the preliminary study stage and they volunteered this on their own and they had some equity money to put into it," explained Tesoro Crude Oil Co. President Jim Smith.

"The pipeline will be financed with a contributed equity of approximately 25 per cent and privately placed, long-term first mortgage bonds of approximately 75 per cent," according to the company's filing with the state division of lands.

"The owner is now seeking local Alaskan financing for the project," said a company statement issued yesterday.

Gulf Interstate is involved in engineering and ownership of pipelines and real estate investments. In 1973, however, the company began disposing of the real estate and reinvesting the money in other

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## Food, Laughter Mark Benefit

By MORGAN PARKER  
Times Staff Writer

The Tundra Times benefit banquet last night once again brought into harmony the spirits of almost 1,000 Alaska natives as former Alaska Federation of Natives President Roger Lang became half-toastmaster and half-village storyteller to turn the white-man-style occasion into a convivial, rollicking native bash.

The benefit, at the Captain Cook Hotel, was for the native weekly newspaper. It was a smashing success if laughter, good food and good stories are measures of an evening's fun.

Native leadership was the theme of the banquet. The two leaders to receive formal honors as the federation's citizens of the year were Lang and Emil Notti, the organization's first president. They shared the normally one-man honor.

As lettuce wilted on the dinner plates, trays of fried caribou, salmon and white fish were served by volunteer students to whet the appetites.

Then came the entre of broiled salmon and jokes and tales by Lang and the presidents of Alaska's 12 regional corporations.

An event which crystallizes the deeds of its participants into a year's worth of fireside remembrances, at Bush homes, the banquet filled its traditional role of giving the federation convention's participants the chance to laugh and cheer in unison despite the

ebony, silver and scrimshaw was sold to Alec John of Cantwell for \$950. The artist who carved it, 26-year-old Ron Brower, beamed when he saw his creation sold after a joke or two by the auctioneer, federation President Sam Kito, about what could be smoked in it.

What could have been lulling awards and introductions of those at the well-populated head table was kept fast and loose by Lang, whose quips spared nobody who caught his eye.

The newspaper awarded students Marc Olson, Sue Gamach and Jeff Richardson \$250-per-month Howard Rock journalism fellowships. A special editor's award went to Lael Morgan, for her public relations on behalf of the native weekly.

The evening included a message from absent keynote speaker Bill Byler of the National Congress of American Indians. He regretted not being able to attend but was pressing the case of water rights for Arizona Indians in Washington, D.C. A carving of a dancing man mounted on a piece of Little Diomedea Island was presented for Byler. It is credited by Roger Kivnuyak. Though a Republican governor in front of a chiefly Democratic audience, Gov. Jay Hammond spun a ribald yarn and admitted -- to sympathetic laughter -- he thought as a child his blood contained

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## Committee Checks Trails For Visit

(Continued From Page 1)

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manager for Scandinavian Airline Systems, also is a member of the committee. His special area of responsibility is airplane transportation.

With travel arrangements to Alaska changed at the last minute, "it was necessary to plan everything over again," he said.

Except for his work for Scandinavian Airline Systems and membership in the local Sons of Norway group, Kucala lacks a Norwegian background.

"My name is Finnish, my ancestry is partly Austrian and my wife is from Germany," Kucala joked. "I suppose I was included because of

## Bowman Is Listed As Satisfactory

...

...the act serves to implement... is to be expedited, and if... planning commission has... been expending things, I'd... like to see what a delay looks... like," Anderson said.

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"They do valuable studies for the state and natives," Wick admitted, "but as far as

...certain help," Wick charged.

The commission was set up by a back section of the settlement act and was to have soon exceeded its life set by its Congressional authorization.

The panel was created to help everybody involved in the settlement act work out commonly shared problems, provide a forum for neutral discussion and help with technical expertise.

A pending amendment to a federalism backed settlement act omnibus bill would extend the commission's life until 1973 when Congress must decide the fate of much of Alaska's federal land that doesn't go into private hands.

Daylight savings times ends at 2 a.m. Sunday giving everyone an extra hour's sleep that morning. Remember to turn your clock back one hour.

Unless Congress enacts legislation, daylight savings will resume on April 25, as it has for most states since World War II.

Last winter, however, daylight savings started two months earlier, in February, in an effort to save energy across the nation.

A bill is pending in the U.S. Senate that would make the April to February energy-saving measure permanent, thus giving Alaskans eight months of extended daylight instead of six.

In early 1974 daylight time had been extended to a full year, but this drew criticism from parents who complained that fast time was forcing their children to leave for school during hours of darkness.

The time change will occur in all states and U.S. possessions except Hawaii, Arizona, Puerto Rico, the Virgin Islands, American Samoa and a portion of Indiana.

# Plans Nikiski-Anchorage Line

...suddenly crash through two channels that cross the line's path carrying all... of floatam including... into the arm.

The only other crossing of the Turnagain Arm was completed in 1961. The Alaska Pipeline Co. which supplies fuel gas to Anchorage laid pipelines farther east with considerable difficulty. Oil companies that have laid lines on the bottom of the inlet to carry crude oil

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Gulf Interstate is involved in engineering and ownership of pipelines and real estate investments. In 1971, however, the company began disposing of the real estate and reinvesting the money in owner-

ship of pipelines and terminals.

The firm has about 260 employees. About 16 of them working for a subsidiary, Gulf Interstate Engineering, are currently working in Anchorage as a subcontractor to Mechanics Research, which is providing design review and quality spot checks on the construction of the trans-Alaska pipeline for the Interior Department. One of the firm's employees, who has worked on the subcontract for nearly two years as a vice president of Gulf Interstate Engineering, Ed Michels, has been named president of Nikiski Alaska Pipeline Co.

The company has submitted numerous applications to federal, state and local government bodies for the project. A number of the agencies — including the Army Corps of Engineers, the state division of lands and the Alaska Railroad — have held up giving the company any encouragement until it can supply more engineering information about the project and the method of construction.

"Right now I can't say whether it will or won't be allowed on the right of way of the railroad," said a spokesman for the federally owned line.

"They're going to have to stay away from the tracks and there are going to be some ground cover problems. We just don't know yet if the line can be compatible with our existing and planned use for our right of way," he added.

"For example they can't cross our bridges with us and they can't go under them either — they'll have to be a long way away."

"When they encounter some of the gullies along the tidelands they might find it will be better to go some other way," he added.

"We had some objections to

their original proposal so we asked them to come back again."

The 50-foot right-of-way would parallel an existing Phillips Petroleum natural gas pipeline for its first 30 miles, according to Michels, using the Phillips ramps and grades for water crossings.

With permission of the U.S. Forest Service some beetle-killed spruce trees would be cut in place for construction timber. The northernmost 13 miles of the pipeline on the Kenai Peninsula from Moose Point to Pt. Possession would be laid through essentially virgin forest which would require cutting a 50-foot wide path.

"A permanent corridor, treeless, will be visible from the air and accessible to vehicular traffic on the ground," the company says in its application to the state.

The line would have a wall thickness of .219 inch on the Kenai Peninsula and within Anchorage. The line wall would be .625 inch thick for the Turnagain Arm crossing. It would be inspected at least every two weeks, Nikiski Alaska Pipeline Co. promises in its state application.

The pipeline company has inquired of the Port of Anchorage whether it could acquire space for a maintenance plant on its property. Port Director Erwin Davis responded he could not recommend the company be given space there because it would not be an across-the-dock operation that would help generate revenue for the city-owned dock.

If tankers decide to tie up at Nikiski and discharge their fuel cargoes for Anchorage tank farms, Elmendorf Air Force Base and Ft. Richardson there, the pipeline could take business away from the port's petroleum dock.

## Lighter Benefit

...NER... silver and crimson... sold to Alec John of Cantor \$930. The artist who led it, 26-year-old Ron... beamed when he saw... station sold after a joke... by the auctioneer,... rison President Sam... about what could be... it could have been... us and introductions... at the well-populated... table was kept fast and... by Lang, whose quips... anybody who caught his

...newspaper awarded... Marc Olson, Sue... ch and Jeff Richardson... month Howard Park... fellowships. A... donor's award went to... rigan, for her public... on behalf of the... weekly.

...evening included a... from absent keynote... Bill Byler of the... final Congress of... an Indians. He regret... being able to attend but... sisting the case of water... for Arizona Indians in... tion, D.C. A carving of... ng man mounted on a... Little Diomedes Island... called for Byler. It was... by Roger Kynnyak, a... a Republican governor... at of a chiefly... and audience. Gov... and spun a thread... admitted — to some... fighter — he thought... his blood contained... in part in 84, but had... realized Secoyes

## Boyman Is Listed As Satisfactory

...Rev. Wilford Boyman...

**MASONIC CALENDAR**  
FRI., OCT. 24  
Scottish Rite  
8:00 P.M.

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**MASONIC TEMPLE**  
15th & Eagle

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\$1,500.00 for furnishing the primary information leading to the arrest and conviction of any person or persons damaging crossing signals, communication insulators, switch stands, switch locks, micro-wave facilities, trackage, and other property, the damage of which could result in risk of life, limb, or property. ALASKA RAILROAD.

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## BP Man Hits Policy

WHITEHORSE, Y.T. (AP) — Development of Alaska's resources is stagnating because of irresponsible land-use freezes on vast tracts, the minerals manager of B.P. Alaska Exploration Ltd. said Wednesday.

The amount of land withdrawn from possible development now equals the area of the United States east of the Mississippi, excluding Maine. Charles F. Herbert told the fifth Northern Resources Conference.

The withdrawals were achieved by fanatical environmentalists who prevailed on government agencies to adopt the position that "no use is the best use," he said.

In March, 1972, about 83 million acres were excluded from mining, farming or permanent human habitation. The idea was to save virgin wilderness areas for parks, wildlife refuges and scenic spots. Herbert said another 100 million acres have been reserved for native Eskimos who will choose 40 million acres, but the 60 million remaining will be added to the 83 million already withheld from development.

"There is no doubt that the irresponsible withdrawal of huge areas of Alaska is discouraging," he declared. "Equally so are the ponderous, repetitive arguments advanced for permanent closure of those lands."

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Layaway now for Christmas

Sears

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SAVE \$7.11

New Jiffy Burger Maker...  
Cooks Burgers in Minutes

# 1288



Regular \$19.99. Sizzle up great tasting burgers in minutes with our Jiffy Burger Maker! Rare... 1 minute; Medium... 2 minutes; Well Done... 3 minutes! Plus, it toasts sandwiches and muffins, too. #6524.

Regular \$109.83. Our lightest gas lbs. 10" bar with oiler. Bar/chain #35982.

## SPECIAL BUY

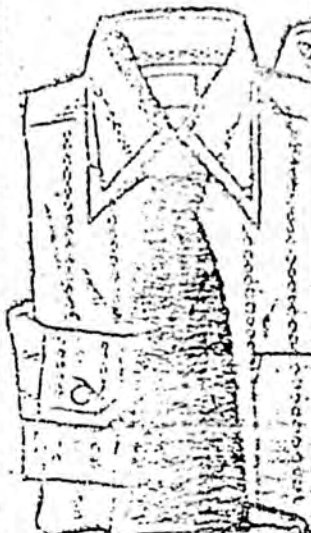
### Ladies' Slip-On Wedge Sandal

# 399

Ladies' slip-on wedge sandals. In assorted colors. Good for around the house comfort. Similar to illustration.



## Men's



Men's dress shirt, machine wash, white.

# Canadians Air Gas Line Plan

Special To The Times

FAIRBANKS — Three Canadians who oppose a proposed trans-Canada natural gas pipeline were in Fairbanks this week to meet with local groups.

The Foothills Pipe Lines Ltd., often called the "Canadian El Paso," is proposing an all-Canada pipeline to bring gas from northern Canada to its southern cities without Alaskan involvement.

Like El Paso Natural Gas Co., it is a pipeline common carrier company challenging the Arctic Gas consortium of major oil companies which are planning for a larger pipeline from Prudhoe Bay through Canada to the Midwest.

Also like El Paso, the Foothills group is a smaller company, springing up since the Arctic Gas consortium was formed to take advantage of raw shifts in energy markets and technology.

The company is a joint undertaking of Canada's two largest pipeline companies, Westcoast Transmission Co. Ltd. and Alberta Gas Trunk Line Co. Ltd. The latter com-

pany was once a member of the Arctic Gas consortium, but dropped out to join the competitor.

The two sponsor companies carry more than 88 per cent of Canada's natural gas production, they have built and operated 6,400 miles of pipelines, operate two of the largest gas processing plants in Canada and are the only companies which have constructed and are operating a gas pipeline in permafrost areas north of the 60th parallel.

Foothills Director of Operations John Burrell explained the company's position at a meeting Tuesday afternoon with representatives of the Chamber of Commerce, Associated General Contractors, the Organization for the Management of Alaska's Resources and Fairbanks Industrial Development Corp.

Burrell said arguments between the two companies start Monday before the Canadian National Energy Board in a process similar to arguments now going on between El Paso and Arctic Gas before the Federal Power Commission in Washington, D.C.

Burrell said the Foothills system involves 817 miles of 42-inch pipe being built in the Northwest Territories to bring gas from the Mackenzie Delta to the northern end of the member companies' pipelines. Existing Canadian pipeline systems then will be expanded to distribute the added gas supply throughout Canada.

Burrell said recent developments in government energy pricing policy have convinced the Foothills member companies that the present Mackenzie Delta gas reserve will pay for an all-Canada pipeline.

The commodity value price at Toronto, Ont., recently was set at \$1.25 per thousand cubic feet, Burrell said, and will rise to follow oil price increase which will lift Canada's oil prices to match that of world markets over the next five years.

With this pricing system, Burrell said, Mackenzie Delta gas can provide enough return on the present reserves to insure financiers that bonds will be paid back.

"I think we can show that there are enough reserves, and I see no hurdles beyond that," he said.

Burrell said the all-Canada system would increase gas supplies to Canadian cities and would be expected to end the gas shortages that are now forcing Canadian companies to cut off gas exports to the United States.

He said the Foothills project also is faster and cheaper than the Arctic Gas proposal.

# Detroit Reports

By EDWARDS, LECHTZIN  
DETROIT (UPI) — Detroit automakers Thursday reported their best mid-month new car sales performance in 17 months — up 37 per cent from a year ago — but cautiously scheduled new layoffs to avoid budgeting inventories of the successful 1978 models.

The 234,670 cars sold in the Oct. 11-20 period was within 2 per cent of the same period two years ago, just before the Arab oil embargo pushed the industry into its deepest and longest sales slump since the Great Depression.

General Motors said its sales were up 43 per cent, the strongest mid-month performance since May of 1974; Ford was up 23 per cent for its best

performance for a mid-month in 23 months; Chrysler, hard-hit by the two-year slump. Foreign automakers, who have been grabbing a record one of every five sales so far this year, report their October results at the end of the month. Because of the surging U.S. auto sales, however, their share of the market is expected to fall to its traditional 15 to 17 per cent mark.

The introduction of the 1978 models earlier this month and a strengthening economy were given credit for the big jump from a year ago when the new model premieres fell flat.

"There is increasing confidence that the economy is recovering and is flashing green light for auto. Ford Sales Vice President E. Bidwell said. "Many indicators — incomes, less inflation, fuel economy and good value — point to a recovery."

New layoffs scheduled next week will affect more than 10,000 workers. GM had to eliminate one assembly line at a truck plant. GM will close two big plants one week and AMC said cutting output of its new

**ACCIDENTS DOWN**  
LOCK HAVEN, Pa. (AP) — American pilots are flying longer and farther these days out with fewer accidents, reports Piper Aircraft Corp. here. While the number of hours flown by general aviation aircraft — all business and pleasure planes, not commercial airliners — has increased nearly 100 per cent in the last 10 years, the number of fatal accidents per 100,000 flight hours decreased by 15 per cent.

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KURTHYSEN Joins HICKEL

## Firm Employs Finance Head

Kurt Hysen, 33, of Los Angeles, Calif., has been selected as vice president of finance and administration for HICKEL Investment Co., according to Robert HICKEL, executive vice president.

Hysen, a professional manager whose specialties are financial control and operations management, will be responsible for the real estate and development divisions of HICKEL Investment. He will oversee the company's finance, accounting, and credit functions.

Hysen also will have operational responsibilities for the firm's shopping centers and other properties.

Before coming to Alaska, Hysen served with the U.S. Army

Parents To Visit At Junior High

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(3) ASE Executive Desks 30x60 Mojave Tan & Walnut	537.15	389.00
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(13) Cole Executive Desks 30x60 Group F Series	457.65	345.75
(4) Cole Secretarial Desks 30x60 Group F Series	535.97	475.00
(3) Cole Desks, conventional style	304.40	239.00
(5) Cole Secretarial Centers, 30x60	440.35	330.55
(1) Hon Desk 30x48	194.55	145.05

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The fund and the assessment would be based on the experience of the fund, but the fund would be required to make it good if practice settlements depleted it beyond assessments. Clearly, a great deal of attention will be paid to this proposal.

Legislative support is less pronounced. A constitutional amendment proposed by the task force to allow an adjudication to award malpractice settlements in lieu of a jury trial. Even Gov. Jay S. Hammond deferred judgment on the proposal because of the constitutional issues that would be relinquished.

Given the difficulties proposed by the constitutional amendment, it is probable it will not pass the legislature, and that's probably in the public interest. A proposal to form a medical review board to screen malpractice claims before they come to court will probably be given serious consideration, however; that should be fully reviewed.

Members of the governor's task force should be commended for the time they spent on this important public service. The insights they shed on the problem will aid future deliberations inestimably and proposals they made quite likely will be the basis for a legislative package. The ball is in the hands of the legislators now and it is to the credit of all concerned that they will be able to carry it through a general session rather than in the tight time of a special session.

year is because Congress has reorganized its working habits. Scrapping the traditional long weekends — the so-called "Tuesday to Thursday club" — leaders lengthened the legislative workweek and compensated by lengthening recesses.

THE IDEA IS TO make congressmen more efficient here in Washington (by keeping them in session more days) and at home (by enabling visits to be more carefully planned and giving lawmakers from distant states more travel time).

It is coincidence that senators and representatives also now are earning more pay — up this month from \$42,500 to \$44,625 per year — it is said here.

## Hasty support of the Alaska gas line

By PETER SCHOLLES

For the Alaska Center for the Environment

The Anchorage Assembly on Oct. 7 unanimously approved Resolution 5-75, urging support and construction of a trans-Alaska natural gas pipeline. Despite two amendments which increased the reasonableness of the assembly's action, the resolution was the latest in a long line of unjustified, poorly worded legislation that for the mere asking puts the stamp of public approval on private development projects.

Support of a trans-Alaska natural gas pipeline is not necessarily an unreasonable action. However, considering this particular resolution and the manner in which it was handled by the assembly the adoption of 5-75 was both unreasonable and irresponsible. To understand this charge, it is informative to look back at a Sept. 28 assembly hearing.

ON THAT DATE THE ASSEMBLY listened as one person after another testified in favor of the goals and objectives of the Comprehensive Plan. Many of the people who came before the assembly on that evening recommended altering the goals and objectives in one way or another, but few, if any, suggested that the document needed a complete overhaul.

Although the goals and objectives have not yet been adopted as community goals and objectives, they have generated widespread interest and support. Therefore, one can look to them in evaluating Resolution 5-75.

The recurrent theme of the goals and objectives is that citizens desire to gain control over change in the Anchorage community — to direct growth and development so that the natural beauty of the Anchorage bowl and the amenities and opportunities offered by a modern city are blended in an enriching fashion.

MANY PEOPLE IN ANCHORAGE are coming to the realization that growth and development are not necessarily beneficial. Consider the economic goal. It is heavily top-sided

toward control and accountability in economic activity. The economic goal calls upon local government "to help develop an economy in which legitimate needs and desires are satisfied, while making public a full accounting for all 'social costs' of all economic development projects of any consequence."

Under the economic goal is an objective which calls upon government to "develop indices to measure social and environmental cost of any development, keep them current and well-publicized, and ensure that they be considered in every decision."

Resolution 5-75 flies in the face of an Anchorage citizenry that is asking for careful evaluation of massive development projects. Without an analysis of the environmental, social and economic effects of a trans-Alaska gas pipeline on Anchorage, neither the public nor its assembly can assess whether affirmative action is in the public interest. Until such analysis is completed and placed before the assembly a resolution urging support and construction of a trans-Alaska natural gas pipeline is premature and must be considered special interest, serving only those few people who believe that the trans-Alaska gas pipeline route would best serve their interests.

INSTEAD OF USING a thorough analysis of the various proposals for use and shipment of Prudhoe Bay gas, the assembly justified its support for a trans-Alaska gas pipeline with a "factsheet" prepared by either El Paso Natural Gas Co. or by OMAR, an organization dominated by developers and the construction industry. The factsheet contains factual material that is so abbreviated and twisted as to be blatantly inaccurate. It does not even deal directly with the impact that various gas pipeline route proposals will have on Anchorage.

Instead of relying on the factsheet the assembly would have done well to consider the following statements from a University of Alaska paper titled "Impact on the Alaska Economy of Alter-

native Gas Pipelines," published in April.

"Except during the very peak of the El Paso (trans-Alaska gas pipeline) boom, well over half of the total impact is concentrated on the Anchorage area. Over the long-run, about 60 per cent of the employment impact is focused on Anchorage. In terms of population, the El Paso proposal would increase Anchorage's 1990 population by more than 18,000 persons and the Arctic Gas proposal would increase the population by 5,700 persons."

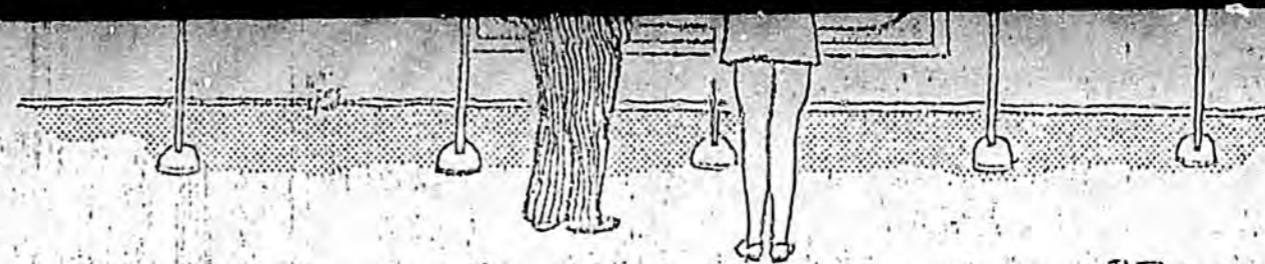
"THE EL PASO PROPOSAL, unlike the Arctic Gas proposal, causes a moderate boom-bust cycle in the Anchorage area."

"The El Paso pipeline would result in no significant change in personal income per capita and there would be only a slight increase in state and local government expenditures per capita. These results are essentially the same as those obtained under the Arctic Gas proposal."

The assembly's action in support of a trans-Alaska gas pipeline was not inherently irresponsible. The state has taken a similar position. State conservation groups have taken several somewhat different positions. But, both the state and conservation groups such as the Alaska Center for the Environment spent many hours researching and discussing their positions. Their are positions founded on factual material that has been evaluated through discussion of individual and group values and interests.

The assembly's action shows no such careful consideration. Resolution 5-75 was unjustified and poorly worded. Its only saving grace is two amendments introduced by Assemblyman Tony Knowles. The amendments foreshadow more responsible assembly action in the future.

The more significant amendment calls for legislation "to insure that the natural gas pipeline is of net economic benefit to all Alaskans." Unfortunately as the oil pipeline has proven, money does not compensate for social turmoil.



TOUCHÉ!

Blind  
APRIL 1975

Both Chinese and American spokesmen declined to give details of the conversation. The Chinese side said the secretary spent one hour and 40 minutes with the U.S. side. The Chinese side said the secretary spent one hour and 40 minutes with the U.S. side. The Chinese side said the secretary spent one hour and 40 minutes with the U.S. side.

APR 1975

# Legislators Study Role In Gas Line Lobbying

Times Washington Bureau  
**WASHINGTON** — The legislature's Joint Gas Pipeline Impact Committee is investigating the role the state can play in a major lobbying effort in Washington in favor of the proposed all-Alaskan natural gas pipeline.

The committee, here for three days of meetings with the congressional delegation and government officials, is considering retaining counsel in Washington to represent their interests.

Among the candidates being considered are former federal power commission member Rush Moody and John Miller.

House Speaker Mike Bradner, who is leading the committee's delegation here, said, "The committee is trying to stake out areas where the state can hope to have an influence in natural gas policy."

"Natural gas historically has been an area where national policy has reigned supreme," Bradner said. "If we're going to have any constructive input into that policy, we will need some of the finest brains in the country."

Among the issues the Washington representative would consider are taxation and the state's handling of its royalty gas, as well as the problems of mingling the state's gas with gas in interstate commerce.

A major topic of concern during the committee's meeting here yesterday was

whether the state has the right to keep its royalty gas in the ground.

At a meeting of the committee in the office of Rep. Don Young, R-Alaska, late yesterday, Bradner said, "We're not without leverage. The state conservation committee can control the overall production from the field; that is our leverage for keeping the gas in the ground."

"Our number one legal problem now is to make sure we can do that. As long as we control the gas cap, we've got it made," he said. Bradner noted a "strong, growing political sentiment in Alaska" to keep the royalty gas in the ground if the state is unable to get its fair share at the market.

This political feeling is contingent on future oil and gas discoveries that may change the situation, he said. Young, who was involved in an Indian affairs subcommittee meeting, did not attend the session, but planned to meet with the pipeline committee.

Meanwhile, a House public lands subcommittee hearing on Alaskan natural gas pipeline issues was postponed until this afternoon to allow the full Interior Committee to meet on other matters in the morning.

Members of the pipeline committee in Washington, in addition to Bradner, are Reps. Nels Anderson, Keith Specking, Glen Hackney, Clem Tillion and Ramona Kelly.

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TUESDAY OCTOBER 28, 1975, 8:30 AM to 4:30 PM ADULT TRAINING CENTER, GEIST Rd. FAIRBANKS

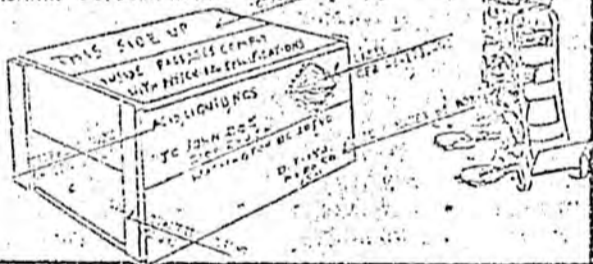
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## With Rifle

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Katherine Fanning  
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Frederick W. Field  
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David L. Stein  
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Tom Gibboney  
Managing Editor

Alaska's Only Morning Newspaper

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## Our views:

# Gas line impact?

There was a sense of *déjà vu* in the first meeting of the joint legislative Gas Pipeline Impact Committee Monday.

It was four years ago that a similar committee was formed to consider impact of the oil pipeline. That committee prepared legislation that became the framework for the taxing and regulatory policies established in the 1973 special session.

It is possible the recommendations of this committee will have results as far-reaching as those of the first impact committee. Certainly, information developed by the committee will be of value when the legislature grapples with the issue of the gas pipeline.

It is likely that in the next two or three years the gas pipeline will assume as large a presence in state affairs as the oil pipeline has for the past five years.

The stakes in the battle for the gas pipeline are at least as high as those for the oil pipeline.

The state could perhaps gain or lose billions of dollars in revenue depending on whether the pipeline went through Canada or Alaska. The route may also decide whether some of the vast reserves of gas on the North Slope are used within the state or are sent Outside. Gas severance taxes and state regulation of the pipeline will also be matters for consideration by the committee.

The gas pipeline will have to cross state lands whether it goes through Canada or to a liquefaction plant at Prince William Sound. This, and the fact that part of the gas carried in the pipeline belongs to the state, gives the state considerable bargaining power in determining conditions under which the pipeline is built.

Monday's meeting of the Gas Pipeline Impact Committee marked the entrance of the legislature into the process that will lead to construction of the gas pipeline. It has an important task: to insure that the conditions under which such a pipeline is

10/23

ADT

# Decontrol Bill Goes To House

WASHINGTON (AP) — Although the Senate voted to remove federal price controls from natural gas, the plan appears headed for the back-burner in the House.

The bill, passed by the Senate 58 to 32 Wednesday, would mean higher prices for natural gas, despite amendments aimed at softening and delaying the impact on homeowners. The administration backs the bill.

In addition to phasing out price controls over a 10-to-12-year period, the bill includes emergency provisions designed to avert a predicted shortage of gas this winter, which federal officials say could cost 500,000 Americans their jobs.

Reps. Harley Staggers, D-W.Va., and John B. Dingell, D-Mich., who handle most energy legislation in the House, have said they see no way the House will consider repealing price controls on gas this year.

However, House leaders have indicated they will seek quick approval of provisions to avoid an immediate shortage.

The House insistence on separate handling of the immediate shortage and long-term pricing policy would

force the Senate and the Ford administration to back down and settle the pricing question later.

Four Eastern Republicans joined 28 Senate Democratic liberals in unsuccessfully opposing the natural gas bill. Only minutes before, on a 50 to 41 vote, the Senate chose the Republican approach over a Democratic proposal that would have treated the winter shortage but left federal price controls untouched.

Under the Senate bill, all controls on the price of "new" gas pumped from onshore wells would expire next April 4. Controls on "new" offshore gas would end on Jan. 1, 1981.

But as a result of an amendment approved Wednesday, the price of "old" gas would remain under federal controls forever.

That amendment has the effect of delaying for several years the price increases that otherwise would result if "old" gas were freed from controls as current sales contracts expire.

But even with that softening amendment, the Senate-passed bill would assure that within 10 to 12 years, there would be no federal controls on the price of any U.S. gas.

The Senate's proposal to avert a gas shortage this winter would allow gas-short pipelines serving nonproducing states to buy surplus intrastate gas at prices not to exceed the highest price paid in the producing states this summer.

That price would range from \$1.30 to \$2 per thousand cubic feet — which is up to seven times what some pipelines now pay for gas. All this expensive gas would go to industries and other large users, leaving the 32-cent gas for homeowners, farmers and other small users.

32 Anchorage Daily Times, Thursday, October 23, 1979

# Canada Pipeline Gets Opposition

Special To The Times

OTTAWA, Ont. — The Canadian Labor Congress says it plans to challenge a contention that a joint Canada and U.S. Mackenzie Valley natural gas pipeline would be in the Canadian "national interest."

According to the Ottawa Journal, the Canadian Labor Congress, representing 1.9 million organized workers, has submitted a three-page intervention to the National Energy Board. It claims that the case made by Canadian Arctic Gas in support of its proposed \$10 billion joint pipeline "is both narrow and restrictive and must not be accepted in its present form."

The National Energy Board's hearings on the natural gas pipeline proposal begin Monday in Ottawa.

The labor organization notes, "It is well known that certain groups and individuals do not share the opinion of Canadian Arctic Gas Pipeline Ltd. about projected shortages," the Ottawa Journal reports.

The Canadian Labor Congress says that "no adequate information exists to date concerning potential reserves in other areas of Canada," and that "a full consideration" of the possibility of substituting other forms of production

"remains to be made." Thus the "credibility of the case made by Canadian Arctic Gas is considerably reduced."

On the gas demand question the labor group challenges the basic assumption of the Arctic Gas interests, which the Congress says is "largely based on the assumption of 'business as usual.'"

The journal's account said "The CLC is not convinced that the applicant's proposal constitutes a 'national priority' with reference to the national economy."

And the labor congress states, "With the staggering level of expenditures now forecast for the construction of the pipeline, it may well be that these funds could be better spent elsewhere."

The labor congress says its purpose in intervening is to "demonstrate as clearly as possible that no real understanding of the complex issues raised by the Canadian Arctic Gas application can be arrived at unless we deal with first things first."

"It is our position that before we can make full sense of the Arctic Gas proposal, we must first work toward a clearly defined energy strategy for Canada, since it is only in this context that the Arctic Gas proposal can be evaluated."

# Senate Will Hold Gas Line Hearings

By BETTY MILLS

Times Washington Bureau  
WASHINGTON — Sen. Mike Gravel, D-Alaska, today withdrew an amendment to the natural gas bill that would mandate a Federal Power Commission decision in the Alaskan natural gas line case by June 30, 1976.

Gravel withdrew the amendment, after several minutes of debate, when members of the Senate Commerce Committee pledged they would hold hearings on the matter.

Gravel was attempting to

tack the legislation on to the bill to remove price controls on new natural gas, which was approved later on a 58-32 roll call vote. Both Gravel and Sen. Ted Stevens, R-Alaska, supported the deregulation legislation.

Gravel said there was no reason to push for a vote on the issue, saying, "I'm persuaded there is going to be a constructive effort to hold hearings; this was not a delaying tactic. Bullying it through now could take me longer."

He said, "My tactic of

moving ahead is sound. The way we're going now, we may be able to win (approval of the trans-Alaskan gas line) without a fight."

Gravel's legislation would require the Federal Power Commission to make its decision in the gas line proceeding by June 30, 1976, with Congress then having 60 days to approve or disapprove the decision.

The Alaskan Democrat said the commission can meet that deadline and said an expedited decision would favor the

Alaskan route.

In floor debate with Sen. John Glenn, D-Ohio, Gravel said his amendment did not address the competing proposals for transporting natural gas through Alaska or via a Canadian pipeline.

Glenn said if a decision is made by June 30, 1976, "it would be almost certain that decision would have to go against the trans-Canada pipeline."

Glenn said Gravel's legislation would be "tantamount to dictating no

trans-Canada pipeline to serve the people of Wisconsin, Minnesota, Ohio, Michigan, the whole Midwest and much of the West Coast."

Gravel said, "All I am saying is that we are going to put aside a lot of bureaucratic nonsense and get an early decision on this matter rather than get into a situation like the Alaska oil pipeline where we lose four, five or more years on a decision."

Gravel said if the commission can make a decision by June 30, the Canadians should be able to do the same. "I think the Canadians will get on the stick if they want the line through Canada and will meet the criteria," he said.

Stevens, who relinquished the chair as presiding officer briefly to participate in the debate, said he shared Gravel's desire to accelerate the decision-making process in the gas line case.

However, Stevens said, "One of the great problems on this measure is whether or not we can have the support that we might have on an indepen-

dent bill." Stevens said if the Gravel amendment came to a vote and failed, it could be misinterpreted in Canada.

Stevens, who recently discussed the issue with Canadian industry representatives and government officials, repeated his contention that support is mounting in Canada for the Maple Leaf line and the Polar Gas line, which compete with the Arctic Gas proposal.

Support for the alternate routes may become so great in Canada "that we may not even have before us an issue as to the trans-Canada route for Alaska gas before they (the Federal Power Commission) are through," Stevens said.

Sen. Walter F. Mondale, D-Minn., opposed Gravel's amendment, saying he hoped Congress could avoid "the type of sectional debate such as we had over the trans-Canadian and Alaska (oil) pipeline."

Mondale said Gravel's amendment would delay congressional consideration of the transportation of natural gas from the North Slope.

# Canadians seek own gas line

FAIRBANKS (AP) — As if the trans-Canada natural gas pipeline hasn't enough detractors in Alaska already, three representatives of its main Canadian foes were in Fairbanks Tuesday meeting with local groups.

The Foothills Pipe Lines Ltd., often called the "Canadian El Paso," is proposing an all-Canada pipeline to bring gas from northern Canada to its southern cities without Alaska involvement. Like El Paso Natural Gas Co., it is a pipeline common carrier company challenging the Arctic Gas consortium of major oil companies planning for a larger pipeline from Prudhoe Bay through Canada to the Midwest.

ALSO LIKE El Paso, the Foothills group is a smaller company springing up since the Arctic Gas consortium was formed to take advantage of new shifts in energy markets and technology.

The company is a joint undertaking of Canada's two largest pipeline companies, Westcoast Transmission Company Ltd. and Alberta Gas Trunk Line Company Ltd. The latter company was once a member of the Arctic Gas consortium, but dropped out to join the competitor.

Between the two sponsor companies, they carry more than 88 per cent of Canada's natural gas production, have built and operated 8,400 miles of pipelines, operate two of the largest gas processing plants in Canada and are the only companies who have successfully constructed and are presently operating a gas pipeline in permafrost areas north of the 60th parallel.

FOOTHILLS director of operations John Burrell explained the company's position to a meeting Tuesday afternoon with representatives of the Chamber of Commerce, Associated General Contractors, Organization for the Management of Alaska's Resources and Fairbanks Industrial Development Corporation.

Burrell said arguments between the two companies start Monday before the Canadian National Energy Board (NER) a body and process

similar to the arguments now going on between El Paso and Arctic Gas before the Federal Power Commission in Washington, D.C.

Burrell said the Foothills system involved 317 miles of new 42-inch pipe being built in the Northwest Territories to bring gas from the Mackenzie Delta to the northern end of the member company's pipelines. The existing Canadian pipeline systems will then be expanded to distribute the added gas supply throughout Canada.

HE SAID THE major argument for the competing Arctic Gas route was to "piggyback" smaller reserves in the Mackenzie Delta to larger Alaskan gas reserves heading for the southern states.

Prudhoe Bay is estimated to have about 26 trillion cubic feet of natural gas and the Mackenzie Delta has only 8.5 to 7.5 trillion cubic feet of proven reserves.

Burrell said recent developments in government energy pricing policy have convinced the Foothills member companies that the present Mackenzie Delta gas reserve will pay for an all-Canada pipeline.

HE ADDED that his company estimates the undiscovered reserves in the Canadian north might bring the total as high as 39 trillion cubic feet, almost twice the Prudhoe Bay reserve, and Arctic Gas claims the undiscovered reserves total an even higher 50 trillion cubic feet.

A third company has recently estimated the Canadian north gas reserves at 250 to 300 trillion cubic feet, Burrell added, but his company might have considered reserves expected to be discovered in deeper water offshore areas that were not considered by the two applicants.

Canada is adopting a national energy pricing policy called commodity value pricing, Burrell explained, where all forms of energy are priced to the amount of energy they produce. The price of gas will be set at a price corresponding to what its energy would produce equal to a similar volume of oil, then a national base price will be set on the

Toronto commodity value price and prices in all other cities would be adjusted for differences in transportation costs.

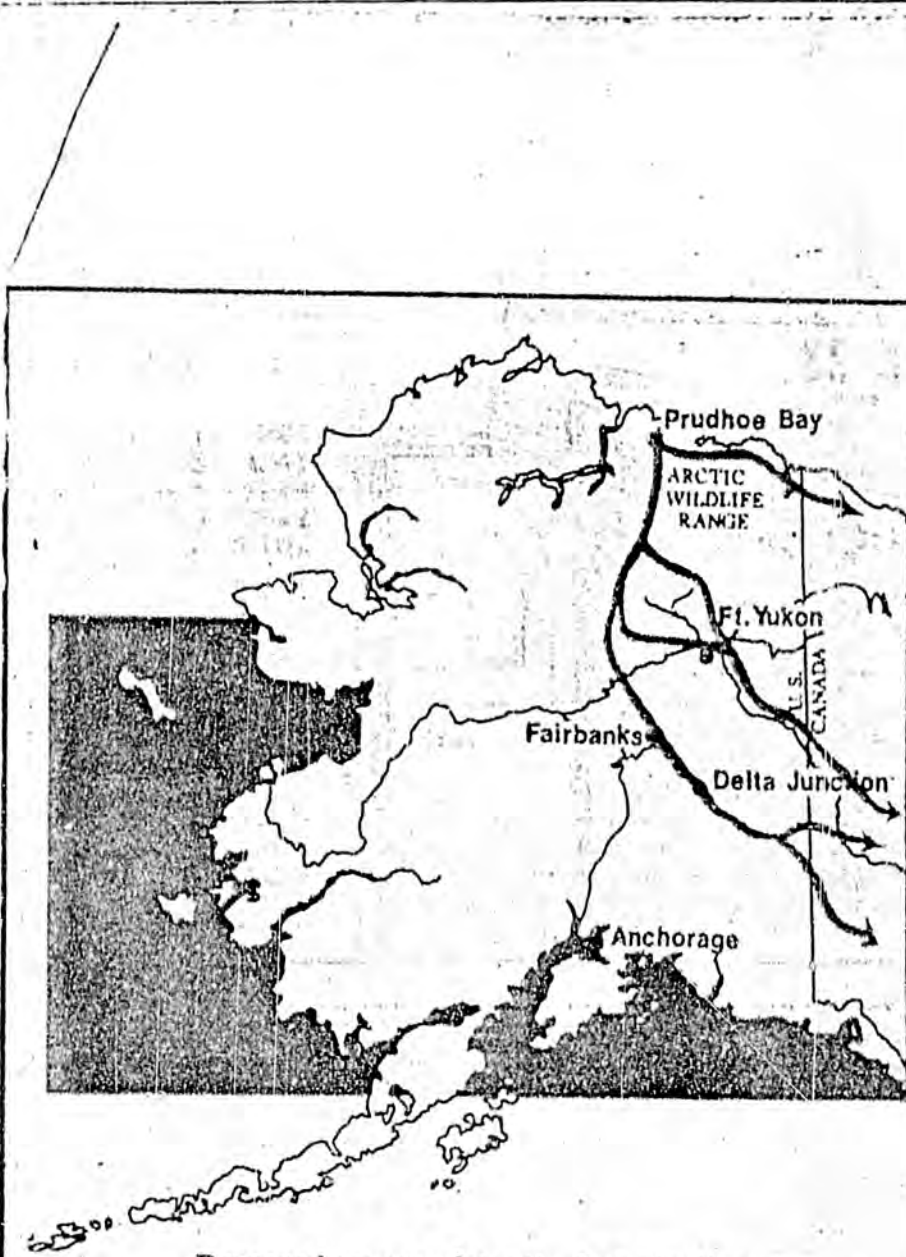
THE CURRENT energy pricing system sets a price on the oil or gas at the wellhead, and the price consumers pay is the wellhead price less transportation and processing costs. Burrell explained the

commodity value pricing as working in the opposite way. The government sets the price consumers pay and the oil and gas producers get the wellhead price left over when all the intervening costs are deducted.

The commodity value price at Toronto was recently set at \$1.25 per thousand cubic feet, Burrell said, and will rise to

follow oil price increases which will lift Canada's oil prices to match that of world markets over the next five years.

With this pricing system policy, Burrell said, Mackenzie Delta gas can provide enough return on the present reserves to insure financiers that bonds will be paid back.



Proposed routes of Arctic Gas pipeline

## Historical sites studied on gas pipeline routes

An analysis of archaeological and historical sites near Arctic Gas Pipeline Co.'s proposed pipeline routes from North Slope gas fields is being undertaken by the Iroquois Research Institute.

The institute, under contract to the Federal Power Commission and the Interior Department, has requested anyone having relevant information on sites to write to the

company by Oct. 20 at 6201 Leesburg Pike, Suite 215, Falls Church, Va., 22044.

The area under study includes about one-fourth of the state, the northwest corner. Arctic Gas Co.'s preferred route would traverse the Arctic Wildlife Range in the north, but alternate routes would carry the gas south of Delta Junction and across Canada.

# Canadians Give Line Perspective

By SUSAN ANDREWS  
Times Staff Writer

Foothills Pipe Lines, Ltd., the company proposing an all-Canadian gas pipeline to take Mackenzie Delta gas to Canadian markets, has found it has much in common with Alaskans who want an all-American pipeline to take Prudhoe Bay gas to American markets.

Not the least of their points in common is that there's a man named Burrell working for both projects. For the all-Alaska line, it's former state director of oil and gas Homer Burrell. For the Foothills Canadian line it's John Burrell. They met for the first time here yesterday.

John Burrell and John Ellwood, the two Canadian visitors, said yesterday their project started out a year ago as underdog to the Arctic Gas project, the consortium of U.S. and Canadian companies who want to build one big pipeline to handle both U.S. and Canadian gas. "Now we are at least even," he added, "and our prospects are rising."

"I can see only one reason for Canadians favoring the Arctic Gas project," Burrell said, "and that is Arctic's claim that there are not sufficient gas reserves in the Delta to finance a pipeline. We are confident we can demonstrate that is not the

case."

Homer Burrell said he had heard it from "good authority" that recent discoveries in the Delta mean that proven reserves now equal Prudhoe Bay's 26 trillion cubic feet.

John Burrell said their estimates still are 6.5 trillion to 7.5 trillion, although actual reserves are a tightly-held secret. "I hope your information is right," he added. "If so, we'll order the pipe."

The Canadian National Energy Board begins its deliberations next week in Ottawa, as to which of the two Canadian proposals it will approve. In theory, the board will make a recommendation to the Canadian cabinet — probably a year from now — and the cabinet has the final decision.

But the visitors said "Historically, the opposition in parliament brings up controversial issues to be settled in parliament. That's undoubtedly what will happen in the pipeline case."

The Canadians met here with about 20 members of the Organization of the Management of Alaska's Resources, the citizens' group which is pushing for approval of an Alaskan route for the gas pipeline from Prudhoe Bay.

The visitors denied that



## VISITORS PROPOSE ALL-CANADA GAS LINE

Canadians John Ellwood and John Burrell, at right, met here yesterday with a group of 20 Alaskans, including Beverly Isenson, at left, and Robert Penney, officials of the Organization for Management of Alaska's resources. The visitors

represent Foothills Pipe Lines Ltd., which proposes to build an all-Canadian gas line from the Mackenzie Delta. The Alaskans support a separate all-Alaskan gas line from Prudhoe Bay.

Canadian Premier Pierre Trudeau favors the Arctic Gas proposal, for a joint U.S.-Canadian line. "I don't think that's correct," John Burrell said. "I don't think he wants to pre-judge the Canadian National Energy Board."

Alaskan Robert Fleming suggested that communications between the

Alaskan group and the Foothills people "should be open real wide," considering that they have basically the same objectives — though not the same problems.

"One member of Alaska's Congressional delegation believes the Federal Power Commission won't act on the Alaska gas line route until after the Canadians have made a decision," Fleming said.

Otherwise, it could be embarrassing, he pointed out, if the U.S. Federal Power Commission approved a Canadian route, and the Canadian government did not.

John Burrell said Foothills (also known as the Maple Leaf project) has a number of things going for it, including its estimate that it can deliver gas for about 10 per cent less cost than Arctic Gas. Foothills

estimates its cost of service at 79.2 cents per thousand cubic feet, as compared to 90 cents per thousand estimated by Arctic Gas.

Also, he said, existing gas pipelines can be used in the Foothills project, and a whole new system won't have to be built, as it will in the Arctic Gas proposal.

Another plus is the fact that "The Canadian public is getting more nationalistic," he said. "They want to see the pipeline project financed and controlled by Canadians."

The Canadians also said they think it is "extremely unlikely" that Canadian natural gas contracts with the U.S. will be disregarded, in case of a gas shortage in Canada. "This doesn't buy you much in the way of time, only five or six years," John Burrell said.

-10/25  
ADJ

# Canadian Discusses Line

By BETTY MILLS

Times Washington Bureau  
WASHINGTON — Walter B. Williston, a Canadian legal expert on energy policy, has testified that the provinces can tax property within their area, but cannot regulate a pipeline.

In testimony Wednesday before the Federal Power Commission hearing on the gas line proposals, Williston said, "If the terms of the direct tax within the province were of such a character that the courts considered that they were attempting to regulate, that fiscal statute would not stand any more than if the fiscal statute attempted to sterilize the pipeline."

In questioning by Arctic Gas attorney R. Clyde Hargrove, Williston said a province could impose a property tax to reflect the increase in land value because a pipeline carried natural gas.

Asked by Hargrove if a province could levy discriminatory taxes against one particular pipeline, Williston replied, "It (a province) could levy taxes that would in fact apply only to one particular pipeline in certain circumstances. It could not, in my opinion, just say we are going to tax this inter-provincial pipeline and not any other pipeline."

Administrative Law Judge Nahum Litt asked Williston if the federal power in Canada would supercede any provincial power if there were an attempt to regulate a pipeline.

Williston said the judge was correct, that the residual power in Canada is in the federal realm.

Williston is a partner in the Toronto firm of Fasken and Calvin, which has been representing the El Paso Co. for the past six years.

Williston said there is no limit to the amount of taxes the federal government of Canada could impose.

He said that in addition to certification of the pipeline, an export license would be required for gas leaving

Canada and an import license for gas entering Canada, so-called transit gas.

Williston said there would be no difficulty in obtaining these licenses for transit gas.

El Paso Attorney Paul R.

Connolly interrupted the questioning at that point, saying Arctic Gas originally planned to bring to the Lower 48 states export gas from Canadian sources which would not be transit gas but has

changed its position.

Williston said any price increases would not apply to transit gas "except in extraordinary circumstances." He said transit gas will not affect surplus supply of natural gas.

## ADJ Tesoro Begins Importation Of Crude From Indonesia 10/27

(Continued From Page 1)

part of the oil companies' needs there.

As far as anyone at any of these refineries or the U.S. Customs Service can remember, Tesoro is the first company to have brought crude oil into the state. During the early part of the century the Chilkat Oil Co. refinery operated at Katalla, south of Cordova, and supplied in part the needs of the Copper River and Northwestern Railroad and the Kennecott Copper Mines. The operation had a fire in its boiler house in 1933 and was never rebuilt.

The crude oil "had to be loaded onto the ship by barges because we have not yet built an export facility there," said Tesoro Crude Oil President James Smith of San Antonio, Tex.

"Normally the production there is pipelined to one of Pertamina's refineries or exported as crude to Japan," Smith explained. Bringing the crude to Alaska is at least a \$1 per barrel more expensive than producing it from Cook Inlet crude oil, he said. A barrel is 42 gallons of oil.

## 10/27 ADJ Firm Starts Oil Imports

For the first time last month, the state with the nation's largest petroleum reserves began importing crude oil.

The situation resulted from the internal structure of Alaska's most rapidly expanding petroleum supplier, Tesoro-Alaskan Petroleum Corp., which brought about 218,000 barrels of Indonesian crude oil here from its sister company, Tesoro Crude Oil Co.

To some it seemed suggestive of the British expression about "bringing coal to Newcastle," one of England's coal-rich areas.

On Sept. 18, a Greek tanker pulled up to the Kenai Pipeline Terminal dock at Nikiski. On board the vessel were a 23-man crew and oil which Tesoro Crude Oil had produced in Indonesia through a technical assistance and production sharing agreement.

Tesoro brought the oil more than 9,000 miles to Alaska because the demand for its products here is outstripping its ability to purchase crude oil from the Kenai Peninsula and Cook Inlet, Alaska's only producing fields. Tesoro produces no crude oil in the state.

Tesoro's main supply of crude oil for its refinery at North Kenai is the state's 12.5 per cent royalty share of production there. It has also been able to purchase or trade oil with Marathon Oil Co., Shell Oil Co., Atlantic-Richfield and Standard Oil Co. of New Jersey. Tesoro traded oil in southern Louisiana or the Rocky Mountain states for oil the companies owned here.

The other reason Tesoro chose to bring the Indonesian crude to Alaska is that it has qualities similar to the Cook Inlet's low-sulfur crude, which the refinery was designed to handle. It also has a high wax content, like Alaska oil.

There are three refineries in Alaska: the Tesoro refinery at North Kenai, a Standard Oil Co. of California refinery less than a mile north and a small APCO distillation refinery at Prudhoe Bay which is being used to supply

(See Page 2, Col. 1)

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10/26 ADT

## Alaskans In Washington

# Report Asks Probe Of Pipeline Rule

By BETTY MILLS  
Washington Bureau

WASHINGTON — There are substantial questions concerning the Interstate Commerce Commission's regulatory authority over the trans-Alaskan Pipeline that should be considered by Congress, the staff of the Federal Trade Commission recommends.

The staff report on the petroleum industry in the Western states said the matter of ICC jurisdiction is important in analyzing the competitive consequences of the development of Alaskan oil.

"Under the circumstances, it would be timely and appropriate (for Congress) to give serious consideration to the question of pipeline regulation," the report said.

The document acknowledges that the portion of the transport of oil through TAPS is akin to interstate movement, and the pipeline will be operated as a common carrier. But because shipment through TAPS does not cross a state boundary, the staff asks: "In

these circumstances, does the ICC have the jurisdiction to enforce the common carrier obligation to require treatment of all shippers on an equal basis and to insure that reasonable rates are charged?"

According to the FTC staff, the possibilities under present law affecting regulatory jurisdiction over TAPS are the following:

— If the oil is moved by private tanker, as planned, from Valdez to the lower 48 states, ICC jurisdiction is clouded, and state jurisdiction is also unclear.

— If the oil is moved by common carrier tanker from Valdez to the lower 48, jurisdiction appears to rest with the ICC, but the tanker transport would be subject to the jurisdiction of the Maritime Commission.

— If the oil is exported from Valdez, the ICC would have regulatory jurisdiction.

— Some shipments of the oil could be moved from Valdez by common carrier to the lower 48 while other shipments could be by private tanker; under this option, ICC jurisdiction

could be a 'now you see it, now you don't' situation under current law.

The report points to competitive consequences within the petroleum industry that could result, beyond the immediate issue of regulatory control for the oil pipeline.

If substantial oil deposits are located in other regions of Alaska, including the Beaufort Sea area, "it may well be discovered by companies not involved in TAPS," the FTC staff said. "As shippers, those companies would be profoundly affected by the regulation of TAPS."

The question of state regulation under the Alaska Pipeline Commission Act is also unclear, the FTC staff said. The report describes the powers of the state commission as "substantially more pervasive than those of the ICC."

John R. Werner, chairman of the commission, wrote the FTC earlier this year that the state is studying the possibility of regarding TAPS as an intrastate line. However, Werner wrote, "I really feel that in the long run, we will be forced to accept direct federal regulation.

"Our role, however, will be to act as a protestant on behalf of the state of Alaska as a shipper of royalty oil and as one who stands to gain or lose substantially depending on pipeline rates," he said.

Meanwhile, the commission staff concludes that the effect on other Western states of Alaskan oil flowing through the pipeline is still difficult to determine.

"The flow of Alaskan crude could undermine the concentrated market structure in

District V (Alaska, Arizona, California, Hawaii, Nevada, Oregon and Washington) because the owners of Alaskan crude are not the leading refiners in the district," according to the report.

"However, if the leading District V refiners are the chief recipients of Alaskan oil by exchange agreements or other arrangements, those refiners could become more firmly entrenched within a concentrated market."

The staff concludes that the impact of Alaskan oil on other Western states must be evaluated before the FTC takes any action on refining in District V.

10/28

# Record Imports Seen For Oil

By The Associated Press

An oil study group forecast that the nation will require a record supply of foreign oil next year.

Petroleum imports for 1976 were estimated at 7,120,000 barrels a day by the supply and demand committee of the Independent Petroleum Association of America.

Such a requirement would be 919,000 barrels a day higher than the anticipated 1975 level and 864,000 barrels a day above the record level of 6,256,000 barrels a day set in 1973.

"Declining domestic oil and gas production combined with rising energy needs will boost required oil imports to an all-time high," the committee said. "Most of the increase will be in the form of crude oil to fill the void of declining domestic crude oil production and meet higher refinery requirements."

The committee submitted its report as the 4,100-member trade group opened its annual meeting.

The committee expressed hope the current upturn in domestic oil and gas drilling operations prompted by improved prices will in time stabilize or increase domestic crude production.

Domestic crude output is expected to decline a sixth consecutive year in 1976, the committee said, but at a reduced rate.

"The decline in crude oil production has slowed from 443,000 barrels a day in 1971 to an estimated 400,000 barrels daily this year and the committee expects the rate of decline

barrels daily in 1976," the report said.

"Continued progress is dependent on economic incentives to explore for and develop new oil and gas supplies and the availability of funds to finance these activities. Adequate market prices and stability in governmental tax and price policies are essential for this to occur."

Next year's crude output was estimated at 8,141,000 barrels a day, compared with an estimated 8,365,000 this year, and the all-time high of 9,180,000 in 1970.

Next year's total domestic petroleum demand was estimated at 17,213,000 barrels a day. This would be 4.1 per cent above the 1975 level but still below the record 17,308,000 barrels a day requirement set in 1973.

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... "We don't want to ... the ...  
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... ces," Hughes said.

ADT

# Gravel Submits Gas Line Bill

10/27

Times Washington Bureau

WASHINGTON — Sen. Mike Gravel, D-Alaska, has submitted an amendment to natural gas legislation which would require the Federal Power Commission to make a decision on an Alaskan natural gas pipeline by June 30.

The amendment, virtually identical to legislation he introduced earlier this month, would mandate that all government agencies complete their work on the gas line case by June 30. Congress then would have 60 days to approve or disapprove the Federal Power Commission decision.

Judicial review of the decision would be through the

circuit court, appealable directly to the U.S. Supreme Court.

Gravel indicated he would not press for a roll call vote on the amendment, but said he wanted to bring the issue to the Senate's attention.

Sen. Ted Stevens, R-Alaska, who has said legislation on the gas line case is "premature," said in an interview today he probably would support the Gravel amendment.

"I've urged him to hold back," Stevens said. "I don't think we have the votes."

Stevens added, "This is an approach we may have to take ultimately, but not yet."

NEWS & NOTES

# Gravel pulls bill on gas pipeline

From Our Washington Correspondent

WASHINGTON — An amendment to the Senate's Natural Gas Act aimed at expediting construction of an Alaska natural gas transportation system was withdrawn Wednesday by Sen. Mike Gravel, D-Alaska, following expressions of interest in quick committee action by several other influential senators.

The amendment, introduced late last Tuesday, was similar to a bill Gravel introduced two weeks ago setting a deadline for administrative action on the Alaska gas question and requiring specific votes against the administrative decisions by both houses of Congress in order to block them.

During debate on the bill on the Senate floor, Sen. Walter F. Mondale, D-Minn., urged his colleagues to "avoid the acrimony" associated with the debate on the trans-Alaska (oil) pipeline. "I have a strong

distant for that kind of regionalism," he said.

Mondale called for rapid action in the Senate Commerce Committee on the Alaska gas question.

He was joined by Sen. Ted Stevens, R-Alaska, and Ernest Hollings, D-S.C. Hollings and Stevens are both members of the Commerce Committee.

At one point Stevens noted that he had been in Canada recently and had the impression that the Canadians might seek an all Canadian gas route. "That would moot the question," he said.

# Anchorage Daily Times

ROBERT B. ATWOOD  
Editor and Publisher

WILLIAM J. TOBIN  
Associate Editor  
And General Manager

CLINTON T. ANDREWS JR.  
Managing Editor

Page 4

Thursday, October 30, 1974

## Gas Line Arguments

SOME DEVELOPMENTS on the Canadian scene are worth attention in the continuing effort to balance the pros and cons of competing proposals to build a natural gas pipeline over a route that will extend either through Alaska or through Canada.

For one thing, the president of Canadian Arctic Gas Pipeline Ltd., Vern Horte, told a meeting in Yellowknife, N.W.T., that approval of the Canadian route and actual construction of the pipeline could cut \$2 billion annually from Canada's oil import deficits in the 1980s.

For another, the 20,000-member Indian Association of Alberta announced plans to initiate legal action to claim exclusive rights to the Athabaskan oil sands — providing further indications that Canada faces a long battle to resolve native claims in the development of its northern natural resources.

BOTH FACTORS are important in considering the merits of works for approval of a trans-Canadian route.

In the case of native claims, indications are that long delays could be encountered in planning for a Canadian route, despite assurances from proponents that no serious hitches will develop.

Mr. Horte's comments point up another aspect of the debate that merits continued understanding — that Canada has its own economic interests at the forefront as it works for approval of a trans-Canadian route.

That's perfectly understandable. Canada is doing nothing more than looking out for its own national in-

terests — which is precisely what the United States should be doing.

MR. HORTE in his Yellowknife talk said transportation charges for carrying Alaskan gas to U.S. markets through a trans-Canadian pipeline would bring in net foreign exchange earnings of about \$400 million a year.

"In effect," he was quoted by Canadian Press, "the Arctic Gas project can reduce Canada's oil-dominated trade deficit by as much as \$2 billion annually." That's great for Canada. But what does it do for the United States?

In connection with this, there have been concerns that a pipeline through Canada would be subject to additional taxes imposed by Canadian provinces. This prospect likewise has been attacked by proponents of a trans-Canadian route.

But in Washington three weeks ago, a U.S. State Department official, Julius Kutz, deputy assistant secretary of state for economic affairs, said a proposed pipeline treaty between the federal governments of Canada and the United States would not eliminate the power of provinces to impose taxes.

The taxes, he said, could not be imposed on the gas in the line. But he made clear that provincial governments could, indeed, levy taxes on the pipeline itself, on the right-of-way where it is constructed and on fuel used in compressor stations along the route.

And that could mean a real impact on the economics of the pipeline, insofar as Alaska and the United States are concerned.

## ADT-10/28 Gravel Seeks Hearings

Times Washington Bureau

WASHINGTON — Sen. Mike Gravel, D-Alaska, has written Senate Commerce Committee Chairman Warren G. Magnuson, D-Wash., seeking hearings on his gas pipeline bill before Congress recesses for Thanksgiving.

Gravel's bill would mandate a Federal Power Commission decision in the gas line case by June 30, with Congress having 60 days to approve or disapprove the ruling.

Gravel submitted the legislation last week as an amendment to the natural gas bill but withdrew it after brief debate when several senators agreed to press for hearings on the issue.

In his letter to Magnuson, Gravel said bringing natural gas Outside from Alaska's North Slope "will be a long process regardless of which route is selected. The nation cannot afford to have this process unduly lengthened by court proceedings of the type that befell the trans-Alaskan pipeline."

Gravel sent copies of the letter to Sen. Adlai E. Stevenson, D-Ill., chairman of the subcommittee on oil and gas production and distribution, and to several other committee members, including Alaskan Republican Ted Stevens.

# Oil Imports Eat Away At Surplus

WASHINGTON (AP) — A surge in imported oil eroded the nation's foreign trade balance in September, but the United States still managed to record its eighth consecutive monthly surplus, the government said today.

The Commerce Department said the surplus for September was \$975.4 million, compared to a \$1.04 billion surplus in August. It was the smallest monthly surplus in five months.

The drop in the surplus came because imports rose 2.9 per cent during the month, while exports advanced 1.9 per cent.

The biggest factor in the import increase was a 9.5 per cent jump in oil imports to a total of 207 million barrels. The quantity of oil imports in September was second only to January's import of 235 million barrels this year.

Commerce said the biggest factor in increased exports for September was a \$112.5 million jump in wheat. Exports of wheat totaled \$554.3 million. Exports of chemicals, civilian aircraft and nonferrous metals also were up.

Other major increases in imports besides petroleum included a \$114.2 million jump in sugar imports. Also higher were imports of coffee, cocoa and other foodstuffs.

Oil imports have varied widely all year as importers responded to President Ford's imposition of oil import tariffs and the Organization of Petroleum Exporting Countries increased prices. The latest increase in imports was in line with expectations by trade specialists that oil imports would resume their growth later this year as the U.S. recovery picked up steam and demands for fuel increased.

Despite oil, the quantity of imports for all of this year are still 1.9 per cent behind the same period a year ago.

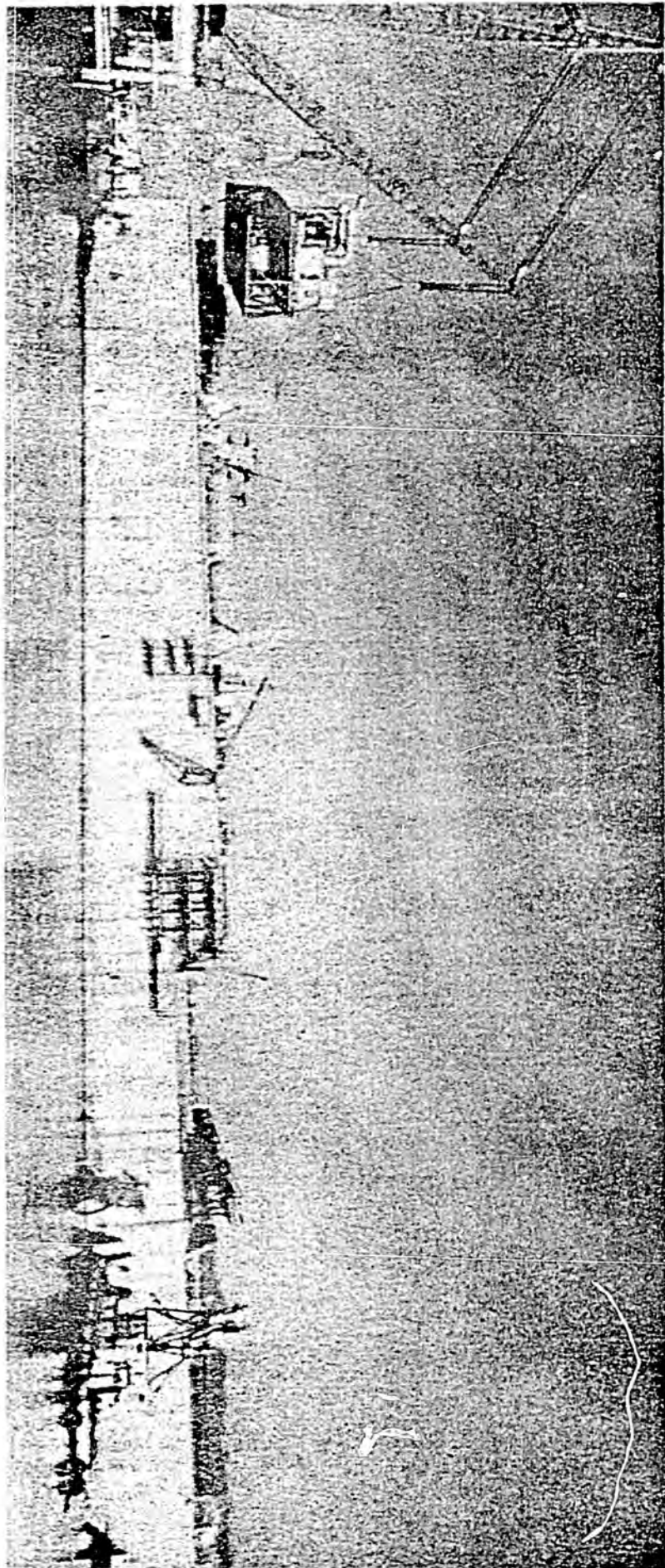
Because of prices increases, the value of the oil imported so far — \$18.5 billion — is 3.4 per cent ahead of the same period a year ago.

The over-all trade balance for the first nine months of this year is in surplus by \$8.4 billion, compared to a \$1.8 billion deficit for the first nine months

*of last year*

A crane lifts part of the superstructure for a 600-ton barge being built in Tacoma, Wash., for Atlantic Richfield Co. The barge will eventually carry liquefied natural gas. (AP Wirephoto)

## \$35 MILLION BARGE TO CARRY LIQUEFIED GAS



# The Seattle Times

AN INDEPENDENT NEWSPAPER

Founded August 10, 1896

Alden J. Blethen, 1896-1915

Elmer E. Todd, 1912-1949

C. E. Blethen, 1915-1941

W. K. Blethen, 1949-1967

John A. Blethen, Publisher

W. J. Pennington, President

SUNDAY, AUGUST 3, 1975

The Times' opinion and comment:

## Alaska entitled to economic benefits of its natural gas

AS of now the environmental suitability of two competing proposals for an Alaska natural gas pipeline is rated a tossup.

That preliminary evaluation was made last week by an Interior Department official who headed the drafting of an environmental-impact statement for the Alaska Arctic Gas Pipeline Company proposal.

Arctic Gas wants to transport the vast Prudhoe Bay reserves to American and Canadian markets via a 2,625-mile trans-Canada line, only 195 miles of which would be in Alaska.

A competing proposal, by a subsidiary of the El Paso Natural Gas Company, calls for a line to be built roughly parallel to the trans-Alaska oil pipeline now under construction.

Both proposals are before the Federal Power Commission. There is considerable pressure for an early decision in view of looming natural-gas shortages in this country. Still, months of study and controversy lie ahead.

THE Interior Department's draft environmental-impact statement directly concerned only the trans-Canada proposal, since El Paso prefers to win the necessary F. P. C. approval before presenting its case to the Interior Department.

However, the El Paso alternative was considered as a viable option. In neither case were the environmental drawbacks found to be prohibitive.

*In our view, if there is no clear environmental advantage to either route, the case for El*

*Paso's "all-American" route has been strengthened.*

The trans-Alaska route would sidestep the myriad complications of dealing not only with the Canadian federal government but with separate Canadian provincial governments, including the likes of British Columbia's tax-happy Socialist government under Premier Dave Barrett.

But what is most important, in our view, is that the trans-Alaska route would provide a base for industrial spinoffs that would enable Alaska to achieve maximum economic benefit from its own resources.

A TASK force headed by Alaska's attorney-general reported to Governor Jay Hammond last spring that if Alaska is to derive any significant economic benefit from development of its natural gas, "it may well have to be through direct use of the gas ourselves."

The report recommended continued state support of a pipeline through Alaska, rather than through Canada.

Strong pressures are building up in Congress for the trans-Canada project. The overall economic advantages and disadvantages—including costs—of the competing proposals have yet to be fully evaluated.

*But at this point it is important that Alaska take a Texas-like stance in defense of maximum home-state advantages from its own resources.*

And the Pacific Northwest—the Puget Sound region in particular—ought to join with Alaska in that posture.

Canada Lead *News-Tribune*  
8-6-1975

# Canada owns oil company

By ROBERT TRUMBULL

OTTAWA — Legislation establishing Canada's first government-owned company to produce oil and natural gas has been passed by the House of Commons.

The Crown corporation, to be called Petro-Canada, will have \$50-million in initial capital, with authorization to borrow an additional \$1-billion. Operations initially will be on a small scale, with the company eventually planning to compete with private multinational corporations in developing Canada's substantial reserves of natural fuels.

WHILE THE company's primary objective is exploration and development of new reserves, it is also empowered also to engage in refining and marketing.

The formation of Petro-Canada reflects national concern over the dominant position of foreign enterprises in the Canadian petroleum and natural-gas industries which together are more than 90 per cent under foreign control, mostly by multinational companies based in the United States.

Meanwhile, according to a spokesman for the ministry of Energy, Mines and Resources, Petro-Canada will take over the government's present 45 per cent interest in the Pan Arctic Oil Co., Ltd., which conducts petroleum exploration in the High Arctic, and its 15 per cent share in Syncrude Canada, Ltd., a consortium of three American companies formed to extract oil from the Athabasca tar sands in Alberta.

APPROVAL BY the Senate and Gov. Gen. Jules Leger, the remaining steps in the legislative process setting up Petro-Canada, is expected.

Organizational procedures making the company a reality awaits the enactment of the authorizing legislation into law. This is expected in the next few days, but official sources believe it will be the fall before the corporation takes shape.

As part of an economy program affecting all departments of the government, the Petro-Canada's budget for the first year of operation has been cut: from \$50-million to \$10-million, or just enough to organize the company and hire a staff.

# Mackenzie River gas pipeline expected in foreseeable future

EDMONTON, Alta. (AP) — Premier Peter Lougheed of Alberta says the Mackenzie natural gas pipeline will go ahead in the "foreseeable future."

"Subject to the federal government's determination through the National Energy Board of its feasibility, and subject to the Berger commission, the degree of discovered natural gas reserves to this date and their location, combined with the shortage of natural gas in Canada certainly indicates there will be a pipeline from the Mackenzie Delta in the foreseeable future," Lougheed said.

The premier said the impact of Prudhoe Bay activity and the Mackenzie pipeline construction will have a "strong economic impact" on Edmonton, Calgary and the Peace River district in terms of supplies, transportation and job opportunities. Lougheed, in an interview Tuesday after returning from an eight-day tour of the territories and the Prudhoe Bay area of Alaska, said the region could become a market area for Alberta "greater than any other part of Canada or any foreign country."

Meanwhile, Chief Frank

P'Selei told the Mackenzie Valley Pipeline Inquiry Tuesday the Dene Nation will not allow the proposed pipeline to be built.

In a 20-minute speech to the inquiry now sitting in the Hair-skin Indian community of Fort Good Hope, the chief said the Dene people are saving their land for their children.

"It is for this unborn child ... that my nation will stop the pipeline. It is so that this unborn child can know the freedom of this land that I am willing to lay down my life," Chief P'Selei said.

His promise followed an attack on Robert Blair, president of Foothills Pipeline Ltd. of Calgary and its parent, Alberta Gas Trunk Pipeline Ltd., a company proposing to build the pipeline. Blair was invited to the community hearing by the commissioner of the inquiry, Justice Thomas Merger of the British Columbia Supreme Court.

"I cannot understand how a man can live for wealth and power, knowing that his ambition and greed is destroying so much around him," the Fort Good Hope chief said "I do not envy you, Mr. Blair, I feel sorry for you.

The chief accused Blair of being like the U.S. military —

"planning the slaughter of innocent Vietnamese."

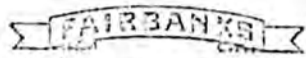
"Don't tell me you are not responsible," he said. "you are the 20th century General Custer; you have come to destroy the Dene Nation."

"I think he (Chief P'Selei) was speaking more in a symbolic way," Blair said later in an interview. "I don't think he was speaking specifically of our company destroying anything."

Fort Good Hope has a reputation for being the most radical of the Mackenzie Valley Indian communities. This situation coupled with the prospects of the pipeline passing within a few miles of the community, closer than to any other settlement, resulted in the most forceful statement heard by the commission.

10- add to next meeting

"Independent in All Things... Neutral in None"



# Daily News - Miner

Friday, August 6, 1975

Editorial... Comment

## El Paso's fatal mistake?

How is the "David and Goliath" struggle between Arctic Gas and El Paso shaping up at present?

The "David" in the struggle is El Paso Company, proposing an 800 mile gas pipeline from Prudhoe Bay to Prince William Sound, generally paralleling the oil pipeline now under construction. The "Goliath" is a huge consortium of 18 United States and Canadian companies generally known in Alaska as Arctic Gas Pipeline Company, who are proposing to build a 6,000-plus mile gas pipeline from Prudhoe across the Arctic Wildlife Range and down through Canada to the mid-western states.

Alaska and Alaskans have a vital stake in the decision as to how our own natural gas resource is to be developed and used. We are becoming increasingly concerned at what now appears to be the distinct possibility that whatever routing the gas line takes Alaskans may be deprived of the opportunity to utilize any of our own gas within Alaska. In the long run being able to use our own gas, to achieve a more balanced economy and a better way of life, is of far greater importance than what monetary benefits we may receive from royalties.

We are disturbed because up to now at least there has been absolutely no firm assurance from any of the federal agencies or the two companies competing for the right to build the gas pipeline that Alaskans will be able to use our own resource. In fact, as Alaska's congressional representative Don Young pointed out recently, there is an alarming precedent already established: the Federal Power Commission has refused to allow residents of one of the southern states to tap a gas line piping their own gas out of the state to other areas of the country.

While hearings on the proposed gas line routing started before the Federal Power Commission in May, a final decision from that body likely will not be forthcoming until at least 1977. Because of increasing concern down in the smaller states about shortages of natural gas, there is considerable talk

among members of the congress of proposing legislation to bypass the Federal Power Commission, accelerate a route decision and get construction under way.

There is also evidence of awareness of the importance of accelerating the gas line construction by President Ford's administration. Last week a spokesman for the Federal Energy Administration stated that this potent group is studying the proposed project, and plans to make a recommendation to the White House Energy Resources Council on specific proposed legislation "by fall," now only a few weeks away.

Also, last week the Department of the Interior released a first draft of an environmental impact statement for the Arctic gas proposed routing. The essence of the Department of the Interior release was that there are significant environmental problems, but that probably most of them could be solved.

The Department of the Interior conducted the study because it is the agency that decides on right-of-way permits across federal lands. The study included only brief comment on the El Paso route because El Paso decided against applying to the Interior Department for the permit until after proceedings before the Federal Power Commission are completed.

As we understand existing laws, an environmental impact statement is an absolute necessity BEFORE any permit can be granted to any company to construct a gas line. Such studies are no small undertaking. For illustration, the Department of the Interior study involved 158 employes and included about 9,000 pages in 17 volumes. It is obvious that the Arctic Gas study would be much more involved than would one for the route advocated by El Paso; particularly so because the El Paso route is only about 800 miles in length through Alaska as compared to more than 6,000 miles on the Canadian routing. Also because El Paso would be largely utilizing the same right-of-way as the present oil pipeline, many difficult and critical decisions for their gas line right-of-way have already been determined by prior approval of the oil line routing.

However, because it is mandatory that El Paso secure approval of an environmental impact statement before it can get any green light to proceed, it is extremely difficult for us to comprehend why El Paso decided not to apply to the Department of the Interior for the permit.

Will time prove that El Paso made a fatal mistake by this decision?

## One solution

Congressman Don Young advises that tapping any trans-Alaska natural gas line in order to serve Alaskans may be opposed by the federal power commission. Young advises that a southern state recently was told no by the FPC when it proposed tapping a gas pipeline that transported gas from that state to other areas.

The reason for FPC's action is not explained but we presume it is part of the federal policy of allotting energy resources.

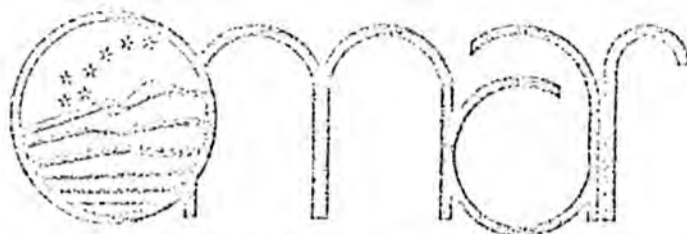
Also, the political power bloc in Congress — the representatives and senators from the populous midwest and east -- are looking more favorably to a trans-Canada pipeline for taking gas from Alaska to market. Alaskans have been pushing for the trans-Alaska line and for tapping the line for Alaskan markets.

So the state may be in for a big fight yet — as big a fight as ensued before the trans-Alaska oil pipeline cleared Congress by one vote.

There may be one plan Alaskans can follow that will let them prevail, or at least put the state in a better bargaining position. That would be for the legislature to adopt a primary manufacturing law for the state's petroleum resources -- at least for the petroleum resources that are produced off state land. Permission to export unprocessed oil and gas could be obtained by permit from the state when it can be demonstrated that there is no market for the products in Alaska.

This is the same rule the federal government uses in Alaska on the sale of timber from national forests. Round log export is banned except when the logs cannot be used by Alaska mills.

Such a law will assure Alaskans that they have first chance at the resources produced by the state. And we doubt that congressmen from any other state would care to challenge such a law in Alaska. They each have their own borders to defend.



The ORGANIZATION for the MANAGEMENT of ALASKA'S RESOURCES, INC.

445 West 4th Avenue, Suite 101C, Anchorage, Alaska 99501

Mail: ~~200~~ Anchorage, Alaska 99510 - Box 516

Telephone (907) 278-9615

August 13, 1975

#### New Anchorage Box

OMAR's new mailing address is Box 516, Anchorage 99510. We will still be able to get mail at Pouch 7010, which is the address of the Alaska National Bank of the North. We appreciate the Bank's willingness to let OMAR use the pouch until we could get a post office box.

#### Fairbanks Office

The Fairbanks office is opening today, and Ellen Ring will be in charge of the office. Hours will be 1 to 5 p.m., and longer if volunteers are available. The location is in the Mount McKinley Savings Bank Building, 527-1/2 Third Avenue, Fairbanks. The mailing address is Box 132. Telephone numbers are 452-8320 and 452-8323.

#### New Mexico To Intervene

The State of New Mexico has petitioned the FPC to be allowed to intervene, on behalf of the El Paso project, through its Public Service Commission. The petition says:

The outcome of the case will vitally affect consumers in the State of New Mexico in that one of the proposals, that of El Paso Alaska Company, would utilize facilities operated by El Paso Natural Gas Company which currently serves customers in N.M. Approval of the El Paso Alaska proposals would be of immediate benefit to those consumers in that certain of El Paso's facilities now operating at low load factors and with much unused capacity due to decreasing supplies would be amortized in whole or in large part by end users for whom El Paso would be carrying gas on a contract basis, thus reducing the unit transportation costs of El Paso's customers. Additionally if El Paso Natural Gas Co. is successful in bidding for reserves on the North Slope, its supply situation would be improved, thus reducing curtailments.

The petition goes on to say that the El Paso alternative promises a supply not subject to any but American jurisdiction and control, and mentions security of supply and favorable balance of trade effects.

#### Meetings With Congressmen

With the help of Cong. Don Young's office and the Anchorage Chamber of Commerce, OMAR representatives and others interested in pursuing the trans-Alaska gas line had a chance to meet with Congressmen and staff members visiting Alaska for D-2 hearings and OCS hearings when the 2 groups converged on Anchorage last Thursday. We found many sympathetic ears, and generally the consensus was that Congress was really a long way from mandating the Canadian line. Cong. John Melcher, D.-Montana, and chairman of the public land subcommittee for the House Interior Committee, was very

## Consumers' Gas Co. request permission to purchase gas

By JEFF CARRUTHERS

OTTAWA — Consumers' Gas Co. of Toronto has asked to buy 50-million cubic feet of natural gas this winter from Gaz Metropolitan Inc., the Montreal gas utility with surplus liquified natural gas, LNG, it wants to export to the United States.

Gilles Barbeau, vice-president for gas supply for Gaz Metro, said Thursday that his company is "willing to help" and that the two companies should be able to agree on an acceptable price and delivery terms.

He said the gas would be used by Consumers' to handle the extra winter demand expected in the Ottawa-Hull area for a period of about 5 or 10 days.

Gaz Metro would sell Consumers' some of the gas normally destined to Montreal by pipeline from Alberta. It would then use more of the gas it has in liquified form in storage in Montreal, to meet its own peak winter demands.

The Montreal utility recently applied for National Energy Board permission to export the equivalent of 1-billion cubic feet

of natural gas, in liquified form, to a gas-short utility in Pennsylvania this fall for almost \$2.5 million.

Mr. Barbeau said that the 2-billion cubic feet of surplus gas it has stored in underground facilities in Ontario will be used this winter to supply new residential and commercial customers being added to the Montreal franchise as a result of an advertising campaign.

Gaz Metro has attracted at least 1,000 new residential customers along with some small commercial customers in recent weeks.

Mr. Barbeau also confirmed that Gaz Metro has not made any new offers to domestic gas utilities to sell them the 1-billion cubic feet of surplus liquified natural gas the company wants to export. The export application is based on offers made last February and March prior to an earlier export application which was turned down by the National Energy Board.

He said that none of the domestic utilities would want the gas now anyway, since most have a surplus and lack storage space.

If the proposed gas export is rejected, Gaz Metro will try to sell the extra gas, at lower rates, to interruptible gas users in Montreal who normally switch to other fuels during the winter peak demand period; or will sell the equivalent of the gas back to TransCanada Pipe Lines Ltd., at a slight profit.

But Gaz Metro would not be able to operate its liquefaction plant as economically as possible, he said. Nor would the company receive the \$1-million profit from the export sale.

*John Camp*      *Anchorage News 10-1-75*

# Louisiana tip on gas pipeline

By ANDY WILLIAMS  
Daily News Staff Writer

A natural gas lawyer from Louisiana warned the Anchorage Chamber of Commerce Monday not to let the state follow the example set by his state in regulating the gas industry but indicated there was a fair chance it might.

John Camp, special counsel to the governor of Louisiana on energy matters, said his state, which produces about a third of all U.S. gas, "dropped the ball" when it had a chance to influence the delivery of its gas in the 1930s, 40s and 50s.

TODAY, HE SAID, Louisiana uses only 18 per cent of the gas and cannot get at the rest exported out of the state despite local shortages.

At a symposium after the luncheon, attended by oil and gas consultants, a few legislators, businessmen and media representatives, Camp indicated the state was playing against a stacked deck in seeking control over the delivery of the gas. Federal regulatory agencies maintain exclusive authority over transportation of natural gas between states and may deny the state access to its royalty share of the gas once it's in the pipeline, he said.

Camp, who was brought here by OMAR, a local civic organization routing an Alaska route over a Canadian route for the pipeline, stressed the importance of leaving at least the state's 12½ per cent royalty share of the gas available for use within the state.

HE SAID THE BEST way for the state to protect its interests would be to have a pipeline built purely for



John Camp

intrastate purposes, which would not be federally regulated. Others at the symposium noted there was a question whether such a line would be economically feasible.

Another possibility Camp suggested was that the state give a tax credit to encourage industry to use gas in the state. Petrochemical industries were eager to build facilities close to gas supplies, he said.

If the state cannot arrive at an equitable agreement with long-term protection of access to supplies, he suggested he would "leave it in the ground until I've worked something out."

CAMP SAID the state might have

(Continued on page 2)

## Station owners to perform

By PAMMILLSAP  
Daily News Staff Writer

The Alaska Petroleum Retailers Association said its members would prefer a system where state safety inspection program, rather than garages, repair shops and service stations to

The state has indicated the program will be next year.

LOWELL NELSON, executive director of the association, said his members would prefer a system where an inspector inspects a vehicle, gives the owner a ticket if repairs need to be made and then allows the owner to take the vehicle to the shop of his choice to do the work. "Otherwise you get into the problem of a guy saying the private inspector is recommending unnecessary repairs," said Nelson. "If a service station operator could end up being the

Nelson said association members met with the state at their recent convention in Anchorage. He said the state was willing to come up with the type of inspection program recommended by the association.

Nelson pointed out that the state has to choose between a vehicle inspection program or it will lose some federal highway and highway safety fund money. Regulations will have to meet standards set by the Federal Motor Vehicle Safety Act, which is administered by the U.S. D

# A flood of foreign LNG for U.S. factories

The first will be shipped from Algeria to customers in 16 Eastern states

Before this year, Cove Point, Md., meant about as much to the nation's energy planners as Hoboken, N. J. But this marshland on the shore of Chesapeake Bay is gradually becoming a key name in energy circles. The reason: Cove Point will soon be the gateway for the biggest new supply of natural gas to hit the U.S. market in more than a decade.

By 1977, gas produced in Algeria and transported as a liquid in cryogenic tankers will be pouring into Cove Point, and a sister facility in Savannah, Ga., at a rate of 1 billion cu. ft. per day. From these terminals, the gas will flow out to customers in 16 states, from Maryland to Ohio and New York to Florida, some of whom are already desperately short of domestic supplies.

If the gas companies have their way, Cove Point will be just the beginning. Half a dozen companies are now trying to get permission from the government to import liquefied natural gas on a massive scale from Algeria and Indonesia. By 1980 these follow-on projects could boost the nation's LNG imports to nearly 4 billion cu. ft. a day.

A debate is under way within the Ford Administration, however, that could bring these ambitious plans to a halt. The dilemma: Should the nation allow itself to become dependent on foreign gas, as it already is on foreign oil?

Nonetheless, the pioneering Cove Point operation is becoming a reality. Construction of the sprawling LNG terminal—the operating facilities occupy 323 acres on a 1,022-acre site owned by El Paso Natural Gas Co., one of the nation's largest interstate pipeline companies—is nearly half complete. El Paso, whose customers are expecting to get only 78% of the gas they need this winter because of the domestic shortage, says that the terminal will start taking its first shipments within 18 months.

New wave. The U.S. has already imported some LNG, but the small volume from these occasional shiploads pales in comparison with the constant stream that will flow into the country at Cove Point. Nine LNG tankers built specifically for the El Paso project will continuously sail between Cove Point and the Mediterranean port of Hassi R'

mel, picking up the LNG, dropping it off in the U.S., and returning for more. "The gas we will get from the operation will account for about 15% of our total supply," says Robert E. Seymour, chairman of Pittsburgh-based Consolidated Natural Gas Co., one of three gas distributors that will share in the terminal's supplies. "That should be enough to cover our projected shortfall in 1977," he adds hopefully.

The other distributors that will get some of El Paso's LNG are Columbia Gas System, Inc., based in Wilmington, Del., and Southern Natural Gas Co., in Birmingham, Ala. They, too, are counting on the LNG to relieve their worsening shortages, and all three are willing to pay handsomely for the opportunity. Consolidated is putting \$230 million into the El Paso project, including \$81 million for a new pipeline to carry its gas from Loudoun County, Va., to storage tanks in Leidy, Pa. Columbia is investing \$150 million and Southern \$120 million. In addition, Sonatrach, the Algerian oil company, will spend \$600 million for facilities at its end, and El Paso will lay out some \$900 million for the nine special tankers needed to transport the LNG.

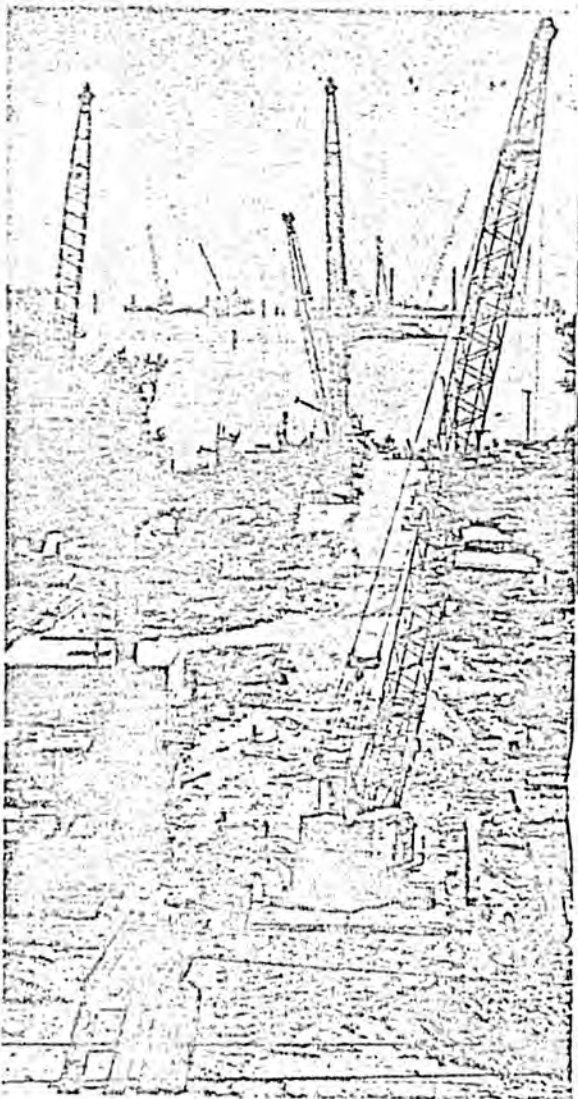
Second deal. The Federal Power Commission approved this initial El Paso venture in 1972. Now the company is negotiating with the Algerians to provide an additional 1 billion cu. ft. daily for Cove Point, as well as another terminal it wants to build at Gloucester County, N. J. If the FPC approves this second deal, El Paso would keep 37.5% of the new LNG for its own system and sell the rest to Consolidated, Southern, and Houston's Transcontinental Gas Pipeline Corp. Other LNG projects would come right behind:

- **Easogas LNG, Inc.**, jointly owned by New Jersey's Public Service Electric & Gas Co. and Boston's Algonquin Gas Transmission Co., wants to import 600-million cu. ft. a day from Algeria to terminals at Staten Island, N. Y., and Providence, R. I.

- **Pacific Indonesia LNG Co.**, a subsidiary of Los Angeles-based Pacific Lighting Corp., plans to bring in 620 million cu. ft. a day from Indonesia to Port Hueneme, Calif. The gas would go to Southern California Gas Co.

- **Trunkline LNG Co.**, a subsidiary of Houston's Panhandle Eastern Pipe Line Co., hopes to import 490 million cu. ft. a day from Algeria to Lake Charles, La., for distribution to Missouri, Illinois, and Michigan.

In addition, Tenneco, Inc. has filed



Cove Point is now about half-built, and gas should start coming in by 1977.



A tunnel to bring the LNG ashore runs under the water and a wildlife preserve.

If you were  
building  
the world's  
largest  
Holiday Inn,  
what  
market  
would you  
choose?

If you didn't choose Québec,  
this message is for you.

The world's largest, Holiday Inn, 853 rooms, is now under construction in Montréal. It's another example that wise investors are aware that Québec is one of North America's most vital and growing tourism markets. Tourism has become one of Québec's most profitable industries. Expenditures by tourists in 1974 exceeded \$1,016,000,000. Occupancy rate for Montréal hotels runs at 75%. But the action isn't restricted to the big cities, it's happening throughout the province. It's not dependent on seasons either, Québec booms all year round.

If you want to learn more about the high growth investment potential in the rapidly expanding Québec Tourist Industry, write for information today.

# Québec

"We're ready to talk business"



Government of Québec  
Department of  
Tourism, Fish & Game  
Québec City, Canada  
G1R 4Y2

that a gas cartel is unlikely because there is far less flexibility in marketing LNG than in marketing oil. The complex facilities needed to land the bitter-cold liquid would exist in only a relatively few consuming countries, they point out, so alternate buyers would be few. And the producers could not afford to hold back gas sales as readily as oil sales, since their liquefaction and loading equipment—which cost far more than oil loading facilities—would have to lie idle.

Proponents also argue that LNG imports are not likely to grow nearly so quickly as oil imports. FEA experts say it is extremely difficult to make projections, given the uncertainty now surrounding imports of gas from Canada, development of Alaskan gas, and efforts to bring synthetic gas on stream. But they estimate that LNG imports would account at most for only 3% to 5% of U. S. consumption by 1980 and 5% to 10% by 1985. "LNG could only be a small plug in a large gas gap," concludes one FEA expert. Still, he concedes that LNG might eventually account for more than half of the gas supplies in the East Coast and West Coast markets. To be sure, the supply is there: Besides Algeria and Indonesia, Iran and Russia are anxious to enter the LNG market.

Delays. Meanwhile, the FPC has hardly been processing the companies' applications at breakneck speed. To some extent, the commission's inertia reflects the lack of any official Administration policy on the issue. But some observers say that the FPC, which has long been in favor of deregulating domestic gas prices, is itself part of the reason why the Administration remains uncommitted. They point out that if gas were decontrolled as the commission wants, its price would jump to no more than the maximum rates on the unregulated intrastate markets—about \$2 per 1,000 cu. ft. Domestic supplies would then increase and demand would slacken, offsetting some if not all of the need for imported LNG. At the same time, the nation's balance of payments would be unaffected, and its dependence on foreign energy producers would be lessened.

The FPC denies that it is foot-dragging for this or any other reason. The proposed LNG projects are complex, says the commission, and need more than a casual review. And key policy issues have yet to be resolved. One critical point is whether to continue subsidies from the Maritime Administration for the expensive LNG tankers, as well as loan guarantees from the Export-Import Bank to cover exports of liquefaction equipment. But there are others, including the tricky question of how to allow importing companies to recover their high LNG

costs. Should they "roll in" LNG costs with their other gas costs, spreading the burden equally among all their customers? Or should they set up a separate LNG rate, perhaps charging the full cost to large industrial customers who cannot do without the gas and would be willing to pay the premium?

The gas distributors would prefer to roll in costs, but they are willing to price LNG any way the commission says—as long as they can get it. The U. S. faces a 15% shortage of natural gas this winter, they point out, the worst shortage yet. And with domestic reserves continuing to decline, the future looks even bleaker.

"We have 5,000 industrial customers that would have to shut down without the LNG," says Easogas Vice-President James B. Randel, Jr., who is also senior vice-president of New Jersey's

## The Algerians demand more money for their LNG as U. S. fuel shortages grow

PSE&G. "This sort of thing could snowball all over the country." Although the utility has two plants making gas from naphtha and is itself exploring for new gas deposits, it is gradually falling behind demand. The company is counting on LNG to supply 10% to 15% of its annual needs.

Halting growth. The others are just as desperate. Pacific Lighting is already counting on gas from Alaska to fill part of its future needs. The rest of the company's shortfall will have to be made up by LNG imports from Indonesia. "If we don't get gas out of Alaska and Indonesia by 1980," warns Keith C. McKinney, director of LNG, "it will clamp the lid on growth in this area and may even force shutdowns among some present industrial customers." A spokesman for Boston's Algonquin Gas moans that even LNG will not be able to fill that region's projected shortfall of gas. This year, New England utilities are being curtailed by 23%. And industries in some Middle Atlantic states, particularly New Jersey, will also be hard-hit.

The shortages might be eased in the future if Washington deregulated the price of domestic gas. But the companies are not counting on that. Though Washington insiders note that there is considerably more support on Capitol Hill for a change in the nation's gas pricing policies than there was just a few years ago, the Administration and Congress are now bogged down on the question of oil price controls. As a result, gas deregulation has once again taken a back seat. "And without a change in regulatory philosophy," sums up Seely of Panhandle Eastern, "there will be no alternative to LNG imports."

an average of 25 days a year.

## • Louisiana tips

(Continued from page 1)

more "muscle" than it thought in influencing the course of events leading to development of the Prudhoe Bay gas field. He said the populous, gas-consuming states were in desperate need of additional supplies and that the state could use this as leverage.

But he warned it was "folly to rely on fine distinctions in the law," which seemed to favor the state's interests in regulatory matters. He said bills were pending in Congress to give the federal government more authority and that legal questions involving regulatory jurisdiction were usually decided in favor of the feds.

Camp also warned the state to make sure the groundrules were set before committing itself to a course. Although the federal government can pass laws changing contracts, the state can't, he said.

IN HIS SPEECH, Camp said Alaska was close to the position Louisiana was in, in the 1930s when pressure mounted to develop its gas. Louisiana needed the revenue to provide services and "made a massive effort" to market gas, which was then being flared and appeared

**NEWLY ELECTED** Assemblyman Dick Hart said Monday he disagrees with the portion of Sullivan's plan that would put planning and personnel functions in the mayor's office, rather than as separate departments. Hart, formerly of the borough's planning office prior to his election to the assembly in September, last week proposed the creation of a "super department," which would meld all planning and enforcement functions into a single department.

Hart said Monday he thought there was "too much imbalance" in the mayor's plan with so many staff functions in his office. Hart said he received a number of phone calls over the weekend, including three from

inexhaustible, he said.

For many years Louisiana enjoyed cheap energy, which allowed much progress, Camp said. But Louisiana is "still on the bottom of the totem pole" in terms of economics and is suffering from shortages while exporting 71 per cent of its gas.

Camp said his state had no control over how much of its gas was exported. A recent court decision allowing companies to pull gas from local consumption for interstate shipment would have shut down 1,300 industries in the state for the winter had it been immediately implemented, he said.

Camp said Alaska was probably in a better position than Louisiana was, with regulatory experience of its own and the experience of other states to draw from. But he said development of Alaska's gas reserves would be decided on economic and political grounds and that it would be a challenge to maintain the state's interests in the rush.

"Louisiana is desperate for your gas to relieve the pressure on us. However, we do not ask that you help us to the extent that your economic future is jeopardized. You've got so much gas, you can do anything you want to do and help us too," he said.



Police escort man they center, from bank office in N

## Bank sie

NEW YORK (AP) — A cornered bank bandit took 10 hostages Monday and demanded as the price of their freedom the release of newspaper heiress Patricia Hearst. The gunman was captured eight hours after the siege began, and the last of his captives were freed unharmed.

Not a shot was fired. "Everyone's out, everyone's all right," said Deputy Police Commissioner Frank McLoughlin.

McLoughlin said the gunman was jumped from behind by a police officer who came through the back door of the bank while police negotiators distracted him with conversation at the front door.

The last of the hostages was freed after he was captured.

Armed with a pistol and shotgun, a man subsequently identified as Ray "Cat" Olssen, 23, took 10 hostages. He first claimed affiliation with the

# Choosing A Villain For The Gas Shortage

10/31/75  
Times

By George J. Marder

WASHINGTON — The worker who gets laid off because of a shortage of natural gas, can blame:

Congress for delaying a solution so long.

The Ford administration for making emergency action with controversial long-range proposals.

Liberals for failing to recognize that gas sold interstate controlled at 51 cents a thousand cubic feet and uncontrolled gas sold within a producing state for as much as \$1 a thousand cubic feet would surely bring on a crisis.

Conservatives for using the crisis to push for long-range decontrol which wouldn't add a cubic foot of gas this winter. Decontrol would start next April under the bill pushed through the Senate.

THE INDUSTRY for helping create the crisis by failing to provide pipelines with the gas promised.

The Federal Power Commission for failing to make the industry live up to commitments.

At the moment, the focus is on Congress. And Congress is picking what comes naturally — squabbling so much that the

outlook is for more crisis and more unemployment.

FRESDENT FORD and the industry's solution for the long-term gas shortage is to lift the price controls on gas moving in interstate commerce. That would allow the price of interstate gas to treble and probably more. That, the industry insists, would provide the incentive to explore for new gas reserves.

Congress, split on decontrol, has twice in recent years turned it down.

Last year, gas shortages developed and the government had to force allocations. It would have been much worse if the winter hadn't been so mild.

THIS YEAR, much greater shortages are in prospect. The weatherman can't be counted upon to cooperate.

The administration proposed an emergency solution — bypass the price controls just for the areas which may run short of gas this winter.

Congressional leaders went along. Democrats introduced a bill which would allow pipelines to buy gas at the wellhead for uncontrolled

prices prevailing this past summer, and charge the higher prices to needy customers in other states.

THE EMERGENCY bill seemed headed for easy passage. But gas state senators were convinced it might be now or never for long-range decontrol. Congress would not act when there was no crisis, but the crisis and complaints over unemployment — might get Congress to accept decontrol now.

Liberal senators retaliated by bringing up other long-range proposals, such as breaking up the giants of the industry and forcing them to get out of other energy fields. All the liberal proposals were defeated, after heated debate.

Now, however, it's up to the House where there is considerable opposition to the long-range price decontrol.

# Gas Firm Seeks To Pass Costs

QDT

10/31/75

By PAUL NUSSBAUM  
Times Staff Writer

Alaska Gas and Service Co., seeking state permission to pass price increases directly to its consumers, expects its gas costs to rise by about 6 per cent early next year.

The company's president, Dale Teel, testifying yesterday before the Alaska Public Utilities Commission, said the company's cost of natural gas probably would rise to about 3 cents per thousand cubic feet.

Alaska Gas and Service, which supplies the Anchorage area, is asking the commission for permission to reinstate two sections of its tariff which had allowed it to flow through to customers increases in the price of gas. Those tariff provisions were suspended by the commission last May.

In June, the commission declined

to allow the company to pass on a 19.5-cent increase in the per-thousand-cubic-foot cost of its gas. Instead, an interim rate increase of 12.78 per cent was granted.

Teel contends the company needs the flow-through provision to pay its creditors and to keep its interest on borrowed money low.

In addition to the flow-through clause, Alaska Gas and Service is expected to file for a permanent rate increase Monday. That permanent rate would replace the interim increase now in effect.

Without a permanent increase and a reinstatement of the flow-through provisions, Teel said the company's service will deteriorate and its financial picture worsen.

The gas company is trying to purchase state royalty gas from the north Cook Inlet gas field. Teel said that purchase will fall through if the

company does not have the flow-through provisions in its tariff.

The company's board of directors vetoed any gas purchases without inclusion of a pass-along clause, Teel said. Purchase of state royalty gas could give the company as much as 75 billion cubic feet more than its current 450 billion cubic feet, Teel said.

Under questioning by commissioner Susan Knowles, Teel admitted the company's financial arrangements with its chief lender, Equitable Life Insurance Co., do not contain a stipulation that the gas company must have flow-through provisions to gain financing.

During questioning by the commissioners, cost comparisons for various gas users showed that small residential customers pay nearly three times as much as the Anchorage electric utility.

Municipal Light and Power, which uses about 25 per cent of the gas sold by Alaska Gas and Service, pays 53.5 cents per thousand cubic feet for the gas it uses to generate electricity.

Residential users pay about \$1.53 per thousand cubic feet, Teel said.

Among other gas users, the military base — which Teel said uses the gas they buy inefficiently — pay about 60 cents per thousand cubic feet. Chugach Electric pays about 74 cents per thousand cubic feet and large commercial users pay about \$1.02.

"To charge less for the person who uses very little gas and costs us the most doesn't make sense," Teel said. "It won't work in the long run."

The company president said its gas prices will rise after the first of the year because of contractual agreements and increases in the wholesale price index.

DAILY NEWS

The Pipeline Message <sup>11-4-75</sup> ADT

LT. GOV. LOWELL Thomas Jr. is back in Juneau after a second tour Outside to explain why the nation needs a trans-Alaska natural gas pipeline. A lot of people listened. And from all reports, he did a fine job in delivering the Alaska message.

Mr. Thomas' travel log shows he touched base in 23 cities in 16 states, appearing on television, being interviewed by the press, speaking at luncheon meetings and holding person-to-person briefings with a number of influential editors in the East.

That kind of whirlwind traveling has some glamorous aspects to it, but all told it is a tough and tiring way to go. Do carry it off well requires stamina and a real conviction that the product you're trying to sell is worth the effort.

IN THIS CASE, the lieutenant governor had no trouble giving full endorsement to the idea that it is in the nation's best interest to transport the natural gas resources of the North Slope to American markets via a route that is not subject to foreign taxation and control.

It's still astonishing, however, that so many people in other states either have not received the word or have been so bedazzled by the diligent work of the trans-Canada pipeline advocates that they overlook the consequences of that project.

The lieutenant governor is to be commended for the job he has done. Before the issue finally is decided, he may have to make more trips in his role as a convincing spokesman for the trans-Alaska route.

Gas lamp turn-off suggested

WASHINGTON (AP) — Federal Energy Administrator Frank G. Zarb urged homeowners last week to turn off gas lamps or convert them to electricity, to save natural gas for anticipated winter shortages.

Zarb said the gas used in lamps, mainly for decorative entrance or yard lighting, could heat 500,000 to 600,000 homes this winter or help keep workers on their jobs where industrial gas is short.

Soviet gas line project proceeds, despite hang-ups <sup>11/7/75</sup> ADN

MOSCOW (AP) — A huge pipeline project to carry Soviet natural gas to Eastern Europe is going ahead, Pravda said last week, despite early snags and collapse of plans for cooperative work with two East block countries.

The Communist party newspaper announced work had begun on all sections of the 1,850-mile pipeline from the Urals to the Soviet Union's western border. It's article exposed some problems for the massive project that had been cited as a shining example of Soviet cooperation with its East block neighbors.

Called the Orenburg Pipeline, it is scheduled to start operation in 1978 and be running at full capacity by the end of 1980 when it will supply 547 billion cubic feet of gas to Bulgaria, Hungary, East Germany, Poland, Romania and Czechoslovakia.

The six East block countries were to supply labor and materials for the pipeline, with the Soviets paying in deliveries of gas.

Last summer the Hungarians announced the Soviets would take over construction of Hungary's part of the pipeline, with Hungary delivering "various products

in compensation." The Czechoslovaks then said the Soviets had agreed to lay the actual pipe in Czechoslovak section, with the Czechs doing other work and paying for the Soviet work.

The Hungarians cited technical reasons for not being able to provide equipment for and lay pipe with a diameter of 55.9 inches. The Czechoslovaks said they didn't have the workers to send. This left the already labor-short Soviet Union to take up the slack.

The Soviet press never reported these changes in the original plan, but the Pravda article indicated the Soviets are considerably more involved in actual construction when was originally envisaged.

The article said Soviet crews were laying pipe near the start of the project in Orenburg, a city at the edge of the Ural mountains 750 miles southeast of Moscow, and in

the Ukraine, and in honor of the forthcoming 25th Communist party congress have pledged to lay 155 miles of pipe before the end of the year.

There is no exact information on how many will be employed at the peak of construction, but it may run up to

35,000. Pravda said 5,500 workers and specialists would be employed on the line by the end of this year.

No figures have been given on the cost of the project and in any case it will involve complicated exchanges of goods.

Alaska gas line urged <sup>ADN 11-3-75</sup>

Dear Editor:

I have never written a letter to the editor before, but must answer the letter by Mr. Peter Scholes in your paper Oct. 22 criticizing the Anchorage Assembly for supporting the construction of a trans-Alaska natural gas pipeline. How Mr. Scholes can possibly compare the Anchorage Comprehensive Plan and the natural gas pipeline I do not understand.

There is a great deal of difference in the work needed to be done by the assembly in the planning for the future of our community and the decision to endorse the keeping of the natural gas pipeline from going through a foreign country, no matter how friendly.

In my opinion the logical place for the pipeline is along the same route already established by the oil pipeline. The final terminal can be changed if it would cause too much congestion in the Valdez area, but that would be only a short distance not thousands of miles through Canada with the resultant impact on the wildlife and environment.

Amy Silger

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# Arctic Gas Makes New Public Appeal

The Alaskan Arctic Gas Pipeline Co. yesterday held a press conference to "take our case to the public" and to refute an Anchorage Times editorial against a trans-Canada natural gas pipeline.

Arguments here against a trans-Canada gas line from Alaska's North Slope to the Midwest are not proper unless they speak to effects of the project on Alaska," said Bob Ward, Arctic Gas president.

He is head of one company in a consortium vying with El Paso Gas Co. for certification as the builder of a pipeline to take Prudhoe Bay natural gas to American markets.

Arctic Gas would run the line east from Prudhoe into Canada then almost due south to the U.S. border. El Paso would build the line along the trans-Alaska oil-pipeline route to a proposed liquefaction plant on the Gulf of Alaska.

Ward refuted arguments that a trans-Canada line would be subject to "awesome" taxing powers of the Canadian provinces.

"The Canadians would have

to tax all their pipelines if this one were taxed. They couldn't tax one arbitrarily more than another nearby, a tax would increase all their energy costs," which means they wouldn't do it.

"It's also a disservice to Alaska and the nation to argue against a line through Canada by implying Canada can't be trusted," Ward added. "Canada never has interfered with the highway, pulp is shipped from Ketchikan to Eastern Canada and they bring ore out through Skagway. It would be a tragedy to decide we can't trust Canada."

The firm needs U.S. certification by mid-1976, Ward said, in order for staging areas to be built during the summer, winter and next summer. The winter of 1977 could see a start to pipe laying, he predicted.

Canadian government certification of the Arctic Gas project is "possible" by next summer, too, he said.

Ward, who said, "Our project is simply better for everybody than El Paso's

proposal," said he trusts the Federal Power Commission to decide the issue fairly. The body is now hearing El Paso's arguments. Arctic Gas already has finished presenting its proposal.

North of the border, he said Canada's equivalent of our power commission has started its hearings, "which move more quickly through their energy board than the U.S. panel. So they are parallel with the U.S. government's timing," he said.

Native claims problems in Canada "aren't problems" as far as a natural gas pipeline is concerned, he said. Canadian government certification for the project would include a corridor for it and would require sufficient money in a native claims escrow account. It would take care of whatever is decided in a negotiated settlement between the

Canadian aborigines and their government, he said.

"If it had to be done, a corridor could be set by the government without compensation for the natives," he added.

Steel pipe to take the gas across Canada also "is no problem," Ward said.

"We have been getting letters of intent for 48-inch pipe" from suppliers in Italy, Japan and West Germany." Those letters are revised from time to time because no cash commitment can be made until the certification, or final go-ahead, is issued, he said.

"We just want a little more dispassionate treatment in this.

"As we get closer to a decision, emotions run high and we'd like to soften them with more information," Ward said. "We don't want to dog fight."

The U.S. balance of trade also would not suffer because of a cross-Canada pipeline, he asserted.

Despite an initial flow of money out of the country "we would be a \$3 billion to \$4 billion ahead in our balance of payments within 10 years," Ward added.

This he said, is because of such things as the high powered pump stations every 50 miles along the line in Canada would be American made.

Arctic Gas is now stronger in Congress "by far" than El Paso, Ward added, in case the power commission is overridden by legislative action to speed pipeline approval. The firm now has better than a 50 per cent chance to get certification, he said.

Arctic Gas has spent about \$150 million to date in

pre-pipeline planning so "is ready to go," Ward said, "while El Paso is way behind in planning.

"They would also have to build a liquefaction plant at Port Gravena on the gulf likened to nothing in the world today — and you just can't pick one up at Montgomery Wards," he said. "And I won't be apologetic for our project. It's the best one."

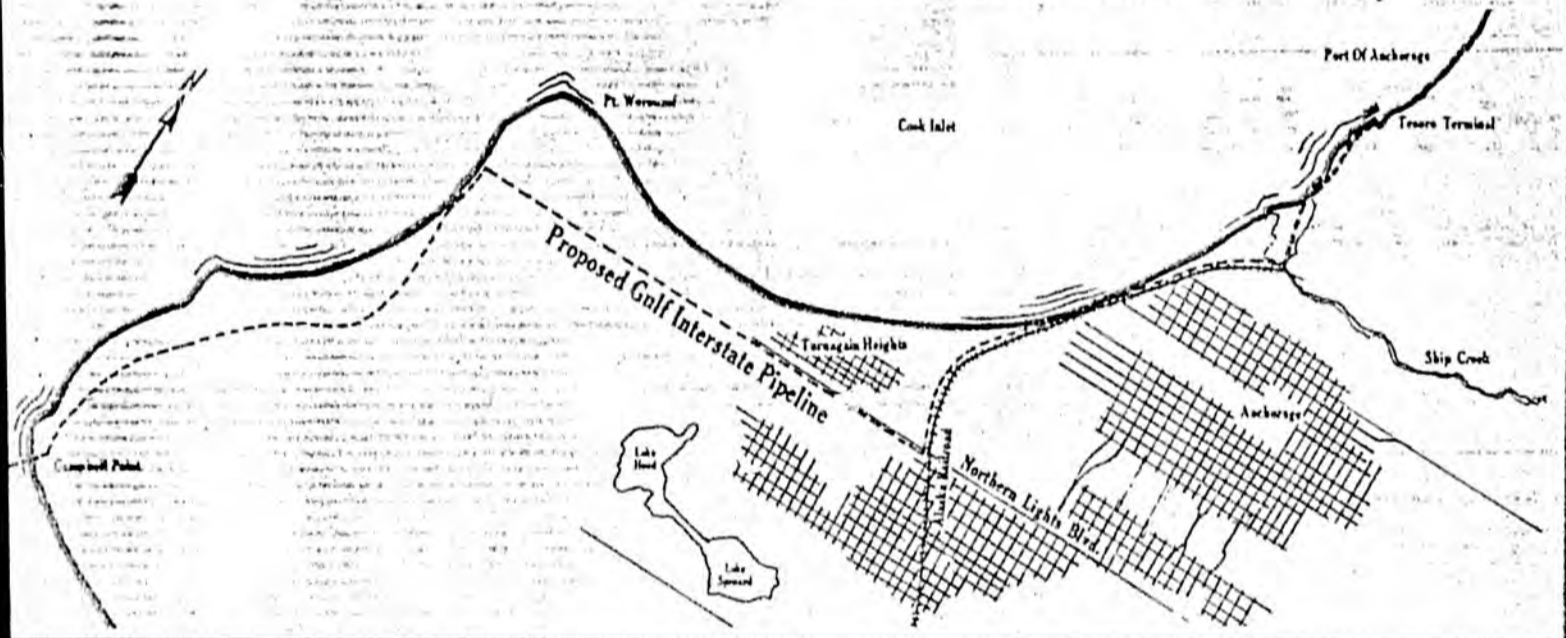
## PSST

The "big dish" antennas of NASA's Deep Space Network are so sensitive they can pick up a spacecraft's radio signal as weak as 1-1000,000,000,000,000,000 watts of power. If this energy were collected for 19 million years, it would light a 7.5-watt Christmas tree bulb for one one-thousandths of a second.

Anchorage Daily Times



Pipeline Would Run From Nikiski Industrial Area To Anchorage



## Peninsula Line Survey Begins

Survey work on a proposed pipeline for refined petroleum products has begun on the Kenai Peninsula.

Gulf Interstate Engineering Co. of Houston, Tex., has been selected to build the 10 3/4-inch pipeline from the Phillips Petroleum refinery at Nikiski to the Tesoro tank farm in the Anchorage port area.

Witt V. Lounsbury &

Associates of Anchorage is conducting the preliminary survey on the Kenai Peninsula along the proposed right-of-way which parallels an existing Phillips Petroleum natural gas line for the first 30 miles. The right-of-way then traverses a virgin forest from Moose Point to Pt. Possession on Turnagain Arm.

The state division of lands,

which is coordinating the application with state agencies, says it expects the proposed 10-foot permanent right-of-way to occupy about 62 acres of land along the 51.4 miles of state land it is requesting to pass through.

Under the terms of the state Right of Way Leasing Act of 1972 the pipeline firm will have to pay annually 8 per cent of the value of the leased land based on its appraised fair market value. The value of the land is to be reappraised every five years.

The division of lands is coordinating the application with the Department of Highways, the Department of Environmental Conservation, the Department of Labor and the Alaska Pipeline Commission which regulates pipelines in the state.

The line is slated to cross 14.4 miles of Turnagain Arm where a limited number of fish and

clams live.

"We've filed all the applications for permits," said Nikiski Alaska Pipeline Co. president Ed Michels.

"We're sort of in a waiting pattern now."

Nikiski Alaska Pipeline is a wholly owned subsidiary of Gulf Interstate Engineering Co.

Michels indicated the major source of income to the line would be refined products originating at the Tesoro refinery. Standard Oil Co., of California operates a refinery adjacent to Tesoro, but the company does not believe it can compete with the low cost tanker transportation standard receives by using tankers to move petroleum to Anchorage. The fleet of older tankers carries refined products from a Richmond, Calif., refinery, picks up additional products at Nikiski and delivers them to a tank

farm in Anchorage.

Gulf Interstate officials have called on a number of local government agencies to try to explain the project which it wants to complete by next winter.

Jack Rogers, Gulf Interstate Engineering's general manager for land, right of way and regulatory affairs already has paid a courtesy call on Anchorage Manager Douglas Weiford to give him a general description of the project, although he left nothing in writing with Weiford. The pipeline would cross municipal lands near Anchorage International Airport.

The pipeline would be particularly attractive to Tesoro because it has been plagued by problems with the barge that moves its refined products from its refinery to Anchorage.

## State Mulls Financing Power

The state, examining the possibility of financing electrical power projects, might become involved in financial backing of the proposed Susitna River hydroelectric project.

Hugh Malone, D-Kenai, met Friday with members of a group studying the feasibility of state financing for electrical power and said afterwards it is "conceivable the state would provide money for planning to

encourage federal participation" in the hydroelectric project.

Malone, chairman of the House Finance Committee, is overseeing a \$250,000 study being conducted by the University of Alaska and several electrical consultants. The study is designed to determine whether the state should help finance power projects.

Malone said direct financing of power projects "will be

limited — if we get into it at all." He predicted any state participation in the Susitna project would be limited to one-fourth or one-half of the planning costs.

"But I don't foresee the state jumping in quite that deep right at first," Malone said.

The Susitna power proposal is one of several in which the state could participate if next year's legislature decides to support financial help for

utilities.

"If it looks like the cheapest and best way, the state could provide low cost money for electrical development in Alaska."

The Kenai representative said he expects enabling legislation will be introduced during the next session that would put the state in the power financing business.

The power study is expected to be ready for examination by the end of December. The legislature appropriated \$300,000 for the study. Malone said contracts have been let for the study which could cost up to \$240,000.

The study is to examine the future electricity needs of the state through 1995. The study will determine how much power will cost, who will be the prime users and the sources of power.

The legislature is under strong pressure from utility companies to help make financing easier. The Southeast Hydropower Conference requested \$3 million for the state.

The legislature is under strong pressure from utility companies to help make financing easier. The Southeast Hydropower Conference requested \$3 million from the state.

Malone said future invest-

ment in the power industry could amount to hundreds of millions of dollars if the legislature is convinced by the study that the money will be well spent.

"The conclusion may be no financing," Malone said. "The legislature may decide it would be best to make changes in the regulatory procedure. But, with this study, we hope to be able to conclude that if we decide to invest in electrical power, we will set up legislation which will provide the best benefits for the people. That kind of judgment does not exist in the state now."

State participation in energy sources is likely to increase, according to Malone. He said the governor's energy office is applying for a federal grant to do a study on energy requirements, and that a state energy policy may be formulated within the next year.

The power study is being made under the Legislative Budget and Audit Committee. Rep. Ed Naughton, D-Kodiak, is chairman of the committee.

## Official Is Doubtful On Proposed Gulf Sale

By The Associated Press

An Alaskan State official says the Interior Department's decision to begin accepting tract proposals for possible outer continental shelf oil and gas lease sales in the western gulf is not a good one for the state.

The move may set the stage for a third federal lease sale in Alaska's southern waters in 1976, and commissioner of natural resources Guy Martin says,

"It's difficult enough to cope with the impact of just one sale." He said Thursday the accelerated scheduling could plunge the state into chaotic development.

The state Department of Revenue had analyzed potential impact of a sale planned in January or February and concluded that the state would have to subsidize development in the involved area.

Martin said economic detriments of a sale in the western gulf "will be even more pronounced... it will be demonstrated to cost Alaskans money."

The Interior Department is also planning a sale in lower Cook Inlet. The call for nominations in that area was made last month and a sale may be held as early as October, 1976.

The western gulf

nominations are to be made by December 29, 1975, on a 16-million-acre area, with the sale tentatively scheduled for December, 1976. The area is not as well known geologically as either of the other two, where oil seeps have indicated the presence of fossil fuel.

Resource analyst A. Cameron Edmondson, who has done consulting work for the Gulf of Alaska Operator's Committee, said, "quite frankly, I wouldn't put it at the top of my priority list. I would consider at least three or four other prospects better."

Martin said the state was not consulted about the sale, although officials were informed that earlier this week that the process was to commence.

"We are still in the position of having sales imposed on us," Martin said. "We have not been able to play a role in the structuring of the schedule or the sale."

The state had asked for delay in the leasing schedule to allow for planning, participation in lease decisions, preparation for impact and the outlining of a revenue-sharing program.

## Gas Hike Needs Okay

ADT 11-6-75

A requested rate increase by Alaska Gas and Service Co. would give the company an additional \$4.5 million in revenues next year.

The gas company this week asked the Public Utilities Commission to grant it an increase of 23.30 cents per thousand cubic feet in the price it charges its users. The increase would be in addition to a 12.78-cent increase granted in July and in addition to a two-cent increase to take effect Jan. 1.

The permanent increase will take effect Dec. 1 if the state commission grants it.

The 23-cent increase would give the company \$23.4 million in 1976 revenues, compared to \$18 million it would receive if the increase were not granted, according to the company's filing with the commission.

In the filing, company President Dale Teel said the increase is necessary "to protect the financial integrity of the utility."

The increase would give the company a 12.88 per cent rate of return, according to Teel's filing.

A commission spokesman said yesterday the commission will examine the company's proposed rates "with a fine-tooth comb" to

determine if the request is valid.

The gas company also seeks commission permission to restore a flow-through clause in its tariff which would allow it to pass along increased gas costs to its customers automatically.

Teel said the requested permanent rate increase is the first in the company's 15-year history.

The average Anchorage-area residential customer will pay about 15 per cent more for gas if the requested increase is granted. The average residential cost is now \$1.57 per hundred cubic feet.

Teel said the increase is made necessary by increased costs in the price of natural gas. With a new, more expensive contract the company has signed with its suppliers, "gas customers in Anchorage are virtually assured of uninterrupted gas service," Teel said.

The gas company president, in his filing, told the commission, "The rates requested will enable us to continue to provide the same high level of reliable service to our customers which they have come to expect."

## Appeal Likely In New Gas Tax

By FLIP TODD  
Times Staff Writer

Several of the state's largest users of natural gas and the state's major gas pipeline company likely will appeal the effects of an oil and gas reserves tax that will cost them several million dollars over the next two years.

The tax, which will affect users of natural gas from the Kenai and Beluga gas fields, is expected to raise at least \$1.5 million from gas in the ground at the Kenai gas field. It supplies the Anchorage Natural Gas Co., the city's power generation plant, two military power plants and some of the Chugach Electric Association's power generation plants.

The tax bills will be sent to Union Oil Co. and Marathon Oil Co., the two major owners of the field, but their contracts allow them to pass the costs on to their customers. Anchorage homeowners who use natural

gas will bear part of the tax.

"We figure the tax will come to about 2.5 cents per thousand cubic feet," said Tom Williams, head of the state's division of petroleum revenue.

Anchorage Natural Gas spokesman Dick Barnes said the average homeowner his firm serves used 217 thousand cubic feet of gas last year. That would mean an added cost of about \$5.43 per year.

Barnes voiced concern with the tax because when his firm lobbied against the reserves tax during the last session of the legislature, "We were told by the Legislature and the Department of Revenue it would not affect us."

A provision of the reserves tax, of which more than 95 per cent will be paid by owners of oil at Prudhoe Bay, allows a production tax credit to be used against the reserves tax.

## Alaska Gas Asks Cost Hike

Alaska Gas and Service Company filed today for a 2.5 cent per hundred cubic feet increase in the price of its natural gas.

The firm's president, Dale Teel, said in a press release this morning that the largest single cause of the proposed increase is a higher wellhead price, which he said is now double what it was three years ago. The increase will be a 15 per cent a month hike to the average Anchorage residential customer, Teel said, or about \$4.50.

The increase, he said, is necessary to obtain assured

availability of gas for peak winter weather conditions, plus other contracted escalations.

The Alaska Public Utilities Commission will have to rule on whether to grant the increase.

## Municipal League Backs Alaska Line

"A trans-Alaska natural gas pipeline would provide numerous benefits over that of a line constructed outside Alaska," says the Alaska Municipal League.

Benefits cited in the resolution adopted at the league's annual state convention Friday include earlier market delivery than possible by a Canadian route and total U.S. control of a valuable and reliable energy source.

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# DAILY NEWS

Cloudy

ANCHORAGE and vicinity and Mat Valley — Mostly cloudy Thursday and Thursday night. Light winds. Low tonight zero to 18. High Thursday low 28. Low Thursday night 18 to 15. Outlook for Friday, cloudy.

VOL. XXIX, NO. 136 18 PAGES

ANCHORAGE, ALASKA, THURSDAY, NOVEMBER 6, 1975

TWENTY-FIVE CENTS

# Consumers to pay inlet gas tax

By ROSEMARY SHINOHARA  
Daily News Staff Writer

Anchorage and Kenai Peninsula consumers will likely pay about \$2 million in increased natural gas and electricity costs over the next two years after the new state oil and gas reserve tax is applied to natural gas producers in Cook Inlet. The Daily News learned Wednesday.

State Department of Revenue officials met with the Alaska Public Utilities Commission and industry representatives Wednesday to deliver their assessment of what the tax means to consumers.

RICHARD Edwards, a member of the commission, said an average homeowner in Anchorage or Kenai may be assessed from \$4 to \$6 per year by each utility to pay the reserve tax, until it expires in two years.

The tax amounts to two to three cents per thousand cubic feet of gas consumed, and the average homeowners uses about 200,000 cubic feet per year, Edwards said.

The amount to be assessed Cook Inlet producers, and passed on to Southcentral consumers, is still only a

preliminary estimate. It is also uncertain how the Beluga gas field will be affected by the reserve tax.

CUSTOMERS OF Alaska Gas and Service Co., also known as Anchorage Natural Gas; the Kenai Utility Service Co., and Anchorage's Municipal Light and Power Co. will pay from \$1.5 million to \$2 million over the life of the tax, Edwards said.

Chugach Electric Co. derives power from the Beluga field, and the amount of tax assessed there could push the total cost to Anchorage and Kenai consumers into the \$2 million and \$3 million range, he estimated.

The reserves tax was designed to exempt producing oil and gas fields. The tax law states that the reserve tax will not be paid if production taxes exceed the amount the reserves tax would bring in. But Revenue Department officials found that severance taxes from producing gas fields in Cook Inlet were in some cases only half the amount that will be assessed under the reserves tax.

AFTER THE reserve tax ends in two years, the production tax would be reduced over a period of years until

it offsets the reserve tax. "In about 18 years the money theoretically would be paid back to consumers," Edwards said.

Taxes are considered something a utility company can reflect directly in its rates, but the various companies have to file plans with the Alaska Public Utilities Commission before they pass on the reserves tax, Edwards said.

Reserve tax payments are due next June 30.

ALASKA GAS and Service Co., Municipal Light and Power and Kenai Utility Service have all already applied to the commission for higher rates.

A hearing was held last week on Alaska Gas and Service Co.'s request to pass on the reserve tax, severance tax, production tax and the increased price they pay for Cook Inlet gas to consumers, but no decision has been reached yet. Edwards estimated the whole flow-through package requested by Alaska Gas could mean \$10 to \$12 per year each for average homeowners over the next two years.

Municipal Light and Power customers are in for a big

increase — late last month the ML&P was revealed to be in poor financial condition even though the utility has received two interim rate increases already this year.

A hearing on a third interim rate increase request for ML&P is scheduled Nov. 29, and the issue of passing on added taxes will be considered at the same time, Edwards said. If the interim rate increase is granted after the Nov. 20 hearing, the total rate increase for the former City of Anchorage utility will be 51.7 per cent, including the increases already granted this year. The company has been ordered to file an application for a permanent rate increase by Dec. 1.

The Kenai Utility Co. has undergone commission hearings on a request to pass along severance and reserve taxes to consumers, and the commission has approved the request for the severance tax, but has not yet acted on the reserve tax.

The utility rates have been rising in all sectors since 1972, when Alaska Gas and Service Co. voluntarily decreased its rates after the commission conducted a rate hearing for the company.

# Market is guaranteed for Alaska's oil



Milton Lipton discusses oil

By ANDY WILLIAMS  
Daily News Staff Writer

Continued rising prices for Mideast oil will guarantee a market for all the oil Alaska can produce, Milton Lipton, the legislature's chief consultant on oil and gas policy, said Wednesday.

In a presentation to the Legislative Council, Lipton painted a picture of oil developments that was rosy for oil producers but not so rosy for oil consumers.

DESPITE mounting internal pressures, the Organization of Petroleum Exporting Countries (OPEC) will continue to dictate a policy of generally rising prices, he said, arriving at a level of about \$14 a barrel by 1980.

Price controls on domestic oil will gradually be eliminated, he said, and exploration for new oil will continue to accelerate. Prices will rise to the level set by the OPEC nations and the level will insure that domestic oil will be produced economically, he said.

Lipton, the No. 2 man in Walter J. Levy and Associates of New York, said there was a surplus in productive capacity in the Mideast of up to 12

million a day caused by reduced worldwide consumption of oil because of price increases. If consumption had increased at the rate anticipated before the oil embargo in 1973, surplus productive capacity would be less than one million barrels a day, he said.

BY FAR the largest surplus is in Saudi Arabia, he said, which has a productive capacity of 20 million barrels a day but is only producing 12 million barrels.

Lipton said Saudi Arabia sought to hold prices down but agreed Sept. 24 to a 10 per cent increase in the price of its oil to \$11.50 a barrel. Ironically, he said, other OPEC nations were undercutting the price to maintain a high level of production.

Lipton said it would be "dangerous to assume" that surplus productive capacity would continue indefinitely. "If demand increases" more rapidly than expected it wouldn't take many years of 6 per cent growth instead of 2 per cent as projected to dry up the productive capacity surplus," he said.

LIPTON ALSO said it was not likely OPEC would reduce the price of oil. Saudi Arabia did not want to isolate

itself by "playing the devil in the game" and it was in the interests of the other OPEC nations to maintain a gradually increasing level of prices, he said.

Nor could other nations intent on developing more expensive resources than Mideast oil tolerate a drastic reduction in OPEC prices, he said. Such reduction would play havoc with investments in high-cost domestic production, he said. "If there isn't any OPEC, we better create one," he said.

IN ANY CASE, he said, in 10 years the price of world oil would be the same whether OPEC had increased it or not.

Lipton said the chief goal of the United States' energy policy was to reduce its reliance on foreign oil. However, even with projected advancements, he said the U.S. will still import about seven million barrels a day in 1980, about the same amount it exports now.

Lipton said a general energy policy was "in great disarray" in Washington but that "the basic elements" were in place.

LIPTON SAID there was agreement that the nation should avoid undue

dependence on foreign oil and that there was a "general willingness" to accept a price for oil far exceeding the price anticipated five years ago. There was also a faith the nation had the resources to achieve independence, which was not true in Japan or Germany, he said.

Lipton said the arctic areas of Alaska and Canada would be of "tremendous importance" in the national energy picture. He noted a well was recently drilled in the arctic islands of Canada that produced 3,000 barrels a day of "sweet oil" and that Alaska's North Slope would produce nearly 2 million barrels a day when the pipeline was completed.

LIPTON ALSO advised that the state would receive more value for its natural gas if it were used in the state than if it were exported. He said gas in interstate commerce would probably rise to about \$2 per million cubic feet from the present controlled price of 50 cents but that the cost of transporting it was so high the value could not be restored at the wellhead.

## Alaska

### gas line

### cheaper

11/3/75

ADN

By MARK PANITCH

Our Washington Correspondent

WASHINGTON — An economic consultant's study of Alaska gas line financing, prepared for the Interior Department, indicates that the cost of building a trans-Alaska system might be as much as \$400 million less than the cost of a trans-Alaska system.

However, the report notes that the capital costs of either system \$7.59 billion would be staggering, with between six and seven per cent of all non-communications utilities investment during construction years needed for the project.

EL PASO ALASKA, which wants to build a trans-Alaska-liquefied natural gas (LNG) tanker system will be able to take advantage of U.S. Maritime Administration loan guarantees to lower its interest rates.

Arctic Gas, a consortium that wants to construct an Alaska-Canada line reportedly has asked the administration for other kinds of federal aid.

However, the study concludes that the Canadian portion of the Arctic gas line could absorb 19 per cent of the total public corporate bond purchases during construction. "This percentage of public purchases of a single corporation's bonds over a three year period probably would be the highest in history," the study says.

ON THE OTHER hand, the study suggests that "U.S. financial markets would be better able to fund the entire Alaska-LNG project than Canadian markets could fund their portion of the Alaska-Canada system."



## PREDICTING THE FUTURE OF OIL

New York consultant Milton Lipton, center, stresses a point in his testimony before the Legislative Council in Anchorage yesterday. He predicts oil prices will continue to climb, but slowly,

and the oil cartel will face harder years ahead. Taking notes is State Sen. Kay Poland, D-Kodiak. Behind Lipton is his aide Richard Kilgore.

11-6-75 ADT

# Oil Cartel May Face Hard Years

By CHERYL PROBST  
Times Staff Writer

While predicting slowing increases in oil prices, the legislature's oil consultant said the years between 1978 and 1981 will be difficult for the Organization of Petroleum Exporting Countries.

Milton Lipton told the Legislative Council in Anchorage yesterday that the period will be difficult for Opec because "there will be a fair amount of incoming oil" from Alaska's North Slope, the North Sea and Southeast Asia. The organization may be faced with having to contain surpluses and

firm up prices.

Lipton's firm, Walter Levy and Associates of New York, is retained by the legislature as its oil consultants.

In a two-hour meeting with legislators, Lipton briefly reviewed the world oil situation as it was, is now and what it might be in the future.

The demand for oil has done a 180-degree turnabout in the last two years, from a shortage to a surplus, he said, mainly because the rate of consumption is down.

Between 10 million and 12 million barrels per day beyond what is being demanded of Opec is capable of being

produced, he said. While this has caused some countries to cut their prices because they are unable to sell as much oil as they want to, there has been no reduction in the price of Saudi Arabian oil, which, he said, "represents the mainstream of oil prices."

He noted that while Saudi Arabia "resisted" the 10 per cent price increase approved by Opec in September, it was the only country to put the full increase into effect.

There is no member of Opec that "really wants to bring prices down," he said.

Opec cannot live with a constant

price level and will need increase they will be slow, he said.

"Opec is in a defensive today," he said. "The \$10 and it got in 1974 was beyond its dreams."

Lipton told legislators it is economically better to use natural gas within the state, export the higher priced oil.

Lipton, who testified against reserves tax bill when it was considered by legislative council last spring, still hasn't changed his mind about the law.

He still maintains it is a bad

# Energy 'sleeper'

11/15/75  
ADN

## Gas from coal--a 2nd look

By HARLAND RAEGER  
Chicago Daily News  
CHICAGO, — Underground conversion of coal to gas is getting serious attention in the United States.

One federal expert calls it the "sleeper" in the nation's search for new energy sources.

ODDLY enough, if underground coal gasification helps to solve U.S. energy problems, the Soviet Union can claim much of the credit.

"We're just now beginning to learn the extent of the Russian technology," L. Zane Shuck, of the Energy Research and Development Administration (ERDA), said here last week.

"They have been generating gas from the underground process for 30 years."

SHUCK IS supervisor mechanical engineer at ERDA's energy research center in Morgantown, Pa. He reported on U.S. progress in underground coal-to-gas projects at the International Energy Engineering Congress in Chicago.

In an interview prior to his talk, Shuck said that the underground process not only work but the price is right.

"Its feasibility has been kind of uncertain in this country," Shuck said. "But, hell, the Russians have been doing it for over three decades. That should no longer be a question."

THE FEDERAL researcher is equally optimistic about the costs of making gas from coal beneath the earth's surface:

"It's definitely economically competitive today. And we think it will be even more so 10 years from now."

Essentially, the process involves burning coal down in deep mines and capturing the gas that is created. The low heat-value gas could be used to generate electricity at a power plant at the mine site. Or it could be upgraded to a high heat-value gas fed into pipelines to heat homes, run appliances and serve industry.

U.S. ENGINEERS have been working for years to protect gasification processes using coal taken from existing mines. Shuck said underground gasification costs about as much as mining coal. For this reason, he said, the underground process is about half as expensive as coal conversion on the surface.

ERDA's budget contains about \$5 million for research and development work on underground coal gasification. Early last year, the agency lit its first subterranean fire near Hanna, Wyo. Shuck said his engineer expect to light their first fire near the Morgantown center in six to nine months.

Meanwhile, Shuck cited these new developments:

— ERDA is reviewing a "very large-scale demonstration project" underground gasification that is expected to begin in the next 12 months.

— Texas Utilities Co., of Dallas, has purchased the Russian technology to convert low-grade lignite coal into gas.

— Last month, the Morgantown research center proved that the Directional drilling" method used in Russia for about 15 years is feasible in the United States.

DIRECTIONAL drilling involves sinking a shaft diagonally down to 1,500 feet below the surface, then working horizontally through the coal bed. Shuck said the system generally uses remote-controlled equipment that places no miners underground, creates no safety problems and is cheaper.

The next step is to inject air and ignite an underground fire. Gas is produced from the coal then is captured. Shuck said it has a heat value of 100 to 250 BTUs (British thermal units) per cubic feet, compared to about 1,000 for natural gas.

Shuck says that experts consider underground gasification "sort of a dark-horse" in the push for energy alternatives.

"Until now, he haven't had to look at alternative generating sources," he said. "Now we have no choice."

## Lenders buy Sohio/BP notes

Outside institutional lenders have purchased \$1.75 billion in 10% per cent notes issued by Sohio - BP Trans-Alaska Pipeline Capital Inc. to help finance the cost of building the Prudhoe Bay-Valdez hot oil transportation system.

initially closed by the capital company's agent, Morgan Stanley & Co., Thursday.

Sale of the notes, due on Jan. 1, 1993, and Jan. 1, 1998, were

## Gas lines cost more

11/19/75  
ADN

The two companies proposing to build pipeline to transport North Slope natural gas to the Lower 48 released new cost figures showing increases of about \$1 billion for each project Tuesday.

Arctic Gas, a consortium that would build a pipeline across Canada, said it would take slightly more than \$7 billion in 1975 dollars to accomplish the project, compared to earlier estimates of about \$6 billion.

EL PASO Natural Gas Co., which wants to build a pipeline generally paralleling the trans-Alaska oil pipeline and then ship the gas in tankers to markets outside, said costs for its project have increased to more than \$8 billion.

The higher costs were attributed to inflation. The new figures were filed in documents for the Federal Power Commission, which is conducting a hearing on the proposed pipeline routes.

Even the new cost estimates do not approach estimates of some outside observers. Arlon Tussing, an economist who serves on the state's Oil and Gas Royalty Advisory Board, said this summer he believes \$10 billion would be the minimum cost, and his private estimate would be in the range of \$20 billion.

THE LATEST company estimates are based on financial information available as of July 1.

## ARCO quits Arctic Gas

11-15-75  
ADN

The Atlantic Richfield Co. announced its withdrawal from the Gas Arctic Study group Friday.

The consortium has been engaged in planning an Alaskan-Canadian pipeline to carry natural gas from the North Slope and Canada's Mackenzie delta to the Lower 48 states and eastern Canada.

A spokesman said Arco joined the group of interested utilities and companies with substantial North Slope reserves in 1970 to determine the feasibility of the project.

He said its viability has been established. Two competing plans for pipeline movement of the fuel — the Alaskan-Canadian project and the trans-Alaskan project — are now the subject of hearing.

## Slope gas surplus

(Continued from page 1)  
two million by the year 2,000;

The Prudhoe Bay natural gas pipeline route chosen delivers the gas to a Southern Alaska terminus, and the state is able to take its royalty gas from the pipeline:

The Susitna Dam project is built, but there is still increased reliance on natural gas to produce electric power;

At least four major industries using natural gas for feedstock set up business in the state:

UNDER THOSE circumstances, by 1990 the state would have a surplus of more than one trillion cubic feet of royalty gas — an amount greater than the total projected residential and commercial gas needs of the state between now and 1990.

"It's virtually impossible for us to use all our royalty gas," says Patrick Dobby, state petroleum geologist and one of the authors of the study.

IF THE gas pipeline goes through Canada, the population grows only

moderately, and only one ammonia-urea industrial plant were built, the state would still have a working surplus of royalty gas, Dobby says.

Current predictions are that three billion cubic feet of gas per day will be transported from the North Slope. Alaska's royalty share is 12 1/2 per cent, which would be 375 million cubic feet per day. The present residential and commercial demand in the state is 99 million cubic feet per day.

The state's yearly royalty would be enough to supply a world-size petrochemical plant that could produce one-tenth of the nation's polyethylene, a methanol plant to make antifreeze and solvents, another ammonia urea plant, a cement plant producing enough to export, an aluminum reduction plant, a small copper smelter, and an iron ore pellet plant.

ALL OF those industries could be fed by the state's royalty gas, and there would still be 44 billion cubic feet per year left over, the study says.

## Study projects Slope gas use; shows surplus

11-17-75 ADN

Alaska's share of Prudhoe Bay natural gas would be enough to meet residential and commercial needs, supply a large petrochemical plant and several other industries, and still have a surplus left over, a study prepared by the state Division of Geological and Geophysical Survey shows.

The study, designed to project future natural gas demand in the state, predicts how much gas would be consumed depending on other developments — whether the population skyrockets or grows moderately, whether the gas pipeline from Prudhoe goes across Alaska or Canada, and whether major hydropower projects are built as planned.

THE HIGHEST demand for natural gas would occur if:

—The population grows to the maximum amount predicted — more than one million by 1990, and more than

(Continued on page 2)

## Gas line bill

(Continued from page 1)

similar to one circulated by Arctic Gas during the past two weeks. Major differences, reportedly, exist only in the definitions section of the bill. The Ruppe version, reportedly, is not quite as strong as the Arctic Gas version in requiring that Arctic Gas actually construct the pipeline. However, a Congressional declaration finding that route "in the national interest" would virtually guarantee that Arctic Gas would build the line.

THE RUPPE BILL, like the Arctic Gas draft legislation, would pre-empt administrative hearings now under way before the Federal Power Commission by directing that body to

approve Arctic Gas' applications to build a pipeline from Prudhoe Bay across Canada to the U.S. Midwest.

In addition the Ruppe bill would require the Interior Department to grant all necessary right of way permits across public lands.

Environmental review would be strictly limited under the Ruppe bill, using language similar to that incorporated in the 1973 trans-Alaska (oil) Pipeline Act.

"There are a number of good reasons to support the Arctic Gas proposal," Ruppe said. "It is not only in the interest of the gas short Midwestern states, but of the entire nation."

Ruppe said the Canadian pipeline "would make the extensive... supplies in the Mackenzie River basin available for export to the United States. By using the Arctic Gas pipeline the Canadians would be able to take advantage of the Mackenzie Reserves and perhaps avoid further cutbacks in the export of natural gas to the U.S."

## Gas line bill due out today

11-18-75 ADN

By MARK PANITCH

Our Washington Correspondent WASHINGTON — Rep. Phillip Ruppe, R-Mich., plans to introduce legislation Tuesday to mandate construction of a trans-Canadian gas pipeline by the Arctic Gas consortium.

Ruppe said in a press release late last week that he would introduce such a measure. Monday his staff confirmed that following a meeting scheduled for 9 a.m. Tuesday with Arctic Gas officials, Ruppe expects to introduce a bill.

MEANWHILE, several senators have been approached by Arctic Gas and asked to sponsor a similar bill. Such action is under serious consideration by Sen. Walter F. Mondale, D-Minn. Mondale staff members confirmed that he would "probably" add his name to such a bill. But they were uncertain whether he would be the chief sponsor or a cosponsor of the measure.

Other senators reportedly interested in sponsoring the Arctic Gas proposal include Birch Bayh, D-Ind., and Robert Griffin, R-Mich.

The bill Ruppe plans to introduce is

(Continued on page 2)

# Inflation Swells Gas Proposals

11-18-75 ADT

Times Washington Bureau  
 WASHINGTON — Inflation has taken a big bite out of both proposals to bring North Slope natural gas to Outside markets.

In new exhibits filed today with the Federal Power Commission, the El Paso Natural Gas Co. and the Arctic Gas Consortium reveal new

estimated costs of their projects that reflect the big wallop of skyrocketing costs.

El Paso's proposal has jumped from \$6.7 billion to more than \$8 billion. The new Arctic Gas estimate is slightly more than \$7 billion, up from \$6.1 billion in their original filing with the commission. The Arctic Gas estimate covers trans-

port only from Prudhoe Bay to the Alaskan border.

The first estimates by El Paso were based on varying figures from 1973 dollars through projections into 1979.

The \$1.3 billion increase in the total capital cost of the project is, according to Lou Dell'osso of El Paso, "strictly due to inflation."

The new figures by both firms reflect the best estimate as of mid-1975. Counsel for the Federal Power Commission had requested the financial information earlier this fall.

After weeks of delay, the firms filed the updated information with the commission this morning.

The El Paso exhibit

estimates the average delivered cost of the gas during the first three years of full operation of the system to four areas of the U.S. in dollars per million btu's El Paso projects it will cost \$1.53 to deliver to Los Angeles, \$1.51 to San Francisco, \$1.59 to the Midwest and \$1.74 to the East Coast.

In addition, the El Paso exhibit includes a letter agreement that the firm has entered into with U.S. Steel. In the agreement, which is the first step toward a contract, U.S. Steel offers to provide the entire supply of Arctic grade pipeline to meet El Paso's specifications.

This pledge answers a major contention of Alaska Arctic Gas that no U.S. firm can supply the pipe that El Paso needs for its project.

In the Arctic Gas filing for Alaska, the updated figure is \$657 million, up from \$592 million in 1974. The filing to cover Canada is up to \$6.4 billion, from \$5.5 billion in 1974.

## Arco Will Withdraw From Gas Line Study

11-15-75 ADT

Atlantic Richfield Co. will withdraw from the Gas Arctic Study Group a consortium that has been planning the construction of an Alaskan-Canadian gas pipeline to bring natural gas from the North Slope of Alaska and the Mackenzie Delta of Canada to Outside states and eastern Canada.

In 1970, Atlantic Richfield and other owners of substantial North Slope gas reserves joined a group of gas pipeline companies and utilities interested in constructing a gas pipeline to tap Arctic reserves. Its purpose was to support the joint research and feasibility studies necessary to establish the viability of a project of such magnitude, Atlantic

Richfield says. This role has been accomplished and the Alaskan-Canadian project and a competing trans-Alaskan proposal are now the subjects of hearings before the Federal Power Commission in the United States and the National Energy Board in Canada.

Recently, Atlantic Richfield announced commitments of its gas reserves in Alaska's Prudhoe Bay Field to three companies which are active participants in the Gas Arctic Study Group.

## Interior Reports State Will Bear Brunt Of Boom

11/20/75 ADT

WASHINGTON (AP) — The Interior Department says a proposed opening of offshore gas and oil development in the northern Gulf of Alaska would be "a trade-off" in which Alaskans would suffer most of the problems and the rest of the nation would reap most of the benefits.

In the final environmental impact statement on the offshore lease sale proposed for next February, department analysts concluded that "most of the energy consumption and any benefits" would accrue to the populations in the "lower 48" states.

The four-volume study was released by the department yesterday.

## Hickel urges Slope gas line

ADN 11/21/75

Special To The Daily News  
 SEATTLE — Walter J. Hickel told an audience here Thursday night to "tell America the story" of the need for a trans-Alaska pipeline to carry natural gas from the North Slope.

Speaking to the Northwest Forum, Hickel said the Alaska oil pipeline proved energy could be transported from the arctic safely for use in the United States.

Hickel said the Canadian government was friendly but that "recent history has shown what even our friends will do when it comes down to an economic crunch."

The former Alaska governor and U.S. Interior secretary said lack of national leadership was the reason the nation lacked an energy policy. "America desperately needs a Teddy Roosevelt type personality who can put us back on our feet in terms of domestic energy production," he said.

Hickel said the Pacific Northwest was in some ways benefiting more economically from pipeline construction in Alaska than Alaska was.

## Commission Denies Gas Firms' Motion

11-18-75 ADT

By BETTY MILLS  
 Times Washington Bureau

WASHINGTON — The Federal Power Commission has denied a motion by attorneys for the major parties in the gas line case that would allow environmental evidence to be taken before the final impact statement is issued.

In a unanimous 4-0 decision, the commissioners said the sequence established by them last January for the gas line proceeding should be followed.

In its order setting up the case, the commission separated the hearing into two phases, with environmental evidence to be taken during the second part.

While the first phase of purely technical evidence is being taken at hearings that began last May, the Power Commission staff is preparing its environmental impact statement on the competing proposals.

The El Paso Alaska Co. has proposed to pipe natural gas from North Slope on a route parallel to the oil pipeline, liquefy it and ship it by LNG Tanker to California for transport to Outside markets.

The Arctic Gas Consortium has

proposed a Canadian pipeline as an alternative project.

The Commission's order said, "Due to the complexity of this proceeding," a thorough revision of the environmental aspects is needed by the staff.

"Our desire to eliminate unnecessary delay must be balanced against any possible detriment to the public interest," the order said. "In this instance, we find that there is a likelihood that the proposed shortened proceeding could result in undesirable circumstances."

Attorneys for both El Paso and Arctic Gas believe the consolidation move could have shaved several months off the commission's decision-making process.

Arctic Gas attorney R. Clyde Hargrove, characterized the delay of between three to six months as a "serious setback."

El Paso officials could not be reached for comment on the decision.

The staff is expected to complete its environmental impact statement, which will focus on the El Paso project, sometime next spring.

## El Paso Backs Pipe Promoters

The Organization for the Management of Alaska's Resources (Omar) has accepted a \$10,000 per month offer from the El Paso Alaska Co. to help finance a nationwide push for the construction of an Alaska gas pipeline.

El Paso Alaska Co. has proposed to construct a pipeline from Prudhoe Bay to a site between Cordova and Valdez where the gas would be liquefied and sent south in cryogenic tankers.

"It's a no strings attached offer," said Mrs. Beverly Isenson, Omar executive director. She said El Paso Alaska vice president John Bennett made

the offer Nov. 6 before the group's Anchorage chapter.

A letter he sent to Omar said, "We plan to continue this support for at least a year, at which time we will consult with you on future requirements," Mrs. Isenson said.

El Paso Alaska executive Michael C. Holland, in Bennett's absence, confirmed the offer had been made.

"It will start about the first of December," he said.

Omar has raised about \$110,000 since the fund drive began in April, Mrs. Isenson said. The Alaska Chapter of the Associated General Contractors of America has given the largest donation to date with a pledge of \$25,000. Another major contributor has been Teamsters Local 959

which gave \$5,000, she said.

The publicity group has been spending about \$20,000 per month for the last few months, she said, and maintains offices in Anchorage and Fairbanks, as well as retaining an attorney in Washington, D.C., Gary Frink, who is trying to form a national group to support the Alaska gas line called U.S. Alaska Energy Coalition.

## Gas Surplus Is Possible

11-18-75  
ADT

By The Associated Press

A study by the state division of geological and geophysical survey indicated Alaska's share of Prudhoe Bay natural gas could provide a surplus while meeting residential and commercial needs and supplying a large petrochemical plant and several industries.

Patrick Dobey, one of the authors of the study, said, "it's virtually impossible for us to use all our royalty gas."

The study predicts natural gas consumption under various circumstances. It was

determined that the highest demand would occur if the state's population grows to the maximum predicted, more than one million by 1990, and more than two million by the year 2,000; if the natural gas pipeline delivers the fuel to a southern Alaska terminus, thereby permitting the state to take its share from the pipeline; if the Susitna Dam project is built but reliance on natural gas to produce electric power increases; if four major industries using natural gas for feedstock set up business in

the state.

Even under those circumstances, the study indicates the state would have a surplus of more than one trillion cubic feet of gas by 1980.

Alaska's royalty share of the gas is 12½ per cent. If the predicted three billion cubic feet of gas per day are transported from the North Slope, the state would receive 375 million cubic feet per day.

Alaska's current residential and commercial consumption is 99 million cubic feet per day.

## Texan Wants Line For Alaska's Oil

11/20/75 ADT

AUSTIN, Tex. (AP) — Alaskan crude oil could be brought directly to Texas for refining, Texas House Speaker Bill Clayton said Tuesday.

"We could benefit by having 400,000 barrels of oil a day flowing to Midland, Tex., by as early as 1978," Clayton told a news conference.

Clayton urged Texas congressmen to promote a proposal by El Paso Natural Gas Co. filed with the Federal Power Commission which would allow the company to use idle natural gas lines across Arizona and New Mexico to transport Alaskan crude oil from California to Texas. He said it would require construction of about 200 miles of pipeline in California.

After reaching Midland, Clayton said, the Alaskan crude would be channeled to various refinery centers, much of it to the Beaumont-Port Arthur and Houston areas.

He said he understood El Paso Natural Gas, in cooperation with Standard Oil of Ohio, has twin natural gas pipelines now from California to Texas. In the near future they expect to need only one for transport of natural gas.

Clayton also said he urged Congressmen to oppose a proposed amendment to the Outer Continental Shelf Lands Act, already passed in the Senate and now in the House.

"Higher cost and substantial delays would be the byproducts," he said. "Most distasteful would be changes made in bidding procedures; government exploration instead of by competitive operators; separation of exploration and development and increased state involvement in planning."

## Liberals Demand Canadian Pipeline

ADT

11-21-75

Special To The Times

WASHINGTON — The ruling National Liberal Party of Canada has adopted a resolution giving priority to

gas pipeline schemes that are all-Canadian in ownership and which are designed to serve the public first.

Rep. Don Young, R-Alaska, yesterday said the resolution, adopted at the party's national convention, becomes the party's official position, further strengthening congressional support for an all-Alaskan route for gas reserves at Prudhoe Bay.

"When you couple this action of the Liberal Party with the fact that the Canadian socialist Party has been advocating nationalization of the petroleum industry, it's plain to see that the only feasible scheme for transmission of Alaska's North Slope gas reserves is the Alaskan route," said Young.

He said another Liberal Party resolution calls for the Canadianization of the petroleum industry.

## Magnuson warns F. P. C. on advance gas charges

By FRANK HEWLETT  
Times Washington Bureau

WASHINGTON — Senator Warren G. Magnuson yesterday warned the Federal Power Commission that natural-gas supplies could be threatened if it does not re-evaluate its program allowing producers to charge customers in advance for exploration and development costs.

In a letter to the F.P.C. chairman, Richard L. Dunham, Magnuson said this practice could "pit state against state" in a battle for natural gas.

Magnuson said producers are demanding hundreds of millions of dollars in advance payments from consumers to enable pipeline firms and distributors simply to negotiate for future supplies from Alaska.

"Are large multinational corporations, such as Atlantic-Richfield, Exxon and British Petroleum-Sohio in need of capital from the pipeline companies and distribution companies?" Magnuson asked. "Are advance payments necessary to assure commitment of the Prudhoe Bay as in the interstate market?"

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# Three firms eye 15-E ethylene market

Financial Times Service

TORONTO — Three major chemical companies continue to negotiate participation in Alberta's \$1.5-billion petrochemical complex.

The project is designed to launch the province into worldwide production of ethylene and derivatives.

Canadian Industries Ltd., Montreal, says it is still "very interested." But its plans have been delayed to late 1979 or 1980 because of Alberta's decision not to subsidize the initial price of natural gas feedstock for the ethylene plant scheduled for mid-1978 production.

Concern about oversupply of polyethylene in the domestic market — in the face of no price supports — led Dugout of Canada Ltd., Montreal, in September to shelve plans for a high-density polyethylene plant associated with the complex.

CHL's option to buy 450-million pounds of ethylene for a low-density polyethylene plant at Redwater, Alta., expired Oct. 1, but the company continues to negotiate with Alberta Gas Ethylene Co. Ltd., Calgary. It is a subsidiary of Alberta Gas Trunk Line Co. Ltd., Calgary.

In the meantime, Dow Chemical Co. of Canada Ltd., Sarnia, has picked up the entire ethylene production — 700 million pounds, for three derivative plants in Alberta and as much as 500 million pounds for possible export to the U.S. National Energy Board permission would be required for export.

Alberta Gas Ethylene and Dow are

principal developers of the project although at one time they were competitors. They and the Alberta government "officially" announced the project in September.

Two key questions which surround the involvement of additional companies are the price of ethylene and the plant's timing.

Robert L. Pierce, president of Alberta Gas Ethylene, denies contentions that the ethylene plant will not be ready by mid-1978.

"It's kind of a poker game. You can't gamble we won't get it built in 1978," says Mr. Pierce. The company is waiting for approval of permits by the Alberta Energy Resources Conservation Board to begin construction of the \$300 million ethylene plant.

Mr. Pierce says some work could start this winter — pending approval — but it would be limited to roads and drainage. Originally the company had hoped to put in underground piping, but this appears unlikely until after winter.

Diamond Shamrock Canada Ltd., Toronto, and B. F. Goodrich Ltd., Kitchener, are two possible secondary manufacturers of vinyl chloride monomer from one of Dow's three derivative plants.

Diamond's plans for a 200-million-pound-a-year polyvinyl chloride plant appear almost certain, leaving only specific details of an Alberta location in dispute.

# Reserves Control On Agenda

A House and Senate conference committee is expected to meet this week to decide whether the Naval petroleum reserves should remain in the Department of Defense or be moved to the Department of the Interior.

Rep. Don Young, R-Alaska, said yesterday, before returning to Washington, that he is working to get on that conference committee to give Alaska representation.

The compromise now under discussion, which Young predicts will come to pass, would keep Naval Petroleum Reserves 1, 2 and 3 under the Navy's jurisdiction but would give Interior control over Pet 4 in Alaska.

The change of jurisdiction does little for the state," Young said. "But what will be of benefit to Alaska is a provision in the bill which would allow us a share of royalty under the mineral leasing act.

"There's no possibility of getting 90 per cent, as we get from other federal lands in Alaska. But I think we'll be able to get 37 1/2 per cent royalty, the same as other states are allowed."

The two Republicans now on the conference committee from the House are Sam Steiger of Arizona and Joe Skubis of Kansas, both of whom outrank Young in seniority. He said both support Alaska's position but he still would like to get on the committee.

"I'm reluctant to cash in too many chips to do it, however," he added.

# Gas Commitment To Be Reviewed

12/2/75 ADT

Special to The Times  
JUNEAU — The state's Royalty Oil and Gas Development Advisory Board, at its meeting in Juneau next Tuesday and Wednesday, will discuss whether or not to commit the state's North Slope Royalty gas to a trans-Alaska gas pipeline and the importance of such a commitment to achieving that pipeline.

Commissioner of Natural Resources Guy Martin said the board will consider the offers

from El Paso Natural Gas and Teneco to purchase the royalty gas.

El Paso Alaska Vice President John Bennett has said that a commitment of the state's royalty gas to his company's pipeline is the single most influential action the state could take in favor of obtaining permission for a trans-Alaska pipeline.

"Everyone is aware that if a commitment will motivate the selection of the route of a gas line, such a decision must be made soon," Martin said. "The board will be considering whether there are other motivations more important, such as obtaining advance revenue, stimulating industrial activity or providing resident fuel," Martin said.

A commitment to a particular company, he added, could range from a simple letter of intent to sell the gas at a later time, or the state could decide to draw up an exclusive, negotiated agreement.

Also at next week's meeting, Martin said, the Royalty Board will be considering the offer from Alaska Natural Gas to purchase the state's royalty gas in north Cook Inlet, which is now going to Phillips Petroleum Corp.

Deputy Commissioner of Natural Resources William Fackler has been named the first full-time executive director of the Royalty Board. However, Martin said Fackler is remaining as deputy until a successor is selected.

Martin said he is down to a "short list" of possible candidates, and he is hopeful that a new deputy can be appointed this month.

# Governors Get Appeal

JUNEAU (AP) — Gov. Jay Hammond has written letters to the nation's governors listing the advantages of a trans-Alaska natural gas pipeline over the competing proposal for a trans-Canada line.

Hammond suggested the governors review both proposals, but says he is confident that they will conclude, "as I have, that the proposed trans-Alaska gas pipeline is best, not only for Alaska, but for the United States."

The governor's letter says the trans-Alaska gas line would parallel much of the trans-Alaska oil pipeline, minimizing environmental damage.

He said the time schedule for the trans-Alaska line was its "most significant advantage." Hammond said existing oil pipeline facilities could shorten construction time, while unresolved native land claims and the necessity of a treaty between the United States and Canada would slow the progress of a trans-Canada line.

# HOUSE REJECTS GAS DECONTROL

12/2/75

ADT

WASHINGTON (UPI) — The House Commerce Committee Tuesday narrowly rejected a proposal for removing federal controls on natural gas prices. It then approved a bill that would allow some winter-time emergency sales of gas above federal price ceilings.

The bill that will go to the House floor, if it clears the Rules Committee, will deal only with the winter's shortages of natural gas this year and next.

A Senate-passed version has the emergency provisions, plus a long-term "deregulation" of natural gas prices.

Rep. Robert Krueger, D-Tex., attempted to amend the bill before the Commerce Committee with the same language as approved by the Senate. That was ruled not germane. Then he proposed a similar idea — a seven year phasing out of price controls on natural gas. That failed on a 19-19 tie vote.

# Staff Urges Gas Line At Least To Fairbanks

ADT

12-2-75

WASHINGTON (AP) — The environmental staff of the Federal Power Commission recommends that even a trans-Canada natural gas pipeline system follow the trans-Alaska oil pipeline to Fairbanks before turning east to Canada.

from the North Slope. The two documents are designed to present a total environmental outline of the competing proposals.

The commission statement says a route following the oil pipeline would involve 735 miles of natural gas pipeline within the state.

That recommendation concludes the draft environmental impact statement on Alaska gas systems from the Federal Power Commission. The document draws much of its information from an El Paso Alaska Gas Co. proposal for a trans-Alaska line to Prince William Sound.

The staff has indicated that it will incorporate data from an environmental impact statement released by the Interior Department last July to cover Arctic Gas Co.'s trans-Canada route — for gas

# Juneau Assembly Backs Alaska Line

Special To The Times

JUNEAU — Juneau has joined eight other cities and boroughs in Alaska in endorsing the trans-Alaska pipeline route as the best routing "for proper management of North Slope natural gas."

In a resolution, the Juneau Assembly noted that the Alaska route is advisable for economic and environmental reasons.

ADT 12/3/75

# Millionaire Has Plan For Delivery Of Oil

SEATTLE (AP) — D. Michael Curran has plans for a \$1 billion oil delivery system that he says could brighten the Puget Sound oil picture.

What his plan would do is increase the number of oil tankers calling here by 400 percent.

Curran, a Montana millionaire who heads Northern Tier Pipeline Co., was an unsuccessful bidder on the Alaska pipeline—one of the few major setbacks he has had in 45 years of pipeline construction, oil drilling and ranching.

Northern Tier is a six-firm consortium drawing up plans for a Washington superport and a 1,500-mile pipeline to carry oil from Puget Sound to Minnesota. The line would carry both Alaskan and foreign crude oil to inland refineries and provide a link for four pipeline systems stretching from the South-

west to Buffalo, N. Y.

"You've got a refinery system on the whole Northern Tier of America that was built to run on Canadian oil," Curran said. "There won't be any more Canadian oil after 1980. Just how do you harvest wheat in Montana to ship it through Seattle if you don't have oil?"

"We understand you've got some hassles going on over oil here," Curran said. "There should be some way where our project can fit into your picture."

However, Gov. Dan Evans, Sen. Warren Magnuson and others have opposed making Puget Sound a transfer point for oil shipped east of the Cascades.

The legislature is being asked to restrict oil deliveries for existing Washington refineries to the Olympic Peninsula so that oil tankers will stay out of the inland waterway.

# Capital Hill Stirs On Synthetic Fuel

By Congressional Quarterly 12-12-75

WASHINGTON — Should American taxpayers guarantee billions of dollars in loans to industry to encourage development of substitutes for oil and natural gas?

"Yes," say President Ford and other advocates of loan guarantees and other incentives to spur manufacture of synthetic fuels — oil extracted from oil shale, oil and gas produced from coal and other fuels made from the processing of various waste products.

"No," respond critics of such proposals, who see them as no more than government hand-outs to undeserving big business. They question the human and social costs of this new industry, whose first plants probably would be located in remote coal and oil-shale areas of the West and in coal-rich Appalachia.

"This is not a time to be timid," says Sen. Jennings Randolph, D-W.Va., sponsor of the loan guarantee program. "It is a time for commitment to the future."

The nation must do more than merely talk about developing new energy sources, he says; it must set timetables for commercial production of synthetic fuels. The proposed loan guarantee program — already approved by the Senate in July — is "the single most important action that can be taken by the federal government to expedite the commercial development of a domestic synthetic fuels industry," Randolph states.

"This kind of federal assistance is absolutely essential to launch a synthetic fuels industry," agrees Sen. Henry M. Jackson, D-Wash. "The technology... exists today and is ready for commercial demonstration. The barrier is an economic one... Production by 1985 of the synthetic fuels equivalent of one million barrels of oil a day will require a capital investment... of about \$20-billion. The marketplace does not now provide sufficient incentives for this kind of outlay for a pioneer industry. It is up to the government to provide that incentive."

"When we talk about loan guarantees... we are talking about subsidizing commercial ventures with the taxpayers' money," warns Rep. Timothy E. Wirth, D-Colo.

"The entire emphasis of this program has been that industry has risks," adds Rep. Ken Hechler, D-W.Va., one of the leading critics of the program. "These risks must be minimized by loan guarantees... People have risks, communities have risks, taxpayers have risks. These... must be considered at the same time as the other legislation."

# Senator Confident Of Alaska Gas Line

By SUSAN ANDREWS  
Times Staff Writer

The gas pipeline from Alaska's North Slope will be a trans-Alaska pipeline, Sen. Mike Gravel confidently predicted here yesterday.

The Democratic senator had just accompanied Republican President Gerald Ford to Alaska, on the President's way to China, and he said he spoke to the President about his (Gravel's) proposed bill which would require the Federal Power Commission to set a date for its decision on the pipeline.

"This bill is the tactic that will bring a decision early," Gravel said. "Congress can say the decision is final and there will be no judicial review, just as it did for the trans-Alaska oil pipeline." Gravel noted that it was his amendment that resulted in that approval.

What if the Federal Power Commission decides on a trans-Canadian route? "I don't think they will," the senator responded. "The situation is very favorable to us. I do feel the Alaska line will be approved. There are some problems but they can be worked out."

Gravel said the President was "very interested" in his bill, and Congressman Don Young, hearing Gravel's arguments in favor of the bill, also expressed interest. "The President asked me to write him a letter detailing the legislation," Gravel said.

The bill as now written specifies that the decision must be made by June 1, 1976, but Gravel said he will amend that to Dec. 1, 1976.

Gravel hadn't planned to be back in his home state until Christmas, but when the White House called Monday inviting him to accompany President Gerald Ford to Alaska, he promptly accepted.

He pointed out with a grin that there hadn't been many invitations from the White House during former President Nixon's tenure, after Gravel released the Pentagon Papers detailing the U.S. involvement in Vietnam.

Gravel flew aboard Air Force One, along with the President, Mrs. Ford, their daughter, Susan, Secretary of State Henry Kissinger and Energy Chief Frank Zarb among other high-ranking officials. Alaska's Congressman Don Young, a Republican, also was on board.

The President put any question of

partisanship to rest by having me on the plane," Gravel commented yesterday. "The speech he's going to make tonight is non-partisan. Everything he has done has been in good taste."

That's why Gravel, although he was invited to Republican Sen. Ted Stevens' birthday party here last night, declined the invitation. It's the one part of the President's trip with a political overtone, he said. "I would be pushing myself to go," he said.

The senator indicated that he and Sen. Stevens are on good terms, even though they take diametrically-opposed positions on such issues as whether or not the U.S. should adopt its own 200-mile limit.

Gravel is opposed to such unilateral action; he wants to wait until the International Law of the Sea Conference adopts a treaty, and he said he is devoting all his time and energy to two things these days: "representing Alaska's interests and negotiating the Law of the Sea treaty." Stevens favors a 200-mile limit law to protect Alaska's salmon until an international treaty is adopted.

Gravel noted that when he and Stevens debated the issue recently, they did it without a moderator. "That has to give some idea of the civility between us," he said, "and our ability to function effectively as individual senators."

What's now happening off Iceland, the cod war between Iceland and Britain, "is the best example of what could happen in the Gulf of Alaska," if the U.S., like Iceland, adopted its own 200-mile limit, Gravel declared.

Gravel's support of the administration's stand, opposing a unilateral 200-mile limit for the U.S., could have prompted the invitation to Alaska, he conceded yesterday. Gravel is talking today to the Unitarian Fellowship here about the 200-mile issue.

"There's no question I'm working very closely with the administration on this issue," he said. "Henry Kissinger and I joked a lot about it on the flight. I spent 3/4 of an hour with the President last week, and I've had a lot of contact with the White House and the State Department since then."

# Gas Study To Be Aired

The legislature's Natural Gas Pipeline Impact Committee will hear from a Texas firm on reservoir projections for North Slope gas when it meets in Anchorage next week.

Scheduled to appear the first day before the committee are H. J. Gruy and Associates of Dallas, which has done work on the gasline for the Department of Interior.

The second day will cover a

discussion of in-state consumption of natural gas, state revenues and a report from the Royalty Oil and Gas Development Advisory Board.

# Economic war' should counter oil embargo--Carter

12/1/75  
ADN

WASHINGTON (AP) — Democratic presidential hopeful Jimmy Carter said today that the United States could consider an "economic declaration of war" against the Arab oil-producing countries if they try imposing another oil embargo.

The former Georgia governor said in televised interview that while the United States "yielded" to the embargo adopted during the 1973 Arab-Israeli war, "I would not permit that to happen again."

"I would let the Arab countries know that we want to be your friend, that we are heavily dependent on oil imported from them," Carter said.

However, he said the United States should make it clear that "if they declare an embargo against us, we would consider not a military but an economic declaration of war" cutting off all U.S. shipments

of food, arms, oil drilling equipment and other products.

Appearing on CBS' "Face the Nation" program, Carter said he planned to enter all presidential primaries leading up to the 1976 Democratic National Convention.

He said political soundings over the past two weeks "have convinced me that I've got an excellent chance to win" in the Florida primary March 9, where he is up against Alabama Gov. George Wallace.

Carter criticized other Democratic candidates for holding back from full-scale campaigning against Wallace and declared that "I don't have any hesitancy about running aggressively and putting my political ability to a very severe test in the states where Wallace is strong."

Asked whether he would accept second spot on the Democratic ticket, Carter said he

was not interested in being vice president but would consider running for the post if he were defeated "fairly and squarely" for the presidential nomination.

He added that "if I thought at this point that I would end up as vice president, I would quit campaigning and go back home to my peanut farms and let nature take its course."

Another Democratic candidate, Rep. Morris K. Udall,

said that to keep his campaign alive "I've got to do well in a couple" out of the first four primaries — in New Hampshire, Massachusetts, Florida and Illinois.

Questioned about his slim showing in opinion polls, the Arizona congressman said that "what you need to do is get out in the trenches and win some primaries, then you come up in the polls."

## Power Panel Suggests Nikiski Gas Terminal

By BETTY MILLS

Times Washington Bureau  
WASHINGTON — The proposal by the El Paso Alaska Co. to pipe natural gas from Alaska's North Slope to Gravina Point would have significant social and economic impacts on the state, according to the staff of the Federal Power Commission.

In its draft environmental impact statement on the two competing proposals to bring natural gas from Alaska to other American markets, the staff minimizes the dangers to the ecology of the state. However, the document notes that the probability of a major oil spill cannot be discounted.

The staff comes to no con-

ADT 12/1/75  
clusion as to whether the El Paso proposal or the competing project offered by the Arctic Gas consortium offers fewer environmental risks.

"Both proposals have consequences which are environmentally unique and irreversible," the statement said.

In its conclusion, the staff recommends changes in both the El Paso and Arctic Gas projects. The environmental statement determines that Nikiski would be a more suitable location for the liquefied natural gas terminal than Gravina Point, the site El Paso proposes. This would mean that El Paso's pipeline would follow the firm's proposed route as far as Livengood, and then follow a new line recommended by the staff to Nikiski.

In addition, the environmental staff regards Oxnard, Calif., as a more suitable location for El Paso's proposed gas terminal project than Point Conception, also in California.

As for the Arctic Gas proposal, the staff suggests that the line follow the proposed Fairbanks corridor alternate route. This would involve construction of approximately 735 miles of pipeline in Alaska. The first 460 miles would extend south from Prudhoe Bay adjacent to the oil pipeline right-of-way to just northeast of Fairbanks. From that point, the route would proceed southeasterly along the Alaska Highway for 275 miles to the Canadian border.

The power commission staff embraced, with a few exceptions, the conclusions of the Interior Department in its draft environmental statement on the Arctic Gas project, released last summer. The two governmental agencies had planned originally to conduct a joint study, but the "memorandum of understanding" fell through due to El Paso's refusal to file with the Interior Department for permission to cross federal lands.

(See Page 2, Col. 1)

## KUWAIT BUYS UP ITS OIL MARKET

12/1/75

KUWAIT (UPI) — An oil industry spokesman announced today that Kuwait has signed a \$50.5 million agreement to take over the remaining 40 per cent of its oil industry from the Gulf Oil and British Petroleum companies, breaking a monthlong deadlock in negotiations.

Kuwait, the world's third largest oil exporter, thus became the first oil-producing state to negotiate a complete takeover of its oil industry from foreign shareholders.

A spokesman said the agreement, under which Kuwait assumed the remaining 40 per cent still held by the two companies in the Kuwait Oil Company, was signed in Kuwait.

The companies will receive \$50.5 million dollars between them as compensation, he said.

The agreement was particularly significant in that it represents a victory for the Arab oil producing states in their first major showdown with foreign shareholders over takeover terms. It should also set a precedent for other oil producers engaged in

similar negotiations with their foreign share holders.

Negotiations between Kuwait, BP and Gulf had been suspended for nearly a month in a dispute over credit terms. The companies had been holding out in an effort to obtain a most-favored customer status in the future oil they will buy from Kuwait.

The government, with firm backing from Saudi Arabia and other Gulf states, refused and even said it would nationalize companies' holdings if they refused to give in or attempted to suspend oil production as a means of pressuring Kuwait.

2 Anchor, 2 D, by Times, Monday, December 1, 1975

## Impact Report On Gas Project Poses Changes

(Continued From Page 1)

The chance of an oil spill and damage to the caribou population is cited by the commission staff as a major environmental hazard of the El Paso proposal.

"The probability of major spills of fuels, lubricants, or toxic materials at storage sites and during tanker transportation of the LNG cannot be discounted," the statement says. "Should a major spill occur, there would be long-term adverse impacts on water quality, especially if such products seeped into groundwater beds where they could remain for extended periods of time."

The El Paso pipeline construction would destroy some 6,700 acres of existing vegetative cover, and would disturb through removal, burial or soil erosion, another 24,000 acres of vegetation.

In addition, all surrounding vegetation could be affected by sulfur dioxide emissions from the proposed pipeline and liquefaction plant on the tiny fishing village of Cordova.

food source of the caribou," the statements said.

In addition, pipeline construction by El Paso would affect wildlife populations through harassment or disturbances during critical periods of their life cycles and the introduction of pollutants into the ecosystem.

The report also notes that the locating two compressor stations just north and south of Fairbanks could be detrimental to local air quality.

In its analysis of the socio-economic effects of both projects, the staff believes the statewide impact of the El Paso proposal on population and the private sector would be significant, particularly in the peak year of construction and impact in 1980.

Anchorage — and, to a lesser extent, Fairbanks — will bear the brunt of this impact.

The commission's report also points to the effects of the proposed pipeline and liquefaction plant on the tiny fishing village of Cordova.

# Ecologists facing fight on gas line

12/2/75  
ADN

(c) Christian Science Monitor

WASHINGTON — With a winter of natural gas shortages predicted, environmental groups face a strengthening congressional sentiment to speed approval of a pipeline bringing Alaska gas to the lower 48 states.

The Wilderness Society and its environmentalist allies in the Alaskan Coalition (AC) plan "a last ditch stand" against one of two proposed pipeline routes, says society counsel Frank Berry.

Environmentalists object most to an Alaskan Arctic Gas Pipeline Company plan that would cross northern Alaska, then move southeast down Canada's Mackenzie River valley and into the U.S. Midwest.

EL PASO Natural Gas Company has proposed a pipeline largely paralleling the oil pipeline under construction. Environmental leaders like this plan best but consider it less likely to be approved by the Federal Power Commission.

The environmentalist's ire is directed against the Arctic Gas plan because it crosses the Arctic National Wildlife Range in northern Alaska, "an area of incomparable value" which should be preserved in its natural state, says Stewart Brandborg, Wilderness Society executive director.

Arctic Gas spokesman Jim Beall counters that the proposed pipeline routing was drawn up by 50 independent environmental experts to minimize damage and claims that environmental groups have seized the wildlife refuge issue "as more of a symbol than anything else."

BEALL FINDS "growing congressional interest in legislation to see that the pipeline gets built in a reasonable amount of time." And Wilderness Society counsel Berry admits that the pipeline fight "will be touch and go" with an outcome "hard to predict."

A key reason for new congressional moves to speed approval of one of the two pipeline routes is the Federal Power Commission estimate that the nation will be short at least 2.91 trillion cubic feet of natural gas this year with curtailments of supplies to businesses up 45 per cent from last year.

Without congressional action some observers think the Federal Power Commission hearings and deliberations on which pipeline route to approve could extend through 1977 with court challenges to the decision

taking place after that.

THE SENATE Commerce Committee is scheduled to hold hearings this week on a bill (S2150) introduced by Sen. Mike Gravel, D-Alaska, that would require the Federal Power Commission to meet a June 30, 1976, deadline for its pipeline decision. The bill also would eliminate court review of the commission decision and substitute a 60-day period for congressional review of the decision.

Staff members in Gravel's office say the decision deadline may be extended to Dec. 1, 1976.

Before the Christmas congressional recess, members of both houses are expected to introduce legislation that would mandate a decision for Arctic Gas. Rep. Philip E. Ruppe, R-Mich., has announced that he will introduce such legislation and Sen. Robert P. Griffin, R-Mich., is expected to introduce the bill in the Senate.

The expected congressional activity comes in the wake of a Library of Congress study recently released which found that natural gas producers have a "strong profit motivation" to hold available gas supplies in the ground for as long as six years due to the impact of price regulations.



## New routes asked for 2 gas pipelines

ADN

By MARK PANITCH  
Our Washington Correspondent

WASHINGTON — In a recommendation with potentially far-reaching consequences, the Federal Power Commission environment staff has urged that even a trans-Canadian gas pipeline system follow the route of the trans-Alaska pipeline as far south as Fairbanks before turning east into Canada.

The recommendation was offered as a staff conclusion to a draft environmental impact statement on Alaska gas systems issued by the F.P.C. Most of the F.P.C. document is based on the El Paso Alaska Gas Co. proposal to build a pipeline to Prince William Sound, liquefy the gas and ship it to California aboard cryogenic tankers.

However, the F.P.C. staff indicates that it is incorporating significant amounts of data contained in another draft impact statement issued last July by the Interior Department to cover the trans-Canadian route. Taken together, the two documents are supposed to provide a total environmental picture of the competing proposals.

In reference to the Canadian line, proposed by Arctic Gas, the EIS says, "The Alaskan Arctic route of the Arctic Gas system should be constructed along the proposed Fairbanks Corridor

12/2/75

Energy chief Zarb  
studying both lines

Page 11

alternate route."

That route, the EIS says, would require a total of 735 miles of pipe inside Alaska before the line crossed in to Canada.

The F.P.C. staff also recommends that the El Paso system follow a route that would bring it to Cook Inlet, at Nikiski, rather than taking it farther east to Prince William Sound.

This route, the F.P.C. staff indicated, would result in less environmental disruption and have fewer socio-economic impacts on surrounding areas than the proposed Prince William Sound route.

# Hammond

## asks support

### on gas route

Daily News Bureau

Alaska Gov. Jay S. Hammond is appealing to other governors to review arguments on competing Alaska natural gas pipeline proposals and take the state's own conclusions into consideration.

"I hope you will conclude, as I have, that the proposed trans-Alaska gas pipeline route is best not only for Alaska but for the entire United States," Hammond told 49 other governors in letters last month.

HAMMOND reviewed the competing trans-Alaska pipeline and tanker proposal of El Paso Natural Gas Co. and the trans-Canada pipeline proposal of Arctic Gas Co., and points out the significant advantages he sees in the El Paso proposal.

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## Exercise

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By The Associated Press

More than 14,000 troops will take part next month in Arctic winter maneuvers designed to test plans for defense of the Alaska pipeline, the Pentagon announced Tuesday.

Army, Air Force, Air National Guard and Navy units will be brought in from as far away as Massachusetts for the exercise, which will last from Jan. 5 to Jan. 31.

"The purpose of the exercise is to train a joint task force under the extreme climatic conditions of the arctic to defend the main base complexes of Alaska, the trans-Alaska pipeline and to repel or destroy any invading force," the Pentagon said.

The maneuvers, named Jack Frost '76, will be conducted in an area covering some 400 miles from Galena Air Force Station to Ft. Greely.

The main ground forces will be drawn from the Army's 172nd Infantry brigade based in Anchorage and Fairbanks, plus a battalion from the Ninth Infantry Division at Ft. Lewis, Wash.

In addition to Air Force units based in Alaska, the U.S. Readiness Command will employ regular Air Force and National Guard units from Idaho, Nebraska, and Massachusetts.

Elements of a new ranger battalion will be flown in from Ft. Stewart, Ga., and two platoons of Navy special Warfare men will be brought from Coronado, Calif.

11/28/75

## Line Decision Year Away

The vice chairman of the Federal Power Commission has told a congressional subcommittee that a final commission decision on the route of a natural gas pipeline from Prudhoe Bay is expected by Dec. 1 of next year.

Any shortcut to this procedure "must be done with care so as to preserve the due process rights of all parties," he added.

Smith said the Federal Power Commission expects

the staff final environmental impact statement to be issued by Feb. 26, with the initial decision on the pipeline route expected by next Sept. 1, and the final commission decision by Dec. 1, 1976.

Don Smith, the vice chairman, told Rep. John Melcher's House subcommittee on public lands that it is difficult to project a timetable for the proceedings.

He noted there are "a great number of uncontrollable factors" and that "much depends on the applicants and intervenors themselves: the number of witnesses called, the time needed for preparation of cross examination, the time used for cross examination and the possibility of future amendments to the applicants'

## Natural gas pipeline

Two companies have proposed each a different route to carry North Slope natural gas to Lower 48 markets. One route parallels the trans-Alaska oil pipeline, the other goes through Canada to the U.S. Midwest. If it is determined that a gas pipeline is financially feasible, that its product can be delivered to consumers at reasonable prices, then it would be in the nation's best interest to follow the Alaska route.

The short-term advantage is an inviting one for the nation. Presumably, an Alaska line could be built more quickly: the route is shorter, its corridor already has been studied for environmental precautions and camps built along it, and it avoids the international political entanglements that Canada holds.



The Alaska route also has a broader long-term advantage, primarily that it offers options of using the gas within the state. With it, the nation could maintain the option of developing an imaginative, inexpensive petrochemical industry, conceivably one that could even be used through the production of fertilizers to help feed the world.

"Applications before the FPC indicate that no matter what route is selected, it will be approximately 4 1/2 to 5 years after certification before the project will be able to deliver Alaska gas to the Lower 48 states," Hammond said.

"However, there are several reasons for believing that a trans-Canada pipeline system will encounter significant delays."

HAMMOND cites the threat of suits over Native land claims in Canada and the treaty being negotiated for the pipeline project. He says the state's analysis of the Arctic Gas route found the trans-Canada pipeline construction schedule "extremely optimistic" and he added that the later assessment in the Department of Interior to environmental impact statement reached the same conclusion.

"We believe Arctic Gas will be unable to keep to its proposed construction schedule," he said.

In comparison, Hammond said, El Paso's construction schedule is not based on using the oil pipeline facilities built since then, and use of these facilities may shorten that pipeline's schedule.

THE SECOND advantage in the Alaska line, Hammond said, is its economic benefits to the U.S. He said the 48-inch pipe required for the trans-Canada line cannot be manufactured in the U.S., but must be made in Japan, Canada or Germany, but the smaller 42-inch pipe in the El Paso line can be made in U.S. mills.

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Both companies are

involved in Federal Power Commission (FPC) hearings now and the final decision will probably be made by Congress next year.

Hammond said the El Paso proposal is better for the entire nation as well as better for Alaska, saying it can be built more quickly, has less environmental damage, will have greater economic benefits during construction and may be as good or better in operation costs.

"WHILE THE costs and benefits to Alaska of the competing pipeline proposals have been clear for some time, the balance sheet for the nation as a whole only recently has begun to take shape," Hammond said.

Citing gas shortages in other states, Hammond says the most significant advantage of the trans-Alaska route is its ability to get gas to Lower 48 markets earlier than the Canadian route.

"Applications before the FPC indicate that no matter what route is selected, it will be approximately 4½ to 5 years after certification before the project will be able to deliver Alaska gas to the Lower 48 states," Hammond said. "However, there are several reasons for believing that a trans-Canada pipeline system will encounter significant delays."

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# Federal energy chief is

## Studying gas line routes

**FARRBANKS**—Frank Zarb, looking at critical questions one of President Ford's top energy advisers, doesn't have a view on the gas pipeline route question, but he'll have one before long.

Zarb, head of the Federal Energy Administration, said in a brief interview at Pump Station 8 Saturday that his office is studying the gas route question thoroughly and expects to "come down one way or the other" in about four or five months.

**ZARB** was also a committee member about the energy bill drafted recently by a joint House-Senate conference committee, but an aide to the energy chief described his boss as "happy" about the reported provisions of the bill.

Gov. Jay S. Hammond urged President Ford by letter last week to ask the committee to change provisions of the bill affecting Alaska oil prices. Hammond also urged Ford to veto the bill if changes are not made.

On the gas route question, Zarb's press secretary, Robert Nipp, said the administrator is

looking at critical questions that will help the administration decide which line—Alaskan or Canadian—to support. The questions include:

—Which line can be completed first?  
—Where is the need for natural gas greatest?  
—Which route affords greater strategic security?

Alaska's Lt. Gov. Lowell Thomas, Jr., has been barnstorming the nation speaking in favor of the Alaska route on behalf of the state. It remains to be seen whether the Ford administration will support the state's position.

**NIPP SAID** Zarb has held over 200 individual meetings with congressmen and senators in recent months to give legislators a feeling for the administrator's desires with regard to energy policy. Many of the provisions of the bill—such as the establishment of a strategic storage capability—are Zarb's accord to Nipp.

Nipp said that he personally was unaware of the impact the

bill would have on the state's current fiscal problems. He said he did not know whether Zarb had considered the state's financial woes.

President would be blamed for the resulting rise in prices at the gas pump.

**HAMMOND'S** petroleum revenue specialists have told the Governor that the legislation pending in Washington might undermine the reserves tax on Prudhoe Bay fields.

## All American Line

11/29/75  
ADT

**ALASKA'S** congressional delegation is seldom united on any issue. But it is in tune on at least one matter—sharing a conviction that natural gas from Prudhoe Bay must move to market via a pipeline routed through Alaska and not Canada.

Sen. Ted Stevens, in speeches here last week during the congressional Thanksgiving recess, reported that support is growing in Washington for an all-American line. "Today," he reported in Cordova, "I can legitimately say we are honestly hopeful of the outcome."

One of the big factors, according to the senator, is an indication that the Federal Power Commission will decide in favor of the trans-Alaska route. The reason is obvious; if the trans-Canadian route is approved, the United States will lose control over that segment of the line which lies within Canada's territorial domain.

A continuing worry, however, is

that the decision may be lifted from the hands of the FPC and taken over by Congress. The decision will then be based on political whim and emotions, primarily based on arguments that the trans-Canada route would more directly aid natural gas consumers in the Midwest and the East.

**THOSE WHO** favor a Canadian line brush aside, as insignificant, various factors which almost certainly would impede and delay construction. They would minimize the environmental concerns posed by a construction job that would cover a couple of thousand more miles than the Alaska route. They ignore Canadian native land claims problems. And they dismiss as unimportant Canadian national interests in the line.

It's an American resource, however. And the best way to American markets is through America's 49th State.

## Oil Price Crisis

**A CONGRESSIONAL** bill which would put the price of Prudhoe Bay oil in limbo is causing consternation in Alaska. If enacted, it would pretty well wreck the state's plan to impose a tax on petroleum reserves on the North Slope.

If that happens, the state's hopes of staving off its own form of New York bankruptcy would be dashed and the state would face an economic crisis that could cause turmoil during the next two years.

As proposed by the Joint Energy Conference Committee, and as expected to pass the Congress before the Christmas adjournment, the bill would delay until 1977 the fixing of a price on Prudhoe Bay oil.

Without the price being firmed up, the state has no real way to levy assessments under the reserve taxation plan. Without revenue from the reserve tax, the state can't fund its operating budget when fiscal 1977 begins next July.

To Congress, the price of Alaska oil from the North Slope may seem

to be no immediate concern—particularly since the pipeline operations are not scheduled to begin until mid-1977. But to Alaska, the matter is vital—a life-or-death economic worry.

**GOV. JAY** Hammond wrote President Ford earlier this week, urging his veto of the bill if it reaches his desk in its present form.

The trouble is that the bill represents the main energy proposal of the Congress this session, and with an election year coming up is likely to have strong support for enactment now without further amendment.

The danger is that it may become law with the promise that Congress will take up a new measure early in the year to try to accommodate Alaska. But that may be too late for Alaska.

The state's hopes may lie with how convincing Gov. Hammond can be in conversations with President Ford.



Energy Administrator Frank Zarb

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**MIPP SAID** many of President Ford's advisors have counseled against vetoing the energy bill because a veto would result in the decontrolling of oil prices, and the President would be blamed for the resulting rise in prices at the gas pump.

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As proposed by the Joint Energy Conference Committee, and as expected to pass the Congress before the Christmas adjournment, the bill would delay until 1977 the fixing of a price on Prudhoe Bay oil.

Without the price being firmed up, the state has no real way to levy assessments under the reserve taxation plan. Without revenue from the reserve tax, the state can't fund its operating budget when fiscal 1977 begins next July.

To Congress, the price of Alaska oil from the North Slope may seem

to be no immediate concern — particularly since the pipeline operations are not scheduled to begin until mid-1977. But to Alaska, the matter is vital — a life-or-death economic worry.

**GOV. JAY** Hammond wrote President Ford earlier this week, urging his veto of the bill if it reaches his desk in its present form.

The trouble is that the bill represents the main energy proposal of the Congress this session, and with an election year coming up is likely to have strong support for enactment now without further amendment.

The danger is that it may become law with the promise that Congress will take up a new measure early in the year to try to accommodate Alaska. But that may be too late for Alaska.

The state's hopes may lie with how convincing Gov. Hammond can be in conversations with President Ford.



Energy Administrator Frank Zarb

## Alaskans In Washington

# Events Give El Paso Backers Hope For Success

By BETTY MILLS  
Washington Bureau

WASHINGTON — Several developments in recent days have given proponents of the Alaskan gas line cause to place new hope in the eventual success of the project.

The developments are these: the bumbling efforts by Arctic Gas lobbyists to introduce legislation that would mandate the Canadian route; the passage by the Canadian Liberal Party of a resolution favorable to the El Paso project; and the pledge by El Paso to pour \$120,000 into the lobbying efforts of the Organization for Management of Alaska's Resources (Omar).

The Arctic Gas bill, news of which leaked to the Alaskan congressional delegation and reporters before the consortium apparently was ready to reveal it, has not yet made its way into the hopper of either the House or Senate.

Rev. Philip E. Ruppe, a Republican from Michigan's Upper Peninsula, is ready to put the bill in on the House side, but is waiting for more co-sponsors. He is likely to get some powerful names on the bill: House Minority Whip John Anderson of Illinois and Democratic presidential hopeful Morris K. Udall of Arizona.

Udall's presence on the bill in part may serve to stave off criticism of Arctic Gas by

environmentalists.

But as Vice Chairman William W. Brackett and other Arctic Gas lobbyists have made their way around Capitol Hill, they have made at least one enemy with their heavy-handed tactics.

One congressional staff member deplored the "bulldozer approach" that Arctic Gas is using in pushing its bill.

"There are so many unresolved issues in this matter," he said. "The final environmental impact statement is not out on either project, the financing studies are not complete and the economic impact is not yet known. One could regard this bill as premature if it calls for an open and shut case. If it is

meant to serve as a vehicle for hearings and open discussion of the various gas line proposals, then it may have some merit."

It is safe to assume that Arctic Gas would prefer the "open and shut case" approach to its bill, rather than a prolonged hearing process where the merits of the El Paso proposal would be advanced by members of the Alaskan delegation and others.

The same source said the congressman, who favors the Canadian route, might be more amenable to legislation if "if it were not so blatant. The congressman does not want to become known as a front for Arctic Gas."

In another matter, El Paso and Rep. Don Young, R-Alaska, have placed great stock in the resolution approved this month by the Canadian Liberal Party, which they say gives a boost to the All-Alaskan pipeline proposal. Arctic Gas officials dismiss it as insignificant, and many observers believe a resolution by the ruling party will not carry that much weight with Prime Minister Pierre Trudeau, who has in the past expressed support for the Canadian Arctic Gas project.

Arctic Gas has been quick to criticize, however, the news that El Paso plans to funnel substantial sums into Omar's lobbying efforts. One spokesman for the consortium said the announcement proves that Omar is not a citizens' group at all, but a front for El Paso.

Omar can certainly use the funds to counter the activities of Arctic Gas. In a news release announcing the El Paso "no-strings attached contribution," Omar said their "national information campaign" will increase soon from \$20,000 a month to \$30,000 a month. Omar said Arctic Gas is spending about \$3 million a month on public relations and advertising efforts.

Despite these encouraging signs, Alaskan gas line supporters have no reason to get cocky.

There is a long tough fight ahead, both on the agency front in the Federal Power Commission and in the Congressional arena.

Recent lobbying initiatives by Omar's Gary Frink should be stepped up and broadened.

## Gas Line Choice Expected In Year

12 Anchorage Daily Times, Wednesday, November 28,

By BETTY MILLS

Times Washington Bureau

Washington — The final gas purchase contracts, a decision in an Alaska gas line fence between the parties case now before the Federal Power Commission could come as early as October 1976, one of the commissioners has told a congressional subcommittee.

In written testimony to the House Interior subcommittee on public lands, the commission's vice chairman, Don S. Smith, set December 1976 as a target date for completion of the proceeding. But he said if the hearing is expedited, a decision could come as early as October.

The Federal Power Commission opened hearings last May on two competing proposals by the Arctic Gas Consortium and El Paso Natural Gas Co. to bring gas from Alaska's North Slope to markets in the Lower 48.

Sen. Mike Gravel, D-Alaska, has introduced legislation to mandate a decision in the case by June 1976.

Smith, responding to a series of questions posed by the subcommittee during a hearing on the gas line last month, acknowledged that it is difficult to project a timetable for conclusion of the proceeding.

"Any attempt to short cut this procedure must be done with care so as to preserve due process rights of all parties," Smith said.

One issue raised in recent days that may delay the proceeding is the necessity for the two applicants to submit

sales contracts for their reserves and seek appropriate authorizations for these sales," Smith said. "Neither the Gas Arctic group nor El Paso can perfect their respective applications as to final design, cost and economics of delivery of the Arctic Gas supplies to Lower 48 customers. Absent such information, the proceeding cannot be concluded."

Smith, in his written answers to public lands subcommittee Chairman John Melcher, D-Mont., said he hoped the gas purchase contracts can be submitted early in 1976.

Following the timetable Smith sets out in the document to Melcher, Smith projects that the hearing record in the case could be closed by next May, with an initial decision by Administrative Law Judge Nihum Litt in September. The full commission decision would be handed down by Dec. 1.

In further response to Melcher's 18 questions, Smith said judicial review could begin then the process considerably, saying natural gas pipeline certification proceedings have been delayed up to two years by court challenges.

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"Any attempt to short cut this procedure must be done with care so as to preserve due process rights of all parties," Smith said.

One issue raised in recent days that may delay the proceeding is the necessity for the two applicants to submit

the final gas purchase contracts. A conference between the parties and the administration law judge is scheduled for next week to discuss the matter.

"Until such time as the North Slope producers enter into sales contracts for their reserves and seek appropriate authorizations for these sales," Smith said, "neither the Gas Arctic group nor El Paso can perfect their respective applications as to final design, cost and economics of delivery of the Arctic Gas supplies to Lower 48 customers. Absent such information, the proceeding cannot be concluded."

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12 Anchorage Daily Times, Wednesday, November 26,

# Senator Holds To Optimism

Special To The Times 11/25/75

CORDOVA — Sen. Ted Stevens, R-Alaska, told the Cordova Chamber of Commerce he is optimistic that a pipeline to transport Prudhoe Bay natural gas to the Lower 48 will be a trans-Alaska one.

Supporters of an all-Alaska line are in a better position today than they were six months ago, Stevens said yesterday, adding that six months from now chances for the all-Alaska line will be even better.

"I think the Federal Power Commission will go with an Alaskan line," Stevens said, because the commission would not have any say in a line that crosses Canada.

The senator briefly discussed conditions in Canada and said recent developments there will have more impact in Congress than on the Federal Power Commission.

He said opposition is growing in Canada to a gas line that would cross Canada in bringing Alaska's gas Outside.

"Today, I can legitimately say we are honestly hopeful of the outcome" for an all-Alaska gas line, he said.

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Stevens said he did not know what the vote in Congress would be but that forces are changing from opposition to support of a trans-Alaska line.

# Executive Says Pact Could Pave Way For Arctic

MINNEAPOLIS, Minn. (AP) — A natural gas pipeline treaty between the United States and Canada will be initialed soon, a Northern Natural Gas Co. executive predicted Monday.

John R. Brady, vice president of supplemental supplies for the pipeline company based in Omaha, Neb., said if such a treaty were approved by Congress, it would pave the way for the Arctic Gas pipeline project.

The project is a proposal to bring natural gas from Alaska's north slope to the lower 48 states which Brady said would provide gas to consumers at less cost than a competing proposal.

Northern Natural Gas delivers 95 per cent of the natural gas used in Minnesota. The company is a member of a consortium that wants to build the pipeline south from Prudhoe Bay through Canada to serve California, the Midwest and the East. The pipeline would cost \$9 billion to \$10 billion.

The Federal Power Commission (FPC) is considering the Arctic Gas pipeline proposal and a rival pipeline plan advanced by El Paso Natural Gas Co.

El Paso wants to build a pipeline paralleling the Alaska oil pipeline to southern Alaska, where the gas would be liquefied and transported by ship to

Southern California. At that point it would enter El Paso's pipeline system. Estimated cost of that proposal is about \$7 billion.

However, also being considered are the ultimate price to consumers, the environmental impact of the proposals, safety and U.S.-Canadian relations.

Brady said Northern Natural would receive gas under either proposal, as it has contracted for 15 to 20 per cent of the discovered gas in the Prudhoe Bay region.

However, he added that Alaskan gas would cost more, and perhaps twice as much, as gas now being supplied.

## Party backs all-Canadian pipeline plans

ADN 11/25/75

From Our Washington Correspondent

WASHINGTON — Rep. Don Young, R-Alaska, reports that the Canadian Liberal Party has gone on record favoring "northern Canadian pipeline schemes that are all Canadian in ownership and which are designed to serve adequately the Canadian public first."

He said this was the gist of a resolution passed at a Liberal Party plenary meeting November 8-9 in Ottawa. The Liberal Party is Canada's ruling political party. Its leader is Prime Minister Pierre Trudeau.

In addition, Young said that the party had gone on record favoring a policy to "Canadianize the petroleum industry."

On both these counts, Young said the political balance in Canada was shifting to favor construction of an "all Alaska, all-American" pipeline for North Slope gas.

William Brackett, vice president of Arctic Gas, a company seeking to build a joint U.S.-Canadian gas line, said he felt the resolution left his company's position unchanged in Canada.

"The merits of the Arctic Gas project are sufficiently great for Canada," he said, "that we think they will be agreed to."

On related matters, Senate and House staff members said last week that a bill to mandate the Arctic Gas proposal now probably would not be introduced until after Congress returns from its Thanksgiving recess.

GAZ  
LINE  
TREATY  
IS  
SEEN

THE FEDERAL GOVERNMENT'S energy-conserving efforts have saved taxpayers some \$1.4 billion over the past 21 months, the Federal Energy Administration says. Federal Energy Administrator Frank Zarb says the federal energy consumption has been reduced by 24.5 per cent during those months, resulting in a savings of an equivalent of 104 million barrels of oil.

# Natural Gas Producers May Wait In Hope Of Price Deregulation

11-24-77  
ADT

By EDMUND PINTO  
WASHINGTON (AP) — Producers of natural gas may have an economic incentive to withhold supplies in the hope price controls eventually will be lifted, a new Library of Congress study says.

The conclusion was based on a hypothetical analysis that considered the gain of selling fuel now at regulated prices or waiting up to six years for deregulation and selling it then at much higher prices.

The Library of Congress said the deregulated price of natural gas could reach \$3 per thousand cubic feet at the wellhead, compared to about \$2 cents per thousand cubic feet now.

The potential increase gives a producer of a typical natural gas field "a strong profit motivation not to commit that gas to market at current regulated prices because committing his field at deregulated prices is more profitable even after a four to six year wait," the study said. It did not charge that producers are withholding gas.

The \$3 figure forecast in the study is even higher than the cost of intrastate natural gas that already is sold without price controls.

Intrastate natural gas is produced and used solely within one state. Its current price averages \$1.50 per thousand cubic feet at the wellhead but has sold in some locales for as much as \$2.

Interstate natural gas is produced in one state and shipped for use in another. Its price is regulated by the Federal Power Commission.

Natural gas producers have claimed they are not withholding their product, but that because of higher intrastate prices, much of it is earmarked for that market, helping create shortages in the interstate market. They also have insisted that a lifting of all price controls would spur exploration and drilling for new supplies of the fuel.

The study claims that the greatest risk the producers face if they are withholding is that their efforts will backfire. "Should Congress, consid-

ering deregulation, discover that large amounts of natural gas were being held off the market for speculative purposes, the legislative impact of the discovery could well be swift and very damaging to the producing industry," the report said.

Chairman John Dingell, D-Mich., of the House energy and power subcommittee, which released the report, said that the "incentive to withhold" as illustrated in the Library of Congress report, "is obviously the reason why we have 8.5 trillion cubic feet of gas under contract to the interstate pipelines that is not being produced."

By STAN BENJAMIN  
WASHINGTON (AP) — The United States appears destined for a chronic shortage of increasingly expensive natural gas for at least the next 10 years.

Prodded by the gas industry and President Ford, Congress has moved toward ending federal regulation of wellhead gas prices, hoping to stimulate production that way.

Even deregulation backers don't advertise a quick cure; at best they say, it may keep a bad situation from getting to much worse. Shortages this winter are expected to be especially severe.

"In the 1970's, even with deregulation, there is not going to be any surplus of gas, ever," says Edward Calland, vice president of Columbia Gas Transmission Corp., a pipeline which says it already is badly short of gas for its customers. "There is going to be a shortfall from now on. We won't be

able to meet unrestricted demand."

Gas-burning electric power plants will generally be the first to have their gas cut off under federal and state priority plans, says the Federal Energy

Administration (FEA). They will be followed by other large industrial users. Residential and other essential gas users would be the last to face serious curtailments.

Some industries may not be able to afford substitute fuels, the FEA warns, and some are simply unable to switch to other fuels.

If such industries can't get natural gas, they will shut down, bringing unemployment and economic depression to communities that depend on them.

The FEA said that industries requiring natural gas to keep going include: the chemical industry, motor vehicle parts, textiles (the bulk of them in

North Carolina, the state facing one of the worst shortages), fertilizers, primary metals, stone, clay and glass, food processing, paper, machinery manufacturing, and — ironically — the petroleum industry itself.

From last April through next March, interstate pipelines expect a shortage of 2.9 trillion cubic feet of gas, 19 per cent of their requirements.

But the FEA estimates they could get another 200 billion to 400 billion cubic feet, now unsold within the producing states, if deregulation frees them to buy it — at triple the current regulated price.

The FEA says other fuels are available, largely because of the nation's economic slowdown, to replace most of the missing gas this year.

Switching fuels will multiply costs.

The Federal Power Commission (FPC) reports that electric utilities paid an average of 49 cents for one million BTUs (energy units) in the form of natural gas in 1974.

As coal, the same energy cost them 71 cents; as oil, it cost \$1.92.

When power plants and other industries switch from gas to coal or oil, their higher fuel

costs will show up as higher consumer prices for electricity, merchandise and services.

Gas bills, too, are rising. Restrained by federal regulation, it took 12 years for the wellhead price of natural gas to rise 4.6 cents to an average of 18.6 cents per thousand cubic feet.

In only two more years, by 1974, the average climbed almost 12 cents to 30.4.

Last December, the FPC raised its ceiling price to 50 cents, plus annual one-cent increases.

Even without further ceiling increases, the recent price hikes will gradually increase future consumer bills as contracts at old, low prices expire and are replaced at the higher prices.

If federal regulation ends, new gas contracts are expected to leap to prices of \$1.25 or more, already paid within gas-producing states where gas, exempt from federal regulation, has brought as much as \$2.00 per thousand cubic feet.

"We estimate deregulation would increase the cost to the consumer about 6 per cent a year," said Calland, referring to gas industry studies.

That would add about \$10 a year to the average residential gas bill, which was about \$170 in 1974.

The FPC staff estimated last April that deregulation would add about \$20 to the average residential bill in its first year, but the impact would shrink later on.

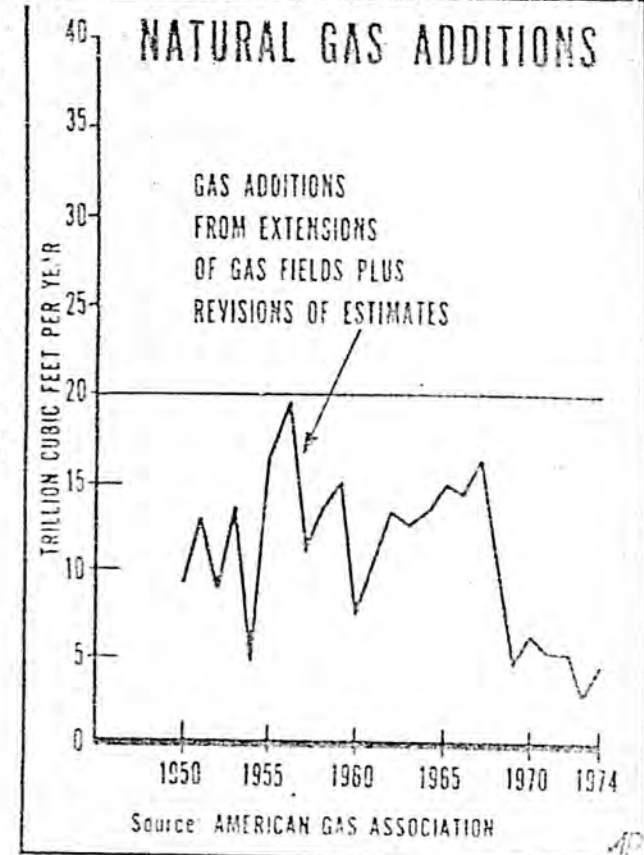
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It has already authorized small producers to charge 30 per cent more than the standard ceiling price, to compensate for their financial risks.

Future gas supplies look more costly than the traditional fields of Texas, Oklahoma and Louisiana.

Next year's shortage is forecast at an over-all 16 per cent concentrated on interstate pipelines, that could mean regional shortages of 24 per cent or more, and substitute fuels may become unavailable if the general economy improves.

Gas industry forecasts indicate it may be 1985 before production could return to its 1973 level.



SHOWS GAS ADDITIONS  
This chart shows the natural gas additions from extensions of gas fields from 1950 to 1974, plus revisions of estimates. (AP Wirephoto)

# U.S. Destined For Chronic Shortage Of Gas

11-24-77  
ADT

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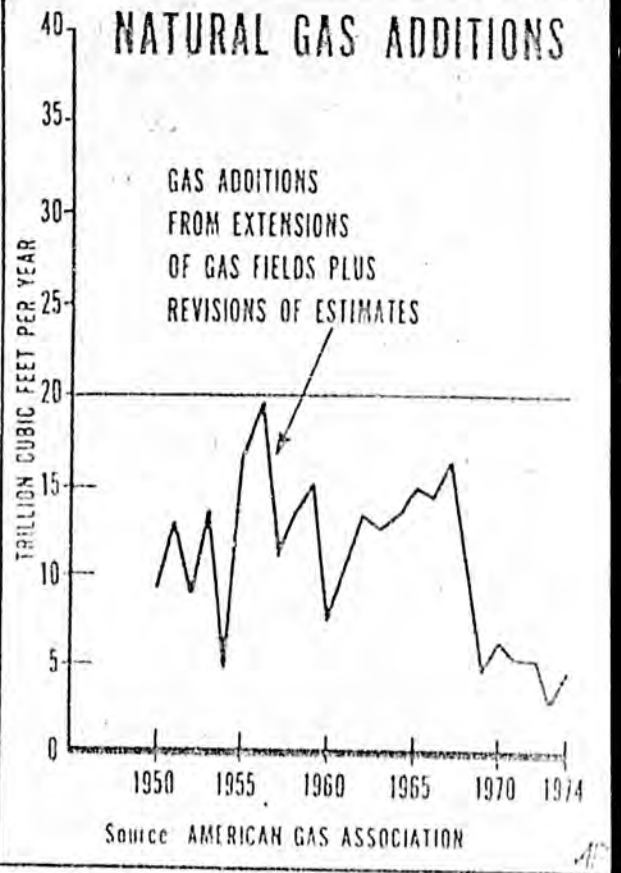
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# Sponsor Paucity Stalls Arctic Gas Legislation

11-24-75 ADT

By BETTY MILLS  
Times Washington Bureau  
WASHINGTON — The attempt by the Arctic Gas consortium to sponsor legislation that would mandate their route to bring natural gas from Alaska has been stalled temporarily, for lack of adequate sponsors.

Rep. Phillip E. Ruppe, R-Mich., plans to introduce the bill that Arctic Gas has drawn

up and circulated extensively on Capitol Hill. But Ruppe has held off actually putting the legislation in the hopper, awaiting more co-sponsors. The bill may go in next week.

House Assistant Minority Leader John B. Anderson, R-Ill., has not made a final decision, but is leaning heavily toward co-sponsoring the legislation.

Another so-called "heavyweight", presidential candidate Morris K. Udall, D-Ariz., is considered a likely co-sponsor, unless he decides there will be reprisals from environmentalists.

An aide to Udall said today the congressman "has under active consideration" the question of whether to co-sponsor the Arctic Gas bill. "He favors the Canadian line but that doesn't necessarily mean he favors their main route going through the Arctic Wildlife Range."

According to the spokesman, Udall, chairman of the House energy and environment subcommittee, "plans to look at the trade offs involved."

But Arctic Gas has lost one potential co-sponsor, Rep. William M. Brodhead, D-Mich., due in part to their heavy-handed lobbying tactics.

The Detroit congressman's legislative assistant said today that Arctic Gas has painted the bill "as a panacea" to the nation's energy problems, something the congressman regards are a gross exaggeration.

"It (the bill) makes grandiose claims about natural gas, which is quite limited, even with Prudhoe Bay," the

aide said. "Gas is a limited resource and we have to conserve it."

In addition, Brodhead believes the legislation raises serious questions regarding the due process of law.

"The bill contains some provisions from the Alyeska oil pipeline bill," the staff aide said. "But the question is, is this a precedent that we want (See Page 2, Col. 1)

## Lack Of Sponsors Stalls Arctic Gas

(Continued From Page 1)

to follow?"

The congressman also is concerned about financial provisions that are the "shadow behind the bill," including the possibility of loan guarantees, he said.

Moreover, Brodhead does not want to become known as an ally of Arctic Gas through the legislation, his aide said.

Arctic Gas itself remains close-mouthed about the legislation.

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PROVIDES AND WHICH WOULD BE MORE LIKELY TO BE PASSED THURSDAY AT THE AGE OF 64. \$0.3 million.

## Jimmy the Greek gives odds on presidential candidates

## Frank Anderson

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Sen. Frank Church, D-Idaho, 20-1; ex-North Carolina Gov. Terry Sanford, 20-1; Pennsylvania Gov. Milton Shapp, 20-1; Rep. Mo Udall, D-Ariz., 20-1; Alabama Gov. George Wallace, 20-1. Sen. John Glenn, D-Ohio, 25-1; Sen. Ed Muskie, D-Me., 25-1; ex-Sen. Fred Harris, D-Okla., 40-1; Sargent Shriver, 40-1; Sen. George McGovern, 100-1; Sen. Adlai Stevenson, D-Ill., 100-1.

Footnote: Jimmy also took one of his scientific polls to find out whether Americans support federal aid to New York City. Of 1,500 who were polled, 656 agreed that the federal government should bail out New York City and 504 opposed any aid. Another 195 didn't know and 105 didn't care.

**COSTLY ROMANCE:** The illicit romance between the Federal Power Commission and the oil-and-gas industry is an old story.

We have written repeatedly, for example, about the strange reluctance of the FPC to crack down on producers for withholding natural gas from the market.

Spokesmen have solemnly denied any conspiracy between the regulators and the regulated. But now we have learned that Frank Allen, boss of the FPC's Natural Gas Bureau, told staff attorney Bill Braun bluntly: "If you find producers withholding gas, you should do nothing."

**THIS ATTITUDE** has encouraged producers to hold back gas until prices increase. The more gas they keep off the market, the greater the shortage will be. As the shortage becomes more acute, the pressure will build up to deregulate prices.

If the corruption completes the full circle, price controls will be removed, prices will soar and gas users will feel an acute pain in the pocketbook.

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**ALLEN IS KNOWN** inside the FPC as an apologist for the industry and an advocate of price deregulation. At the time of the incident, he denied that he had urged Braun to do nothing about gas manipulation. But when our associate Jack Cloherly pinned him down, Allen acknowledged that he had made the statement but contended that Braun had misinterpreted it.

What he had meant, Allen explained, was that producers may be holding back gas supplies so they will have enough to deliver during the winter months or to critical shortage areas.

This explanation doesn't square, however, with the available facts. When Allen told Braun to do nothing about gas held off the market, Braun was investigating why Transco, a major East Coast pipeline, was cutting back on gas deliveries.

**THE CLEAR IMPLICATION** of Allen's remark was that Braun should do nothing about Transco's gas curtailments. Earlier, Allen had given additional duties to the only staff member who had been helping Braun with the Transco investigation.

It appeared to Braun, at least, that Allen was trying to obstruct his investigation of Transco. The charge is denied by Allen. But Braun has moved up to Capitol Hill, meanwhile, where he can continue his investigation.

**FOOTNOTE:** Rep. John Dingell, D-Mich., may attempt to determine whether any FPC officials are guilty of misfeasance.

# Sponsor Paucity Stalls

## Arctic Gas Legislation

By BETTY MILLS  
Times Washington Bureau  
WASHINGTON — The attempt by the Arctic Gas consortium to sponsor legislation that would mandate their route to bring natural gas from Alaska has been stalled temporarily, for lack of adequate sponsors.

Rep. Philip E. Ruppe, R-Mich., plans to introduce the bill that Arctic Gas has drawn up and circulated extensively on Capitol Hill. But Ruppe has held off actually putting the legislation in the hopper, awaiting more co-sponsors. The bill may go in next week.

House Assistant Minority Leader John B. Anderson, R-Ill., has not made a final decision, but is leaning heavily toward co-sponsoring the legislation.

Another so-called "heavyweight", presidential candidate Morris K. Udall, D-Ariz., is considered a likely co-sponsor, unless he decides there will be reprisals from environmentalists.

An aide to Udall said today the congressman "has under active consideration" the question of whether to co-sponsor the Arctic Gas bill. "He favors the Canadian line but that doesn't necessarily mean he favors their main route going through the Arctic Wildlife Range."

According to the spokesman, Udall, chairman of the House energy and environment subcommittee, "plans to look at the trade offs involved."

But Arctic Gas has lost one potential co-sponsor, Rep. William M. Brodhead, D-Mich., due in part to their heavy-handed lobbying tactics.

The Detroit congressman's legislative assistant said today that Arctic Gas has painted the bill "as a panacea" to the nation's energy problems, something the congressman regards as a gross exaggeration.

"It (the bill) makes grandiose claims about natural gas, which is quite limited, even with Prudhoe Bay," the

aid said. "Gas is an limited resource and we have to conserve it."

In addition, Brodhead believes the legislation raises serious questions regarding the due process of law.

"The bill contains some provisions from the Alyeska oil pipeline bill," the staff aide said. "But the question is, is this a precedent that we want (See Page 2, Col. 1)

### Lack Of Sponsors Stalls Arctic Gas

(Continued From Page 1)

The congressman also is concerned about financial provisions that are the "shadow behind the bill," including the possibility of loan guarantees, he said.

Moreover, Brodhead does not want to become known as an ally of Arctic Gas through the legislation, his aide said.

Arctic Gas itself remains close-mouthed about the legislation.

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ENT is a solid bet on the odds. Republican use betting on \$3 against \$1. ent's leading candidate to win the other words, elect \$7 on a \$2 nominated.



Republican possibilities are rated by order: Vice President Nelson A. Rockefeller, 10-1; Commerce Secretary Elliot Richardson, 10-1; ex-Treasury Secretary John Connally, 12-1; Sen. Howard Baker, R-Tenn., 15-1; Sen. Charles Mathias, D-Md., 15-1. Democratic favorite, at 3-1, is Senator Jimmy Carter, 8-1; Sen. Edward Brooke, R-Mass., 12-1; Sen. Birch Bayh, D-Ind., 15-1; Sen. Lloyd Bentsen, D-Tex., 15-1.

Sen. Frank Church, D-Idaho, 20-1; ex-North Carolina Gov. Terry Sanford, 20-1; Pennsylvania Gov. Milton Shapp, 20-1; Rep. Mo Udall, D-Ariz., 20-1; Alabama Gov. George Wallace, 20-1. Sen. John Glenn, D-Ohio, 25-1; Sen. Ed Muskie, D-Me., 25-1; ex-Sen. Fred Harris, D-Okla., 40-1; Sargent Shriver, 40-1; Sen. George McGovern, 100-1; Sen. Adlai Stevenson, D-Ill., 100-1. Footnote: Jimmy also took one of his scientific polls to find out whether Americans support federal aid to New York City. Of 1,500 who were polled, 696 agreed that the federal government should bail out New York City and 504 opposed any aid. Another 195 didn't know and 105 didn't care.

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the municipal budget.

### Other views:

## Too slick, too fast

From the Los Angeles Times

The State of California and the City of Los Angeles should move quickly and in concert in the federal courts to block the Interior Department's planned Dec. 11 sale of oil leases off the Southern California coast.

There are sound legal bases for seeking an injunction to prevent the leasing of 1.24 million acres of oil tracts at this time. There are overriding environmental and economic reasons for doing so. Finally, there is a good chance that Congress will soon complete action on legislation that would satisfy the state's major objections to offshore leasing. A delay of a few months in the lease sales until that legislation can become law clearly is in the best interests of this area.

Responsible state and city officials do not want to prevent oil exploration and development. They recognize that the extensive oil and natural-gas deposits on federal lands off the California coast are of major importance to the nation's energy future. Those deposits, like similar offshore resources elsewhere, must be exploited. But that must and can be done under procedures that will minimize risk, harm and social impact.

The legislation already passed by the Senate and now being considered by a special House committee would meet the needs of the affected coastal states. But it is not expected to win full congressional approval before the Dec. 11 lease sales off Southern California. That is why it is so important that there be prompt action in the courts to delay those sales.

Gov. Brown has endorsed this legislation and the need to assure its applicability to California; he should now promptly put the state government behind a legal effort to delay the leasing until the legislation clears Congress. Los Angeles officials have endorsed this legislation; the City Council should now promptly authorize legal action by the city to the same end.

The aim in all this is not to prevent necessary offshore drilling, but only to protect the interests of Southern California. The Interior Department has stubbornly ignored those interests. The state and the city must act promptly in their behalf.

prominence the whole question of the right of the individual to command the movements of his doctors under dire circumstances.

Dr. Milton Heifetz, a prominent California neurosurgeon, has written a subtle and informative book on the subject called "The Right to Die." He testified in the Karen Ann Quinlan case on the side of the petitioners, Karen's parents, who begged the doctor to "pull the plug," the earthy term, for which however there is no satisfactory substitute conveying exactly that meaning. The distinction is between letting a patient die of natural causes,



W. F. Buckley

and causing him to die.

IT IS IN THE opinion of Dr. Heifetz the critical distinction and it has a distinguished ethical lineage. Karen Quinlan's parents are Catholics, and before approaching the doctor to recommend that he turn off the respirator that keeps the

## Taking a great

WASHINGTON—The power struggle in Washington goes on unabated and foreign ambassadors stationed in Washington are sending long cables back to their countries trying to explain it.

Here is one of the cables sent by a representative of the People's Republic of China who is living in D.C.

"MOMENTOUS historical events are taking place here in Washington with the opening salvo of President Ford's

Great Cultural Revolution. At first it was believed that Henry Kissinger was behind the cultural revolution to bring disgrace on Defense Minister James Schlesinger. But now Kissinger is in disgrace himself and has been demoted to only one inconsequential post as Secretary of State. He has also been cited for contempt by the People's Congressional Subcommittee. Official American newspapers are predicting he will soon be sent to North Dakota to harvest grain at a state farm run by Agriculture Minister Earl Butz.

"Kissinger is now called a revisionist and counterrevolutionary by a majority of the People's Congress for

advocating detente with the Soviet lackeys in the Kremlin.

Defense Minister Schlesinger has been exiled to the John Hopkins School of International Affairs in the purge, and has been replaced by Donald Rumsfeld, a young member of the Ford clique who has been involved in a power struggle with the Kissinger loyalists for over a year.

"RUMSFELD has denied he was the instigator of the palace revolt, but his picture with Ford has been plastered on posters all over the outside walls of the Pentagon.

"Another victim of the purge was William Colby, Director of the People's Central Intelligence Committee. Colby's main crime was that he publicly confessed to the



Art Buchwald

# THE OPPOSING GAS WHY IT SHOULD BE

## Two Alternative Plans Offered

Two routes are being considered for transporting natural gas from the Alaska North Slope to the Lower 48.

Alaskan Canadian Arctic Gas Pipeline Co. proposes a pipeline that would pass through Canada and connect with a pipeline system in other parts of the United States, while Alaska is sponsoring an all-Alaska pipeline route with natural gas moving to the West Coast on tankers.

Congress decided on final right-of-way approval of Alyeska's trans-Alaska oil pipeline; it will make this decision too on the gas line.

The Canadian alternative consists of two separate sections that will require a total of 6,300 miles of new pipeline.

The first section, technically referred to as the Arctic Gas Pipeline, begins at Prudhoe Bay and travels east into Canada where it is joined by another pipeline from the MacKenzie Delta gas field.

They share a common 48-inch pipeline moving south. North of Calgary, Alberta, the pipeline again splits in two, with a western branch entering Idaho and an eastern branch entering Montana.

The pipeline system travels 2,600 miles through Canada before reaching the United States border.

At this point the second section, the distribution system within the Lower 48, begins.

Near the international border the western branch divides into two sections, with one serving Northern California and the other serving Southern California.

The eastern branch connects with the existing trans-Canada gas pipeline near the United States border to serve eastern Canadian provinces, then it traverses south and east toward distribution systems in Illinois and the Eastern Seaboard.

Under the trans-Alaska project sponsored by El Paso, the pipeline would follow the Alyeska pipeline from Prudhoe Bay to Gravina Point, Alaska.

Natural gas would be liquefied at the Gravina Point terminus, an all-weather port on Prince William Sound between Valdez and Cordova.

There it would be loaded aboard 11 LNG tankers for shipping to the Lower 48. Most

of the liquefied natural gas would be taken to Southern California, where it would be returned to its gaseous form and routed into a new pipeline between the port terminal and existing, under-utilized gas pipelines in California.

From there it would enter existing pipeline systems serving Southwest, Midwest and Eastern Seaboard customers. The fact that customer distribution line already exists makes the Alaska plan 2 to 3 years quicker than trans-Canadian proposal and cheaper to U.S.A. customers.

## More Jobs, Tax Revenue From Line

The entire nation will benefit from 15 times as many permanent jobs and seven times the tax revenues if the all-Alaska gas pipeline project is approved.

We anticipate over 600 permanent employees in Alaska when the line is completed; trans-Canada line estimates 39.

Over the 25-year life of the project, \$2.2 billion in tax revenues would accrue to the state of Alaska from the Alaska proposal, compared with \$311 million from Alaska-Canadian project.

Tax revenue estimated to accrue to all of the United States from the Alaska Gas line is \$10.7 billion, twice the \$5 billion benefits expected from the Trans-Canada proposal.

Jobs, goods and services within Alaska during the construction phase would total \$4 billion from the Alaska proposal, as compared to \$500 million from the Canadian proposal.

Finally, the Alaska proposal will provide inexpensive access to royalty gas for the state of Alaska, while the Canadian proposal will not, in fact. The State's gas would be lost forever to the State of Alaska.

Royalty gas alone is of major importance to Alaska because much of its future hope for industrialization rests on the availability of low cost energy in Alaska.

## States with LNG Facilities

Liquefied natural gas (LNG) is now being stored in numerous locations throughout the U.S.

This storage enables natural gas distribution utilities to take gas during the summer months when demand is low, liquefy it, store it and then regasify (or "vaporize") the gas and return it to the distribution lines when need is greatest.

This system is accomplished by refrigeration which reduces the natural gas to 1-600th of its volume. It can then be stored or transported efficiently.

The following are communities where LNG is stored for use in peak demand periods:

Alabama: Birmingham, Montgomery, Trussville (1976), Fort Payne and Cordova.

Arkansas: Yarbrough.

California: Chula Vista and Camp Pendleton.

Connecticut: Milford, Rocky Hill, Torrington, Stamford, Danbury, New London, Waterbury and Norwich.

Delaware: Wilmington.

Georgia: Riverdale, Columbus, Macon (1977) and Austell.

Idaho: Boise.

Illinois: Mahomet.

Indiana: Beech Grove, La Porte and Kokomo.

Iowa: Bettendorf, Des Moines, Waterloo (1976) and Ventura (1977).

Kentucky: Erlanger.

Maryland: Baltimore.

Massachusetts: Lowell, Ludlow, Lynn, Boston, Fall

River, Lawrence, Holyoke,

Fitchburg, Acushnet, Easton,

Marshfield, South Yarmouth,

Wareham, Haverhill, Salem,

Westminster, Wilmington,

Westford, Middleboro and

Westfield.

Maine: Lewiston.

Minnesota: Carlton, Wescott

and Burnville.

Nebraska: Omaha.

New Hampshire: Nashua.

New Jersey: Hackensack,

Hackettstown, Farmingdale,

Elizabeth, Burlington

Township, Manahawkin and

McKee City.

New York: Staten Island and

Brooklyn.

North Carolina: Charlotte,

Cary (1976) and Lenoir.

Oregon: Portland.

Pennsylvania: West

Conshohocken, Philadelphia,

Temple and Hazelton.

Rhode Island: Exeter and

Cumberland.

South Carolina: Charleston

(1976) and Fort Hill.

Tennessee: Chattanooga,

Memphis, Springfield,

Brownsville and

Murphreesboro.

Virginia: Tidewater,

Roanoke, Fordtown, Nashville

and Lynchburg (1976).

Washington: Plymouth.

Wisconsin: Eau Claire, Oak

Creek, Rice Lake and La

Crosse.

## Loss Could Total About \$6.9 Billion With Canada Route

A gas pipeline project passing through Canada could result in a \$6.9 billion loss to the American economy over the 25-year life of the project which will be paid by U.S.A. consumers.

## Timing Favors Alaska Line

Timing offers an overwhelming argument in favor of Alaska's gas line proposal. Once oil production starts, only so much gas can be re-injected into North Slope fields. Estimates vary, but 1980-81 is probably the very latest before North Slope production must either be curtailed, or the gas must be flared, which is illegal.

Timing is also important from the standpoint of balance of payments, because of the growing demand in the United States for imported natural gas and the rapid increase in its cost.

Groundwork already done by the Alyeska oil pipeline gives Alaska an edge of two to three years because roads, construction camps and support facilities are in place, which cost in excess of 1 billion dollars.

Total number of permits required would be much less with the Alaska proposal. The Native Land Claims issue is not resolved in Canada and it could take years, just as it did in Alaska.

Treaty negotiations between the United States and Canada could also cause new delays, because the Provinces must also sign for a VALID treaty. The sheer distance of pipe that must be laid, 6,000 miles for trans-Canada proposal versus 1,000 miles Alaska, suggests a major time difference. Shipbuilding for Alaska tankers is not a time factor because ships can be built at the same time the pipe is being laid, and at the present time U.S. shipyards are not building up to their capacity.

# PIPELINE PROPOSALS...

## AN ALL-AMERICAN LINE

### Basic LNG Transport Information

Twenty-three LNG carriers have been constructed since 1964 plus nine more in 1975 alone. It is expected that 11 more will be launched in 1976 joined by 14 in 1977 and seven in 1978.

Already there is one under contract for construction and launching in 1979.

The main routes of LNG carriers are Brunei-Japan, Algeria-France, Libya-Italy, Kenai (Alaska)-Japan, Abu Dhabi-Japan, Sarawak-Japan and Algeria-Everett, Mass.

Carriers are under construction now to transport LNG from Algeria to Staten Island, N.Y.; Providence, R.I.; Cove Point, Md., and Savannah, Ga.

Pacific Lighting has a project under way to liquefy Kenai (Alaska) gas and transport it to Southern California. Two tankers are under construction for that route, to be launched in 1977 and 1978.

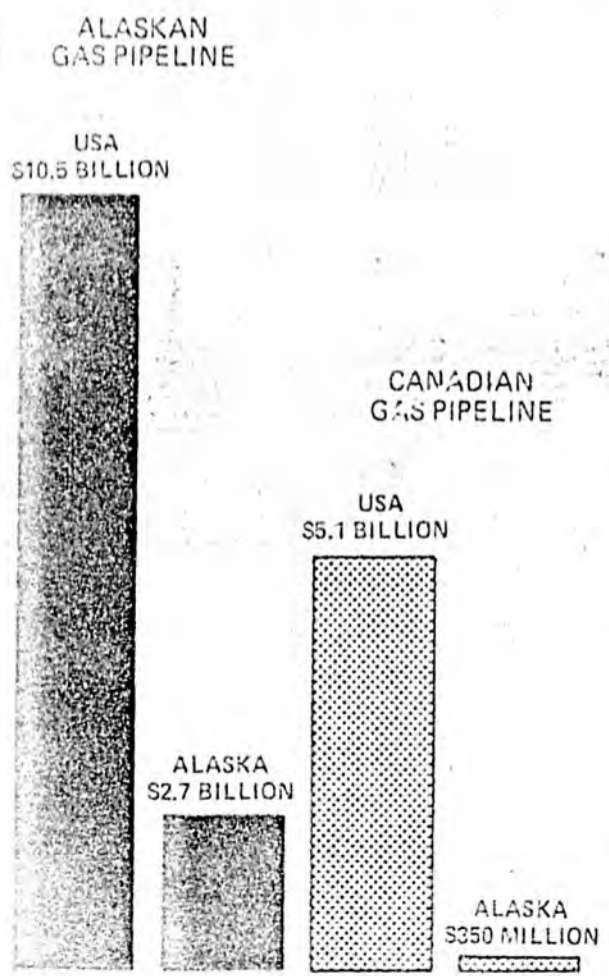
Pacific Lighting is part of the Arctic Gas consortium. It has applied to the FPC for the necessary permits for the Kenai-California project. In Southern California, a facility for re-gasification and unloading the carriers has been proposed for construction by a firm called Western Terminals. Both the Kenai gas and North Slope gas could be handled through that terminal. Possible sites are Point Conception (90 miles north of L.A.), Port Hueneme (Oxnard), just north of L.A. and the L.A. harbor.

### Factual Comparisons of Projects

#### THROUGH ALASKA THROUGH CANADA

Security Risks	Security Risks
None. Totally under American control.	Severe. Substantial portion of the pipeline crosses a foreign country. Contrary to claims, a treaty is powerless to solve the problem.
Balance of Payments Impact	Balance of Payments Impact
Favorable.	Unfavorable. Adverse balance of at least \$8 billion.
Economic Impact	Economic Impact
All goods and services will be contracted within the U.S., including the LNG carriers.	Only 6% of \$8 billion of Arctic Gas facilities in Canada will be procured in the U.S.
Environmental Impact	Environmental Impact
Miles of new pipe: 809 in Alaska, plus a few hundred miles principally in West Texas, connecting with existing pipelines in the Lower 48 having idle capacity.	6,300 miles of new pipe.
Gravel required: approximately 7.5 million cubic yards.	Gravel required: approximately 37 million cubic yards.
Waterway crossings: Major: 26 Total: About 500	Waterway crossings: Major: 179 Total: about 3,000
Does not enter a wildlife range	Traverses the width of the Arctic National Wildlife Range.
Timing	Timing
With the use of Alaska's haul road and other construction facilities which required 1 1/2 years to complete, this project has a significant head start.	Subject to many unforeseen delays, such as those being experienced by Alyeska. Requires construction of camps, haul roads and other preliminary facilities before construction of pipeline may begin.
The laying of 809 miles of pipe in Alaska, coincident with the construction of the liquefied natural gas (LNG) plant represent the major time requirements for the project.	Requires the laying of 6,300 miles of pipeline.
Permits must be obtained only from American agencies.	Permits must be sought from both U.S. and Canadian agencies. Must compete before the National Energy Board (NEB), in Canada against Foothills' all-Canadian, Maple Leaf Project. Decision expected in 1977.
Native claims settled in Alaska, after five years of extensive efforts in the U.S. Congress.	Native claims not settled in Canada. Berger Commission investigating claims.

## TAXATION ECONOMIC BENEFITS



Benefits to State of Alaska	Benefits to State of Alaska
Substantial.	Minimal.
\$1.6 billion worth of goods, services and facilities.	\$392 million worth of goods, services, and facilities.
Construction payroll of \$710 million in Alaska.	Construction payroll of \$188 million in Alaska.
\$2.2 billion to be paid in ad valorem and income taxes to the state over the life of the project.	\$121 million in ad valorem and income taxes to be paid to state over the life of the project.
Pipeline route provides state of Alaska direct access to its 12 1/2% royalty share of the gas.	Arctic Gas route precludes state access to its royal share of gas.
Tax Benefits to U.S.	Tax Benefits to U.S.
\$7.7 billion in federal income taxes to the U.S. treasury over the life of the project.	\$1.0 billion in federal income taxes to the U.S. treasury over the life of the project.
\$2 billion to be paid in other taxes to American governmental entities over the life of the project.	\$2 billion to be paid in other taxes to American governmental entities over the life of the project. In addition, \$6.9 billion will be paid to Canada at present tax rates. (Taxing powers of the provinces are sovereign and cannot be controlled by the Canadian federal government.)
Employment	Employment
7,500 workers to be employed at the peak of the project in State of Alaska.	2,500 workers to be employed at the peak of the project in the State of Alaska.
624 permanent employees in Alaska after construction.	39 permanent employees in Alaska after construction.
Total work force in U.S. at peak of construction: 24,000 (including Alaska).	Total work force in U.S. at peak of construction: 12,000.
Permanent number of employees in the U.S. after completion of construction: 1,470 (including Alaska).	Permanent number of employees in the U.S. after completion of construction: 420.
American citizens would have preferential hire.	Canadian citizens would have preferential hire.
Shrinkage	Shrinkage
11 1/2%, some of which could be in recoverable in the form of cryogenic energy.	9 1/2%, none of which is recoverable.
Total Capital Cost	Total Capital Cost
\$4 billion.	\$10 billion.
Pipe Rolling	Pipe Rolling
Pipe requirements can be met by U.S. mills.	Requires substantial portion of worldwide pipe mill capacity. No U.S. mill can make 48-inch pipe; must be done in Canada, Germany or Japan.

By almost any standards, the environmental impact of the Canadian pipeline route would be six times as great as an All-Alaska, pipe & tanker route to South 48.

A Canadian proposal will require more than 6,000 miles of new pipeline, with over 1,000 miles of that passing through the sensitive tundra of Alaska and Canada.

In the Alaska proposal, almost all new pipeline construction would be in the existing Alyeska Pipeline corridor, using work camps and roads already in place. This alone saves years of time and nearly 1 billion dollars.

Alaska line would cross some 200 miles of permafrost and requires construction of a new 200-mile pipeline in South 48.

The Alyeska oil pipeline has already sparked concern that the real environmental impact will come from opening of the Alaska tundra to hunters and tourists once the access road becomes a public highway.

Arctic's proposal would not only open more of the Alaskan tundra to ready access, but also Alaska's Arctic National Wildlife Refuge and the near pristine wilderness of the MacKenzie Valley in Canada.

The Canadian route will require three times as much steel as the all-Alaska line, and an amount of rolled steel tubing equal to the entire tubing capacity for a minimum of three years.

But Alaska's proposal will utilize thousands of miles of pipeline within the United States that are not being used to their full capacity because of the dwindling gas supply in West Texas.

Terminal facilities and LNG tankers that would be used by Alaska Tanker route are relatively clean and not a major environmental issue.

Alaska line liquefaction terminal at Gravina Point will use a technological process perfected over a decade ago on the Kenai Peninsula and elsewhere in the world.

Safety of the LNG tankers is receiving attention from maritime experts throughout the world. Although natural gas must obviously be handled with a great deal of care, the physics of liquefied natural gas make explosions impossible.

Concern has been raised about the safety of the 48-inch diameter pipe that Arctic Gas made of a new untested type of steel.

## Give Our People Jobs

The \$6.7 billion Alaskan pipeline project will put twice as many Americans to work during its construction phase as the \$10 billion Arctic Gas proposal through Canada would.

Shipbuilding makes up a significant portion of the Alaska Pipe - Tanker route expenditure.

The firm proposing an Alaska line is committed to use U.S. - made steel.

Because of tanker construction, one - sixth less pipeline, the LNG terminals and no Canadian participation, Alaska route would have a greater overall United States employment impact in spite of the lower capital expenditure (which also would give the consumers in South 48 cheaper gas).

The Alaska proposal would

employ an estimated 24,000 Americans, compared to about 12,000 Americans on the Arctic Gas project.

## Seattle Port

### Favors

## All-Alaska Route

An all - Alaska gas pipeline route has been endorsed by the Port Commission of the Port of Seattle as the most logical and economic way to transport Alaska's North Slope natural gas to the Lower 48.

Seattle has 5,000 people employed as a result of the oil line construction and can expect a similar result from the Alaska gas line.

## Canadian Liberals

### Oppose Arctic Line

The National Liberal Party headed by Prime Minister Pierre Elliott Trudeau passed the following resolution at a policy plenary session Nov. 9 in Ottawa:

Be it resolved that the Federal Government (a) Canadianize the petroleum industry and (b) give first priority to northern Canadian pipeline schemes that are all-Canadian in ownership and which are designed to serve adequately the Canadian public first.

There was considerable discussion on the intent of the word "Canadianize" with speakers' interpretations varying between "nationalization" and continued "laissez-faire."

Discussion on the northern Canadian pipeline was directed mainly against Arctic Gas as being "too big" and "non-Canadian."

The resolution was adopted and is now a policy of the Liberal party.

## Canada Pipeline Gets Opposition

Special To The Times

OTTAWA, Ont. — The Canadian Labor Congress says it plans to challenge a contention that a joint Canada and U.S. Mackenzie Valley natural gas pipeline would be in the Canadian "national interest."

According to the Ottawa Journal, the Canadian Labor Congress, representing 1.9 million organized workers, has submitted a three-page intervention to the National Energy Board. It claims that the case made by Canadian Arctic Gas in support of its proposed \$10 billion joint pipeline "is both narrow and restrictive and must not be accepted in its present form."

The labor organization notes, "It is well known that certain groups and individuals do not share the opinion of Canadian Arctic Gas Pipeline Ltd. about projected shortages," the Ottawa Journal reports.

The Canadian Labor Congress says that "no adequate information exists to date concerning potential reserves in other areas of Canada," and that "a full consideration" of the possibility of substituting other forms of production "remains to be made." Thus the "credibility of the case made by Canadian Arctic Gas is considerably reduced."

On the gas demand question the labor group challenges the basic assumption of the Arctic Gas interests, which the Congress says is "largely based on the assumption of 'business as usual.'"

The Journal's account said "The CLC is not convinced that the applicant's proposal constitutes a 'national priority' with reference to the national economy."

And the labor congress states, "With the staggering level of expenditures now forecast for the construction of the pipeline, it may well be that these funds could be better spent elsewhere."

"It is our position that before we can make full sense of the Arctic Gas proposal, we must first work toward a clearly defined energy strategy for Canada, since it is only in this context that the Arctic Gas proposal can be evaluated."

## USA Alaska Energy

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Washington, D. C. 20008

Gary Frank  
Executive Director



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Bev Isenson  
Executive Director

YOUR PERSONAL AND BUSINESS CONTRIBUTIONS ARE  
NEEDED TO CONTINUE OUR EFFORTS TO INFORM THE  
GENERAL PUBLIC.

# Gasoline Was Once Waste, Now It's 'Waste Not'

By MAX B. SKELTON

HOUSTON (AP) — Motorists may find it difficult to believe, but gasoline was an unwanted byproduct in the pioneering days of petroleum refining.

Gasoline components of crude oil were thrown away as refiners sought kerosene to replace whale oil as lamp fuel. The first refinery, conceived in 1847, processed only five gallons of crude a day.

The processing capacity of one U. S. refinery now is being expanded to 650,000 barrels a day, which will be the world's largest, and total domestic capacity is approaching 15.5 million barrels a day, with a barrel containing 42 gallons.

The early refineries were, in a sense, do-it-yourself operations. The refiner sought places where oil seeped above ground, skimmed crude from water processed it, and then marketed it, first as medicine and later as kerosene.

Such one-man enterprises were the forerunners of today's gigantic petroleum industry that supplies 70 per cent of the nation's energy.

Two events near the turn of the century paved the way for oil to attain its big business stature:

The first gasoline-powered automobile appeared in 1883. And the Jan. 10, 1901, Spindletop discovery in southeast Texas gave the nation its first oil "gusher." It produced more than 100,000 barrels of crude each day.

About 10,000 firms ranging from one-man independents to multibillion dollar giants now are engaged in exploration and production.

About 100 pipeline companies move crude oil, petroleum products and natural gas to interstate markets. More than 130 companies operate a total of 350

completions included 12,784 oil wells and 7,240 gas wells and 11,674 dry holes.

The risks are even higher for new field wildcats, wells drilled in an area never before productive.

A study by the American Association of Petroleum Geologists of such wells indicates only one of every 10 is completed as a discovery well, only two out of 100 make significant discoveries of one million or more barrels of oil or the natural gas equivalent, and 80 per cent of the discoveries have reserves of less than one million barrels.

A companion study indicates independents — all the explorers except the 16 largest major companies — drill nine out of every 10 new field wildcats and make 75 per cent of the discoveries.

Additions to reserves show another picture. Despite drilling only one out of 10 such wildcats, the majors discover almost half of the oil and gas reserves, with most of their explorations in ultra-deep, high-cost or high-risk areas.

Drilling costs have doubled since 1953.

In 1973, 25,358 onshore wells drilled to an average depth of 5,960 feet cost an average of \$98,447, or \$19.46 per foot drilled. The 49,197 drilled in 1953 with an average depth of 4,026 feet had a cost average of \$19,743, or \$12.36 a foot.

The 898 offshore wells drilled in 1973 had an average depth of 9,408 feet and average cost of \$651,251, or \$69.23 a foot. The 82 drilled in 1953 with a depth average of 9,519 feet cost \$288,765 per well, or \$21.29 a foot.

Recoverable domestic oil reserves peaked in 1970 at 29 billion barrels. Gas reserves peaked in 1967 at 202 trillion cubic feet.

Gathering systems totaling nearly 70,000 miles collect oil from individual wells and move it to storage tanks or dump it into a 76,000-mile trunk pipeline system serving the refining centers.

Most U. S. refineries place

emphasis on gasoline production. Refineries in Western Europe concentrate on fuel oils.

Compared with the kerosene objectives of 1850, modern refineries produce an estimated 2,000 products, ranging from asphalt to plastics.

Refineries separate crude oil into its various parts called fractions. The basic process is fractional distillation, boiling the liquid and then collecting and condensing the resulting vapor.

Each fraction such as gaso-

line or kerosene has its own boiling point and is drawn off as a vapor.

More sophisticated processes are used to increase gasoline production or improve its quality.

Basic production includes li-

quified gases, gasoline, kerosene and jet fuel, home heating oil, diesel oils, lubricating oils, heavy fuel oils, and asphalt.

Once refined, the fuels are sent on their way to retail distribution centers and eventually, in the case of gasoline, to

the local service station. Much of this refined fuel is distributed via a 76,000-mile pipeline which spreads out from the refineries to transport products to major consumer areas.

The drilling slump and increased demand have more than offset additions to reserves. At the start of 1975, domestic reserves were about 34.2 billion barrels of oil and 237 trillion cubic feet of natural gas.

Recoverable proved reserves are estimates of oil and gas that scientists believe can be produced with existing technology. Engineering data on the performance of a reservoir can cause up or down revisions in the recoverable estimates.

Most estimates of oil reserves are conservative in that current technology permits production of only about 33 per cent of the oil believed to be in a reservoir. Oilmen say research to increase this ratio could go a long way in reversing a five-year downward trend in domestic oil production and relieving the nation's energy shortages.

A Texas group, for example, estimates that the state's recoverable reserves, estimated at 12 billion barrels under the 33 per cent factor, would be increased by 1.5 billion barrels if the figure were raised just to 34 percent.

Estimates of reserves cannot be based on a single well. Additional or development wells must be drilled to define the extent of the new reservoir. An initial discovery could ultimately lead to development of a giant field of 100 million barrels but dry holes in development could reduce its financial value greatly or even cause abandonment.

Such development drilling is a major factor in the lead time separating the start of explorations and the delivery of the newly discovered oil to consumers.

It takes years to translate new discoveries into significant production. Proved reserves first must be enough to justify such major service costs as pipelines to move the oil to refineries. Oilmen say that very little oil discovered this year will be available this decade.

The time lag for a small 1967 Louisiana offshore lease sale was four years, but the area normally carries predicted lags of five to 10 years. The first pipeline to be built after the Drake discovery transported 80 barrels of crude an hour a distance of five miles. The domestic industry now has a pipeline network in excess of 222,000 miles.

There are about 15,000 wholesale oil jobbers, 19,000 companies dealing in fuel oil and liquefied petroleum gas and more than 300,000 retailers of motor gasoline.

Oil is a business for specialists: wildcaters, geologists, geophysicists, petroleum engineers, drillers, roughnecks, pipeliners, refiners, marketers. Col. Edwin Drake, a retired railroad conductor, conceived the idea of drilling for oil. Drake brought in the Titusville, Pa., discovery well on Aug. 27, 1859, after drilling to a depth of 69 1/2 feet. The well produced eight to 10 barrels a day.

Drilling quickly spread to Ohio, Texas, California and Oklahoma. Since the Drake well, more than 2,325,000 wells have been drilled in the United States, including more than 1,365,000 oil wells drilled to completion, of which about 900,000 still are producing.

But the gushers are gone. The average well now produces only 17.4 barrels a day. One with a potential of several hundred barrels a day is a good well and one with potential in the thousands is rare.

Most obvious prospects have been drilled at least once, many of them several times. Explorers now are having to drill deeper and deeper and in difficult areas offshore, in Alaska and the Arctic.

Science has replaced hunches in selecting drilling sites, but financial risks are high.

One group of companies paid more than \$600 million for the right to explore in the Gulf of Mexico off the Florida coast. The first seven test wells were dry.

Geologists and an army of specialists using seismographs and other sophisticated instruments are constantly searching for hints of oil deposits more than 400 million years old below the earth's surface.

But drilling is the only way to determine whether such hints are correct. And, again, there are high risks.

Of the record 57,111 wells completed in 1966, 30,739 were oil producers, and 4,543 were gas producers. Dry holes totaled 21,829.

Along drilling's slump that oil men blame mostly on federal natural gas price controls was reversed last year when 31,693

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But drilling is the only way to determine whether such hints are correct. And, again, there are high risks.

Of the record 57,111 wells completed in 1955, 30,730 were oil producers, and 4,643 were gas producers. Dry holes totaled 21,338.

Along drilling slumps that oilmen blame mostly on federal natural gas price controls was reversed last year when 31,038

# State to limit gasline flow

By ANDY WILLIAMS  
Daily News Staff Writer

The state expects to limit the flow of natural gas from Prudhoe Bay to about half the level projected by El Paso in its application to build a pipeline, state officials told the legislature's Joint Gas Pipeline Impact Committee Thursday.

Commissioner of Natural Resources Guy Martin and other state oil and gas officials said a structural model of the Prudhoe Bay formation indicated the optimum rate of gas production was 2 billion cubic feet a day. In its filing before the Federal Power Commission, El Paso projected a rate of production of 4 billion cubic feet a day.

JOHN C. BENNET, head of Alaska operations for El Paso, said the company had been advised of the lower projection and had filed an amended form with the FPC taking it into consideration. He said the pipeline and liquefaction system proposed by El Paso was still "feasible at the lower level of production."

However, a staff assistant to the committee said the rate of production had a direct bearing on the rate at which the cost of the pipeline was amortized. With the lower production figure, the pipeline would transport half as much gas at the same cost, he said.

Martin and his assistants, Hoye Hamilton of the Division of Oil and Gas and Pat Dobey of the Division of Geological and Geophysical Surveys, presented results of tests with the model at various rates of production and injection of water.

THE TESTS showed gas could be produced from the field at a rate up to 2 billion cubic feet a day, with water injection, without the volume of recoverable oil falling off appreciably. Beyond 2 billion cubic feet a day, the volume of recoverable oil declined significantly.

Martin said the state had the authority to limit the rate of gas production by regulation and intended to do so to the optimum rate of the field.

State officials said the optimum rate would be determined by experience in the first years of oil

production, when all the gas will be reinjected. Hamilton said it was not known whether water injection would work in the Prudhoe Bay field, although, he thought the chances were better than 50-50 it would. Martin said the state would commit no gas until it was determined the gas could be produced without diminishing the amount of recoverable oil.

THE STATE'S estimate on the rate of gas production was lower than the 2.5 billion cubic feet a day estimated by H. J. Gray and Associates in a study for the Interior Department. Oil industry representatives agreed the Gray figure was a reasonable one in testimony before the committee Wednesday.

Amos Mathews, executive vice president of Alaskan Arctic Gas, said his company intended to transport 2.5 billion cubic feet of Prudhoe Bay gas a day in its proposed pipeline through Canada, picking up another 2.25 billion cubic feet from the Mackenzie delta area.

## Board votes to sell portion of Inlet gas

A state advisory board Wednesday voted to sell a portion of the state's Cook Inlet royalty gas to the Anchorage Natural Gas Co.

The state Royalty Oil and Gas Development Advisory Board's action calls for Phillips Petroleum Co., operators of a liquefied natural gas plant at Nikiski, to relinquish its rights to the state's gas. The company now exports to Japan about 15 million cubic feet of state royalty gas daily. The contract allowing the purchase of the state gas for that use was signed in the late 1960s.

Guy Martin, commissioner of natural resources, said the transfer of the state's gas from Phillips to the

Anchorage company would become effective next year if the legislature approves the board's findings.

Anchorage Natural Gas has told state officials that its Anchorage-area customers could be in danger of minor gas shortages as early as next year and significant interruptions of service could occur in the early 1980s, unless the company finds additional supplies.

The gas company supplies gas for the Chugach Electric Co. and Municipal Light and Power Co. generating plants.

Asked if the issue of exports contributed to the board's vote Wednesday, Martin said, "It was not so much a reaction . . . as a balancing of value."

## Approval asked for Nikiski pipeline

The state Department of Natural Resources has set Sunday as the deadline for calling for public hearings on a petroleum products pipeline from Nikiski to Anchorage.

The Nikiski Alaska Pipeline Co. applied for a state pipeline right of way permit in October for the 70-mile line. The company also sought approval from the Army Corps of Engineers for a portion of the pipeline that would cross Cook Inlet.

The \$11.3 million line would bring 40,000 barrels of refined petroleum products daily to Anchorage from the Tesoro-Alaska refinery at Nikiski.

About half the project would cross state lands. The company also has sought Corps of Engineers approval to cross Ship and Chester Creeks with the 10-inch line.

No public hearings have been scheduled for the Nikiski proposal, and the Corps of Engineers comment period on the permit application has expired. The Department of Natural Resources is scheduled to close its comment period on the proposal Dec. 14, and after that time no requests for public hearings will be considered.

## Oil, gas strike in Canada

A consortium of Canadian and American oil companies have announced a major hydrocarbon discovery in the Mackenzie River Delta region of northern Canada.

Standard Oil Company of California — a member of the group, which includes Sun Oil, Bow Valley Exploration Ltd., Arctic Coast Petroleum Ltd. and Numac Oil and Gas Limited — said Monday the discovery, located on 1146 acres of a 45,000 acre lease, flowed at the rate of 31 million cubic feet of gas and 7,200 barrels of oil per day on short tests.

SoCal said the 11,000 foot well penetrated two hydrocarbon zones — one just below 5,100 feet and one below 9,600 feet. Gas flowed at 17 million cfd from upper zone and 14 million cfd from the lower strata.

Sun Oil, as operator for the consortium, drilled the well — designated at Garry P-04.

Wednesday, December 10, 1975, Anchorage Daily Times 3

## University Gets Gas Line Study

FAIRBANKS (AP) — As decisions near on the routing of a natural gas pipeline from Prudhoe Bay to the south, the University of Alaska says it has received a grant to study alternatives to the arctic gas proposal.

The director of the Institute of Social, Economic and Government Research, Vic Fischer, has confirmed that his department has received a \$15,000 contract from the Bureau of Land Management to study alternatives to the Arctic Gas pipeline proposal. The study is a follow up on Arctic Gas Co.'s draft environmental impact statement.

Nine alternatives are being considered, in addition to the arctic gas proposal, which would see the line cross the Arctic Wildlife Range:

—An offshore route, which would go offshore in the Arctic Ocean from the Beaufort Sea to Canada.

—An onshore route, which would skirt the south edge of the Arctic Wildlife Range.

—Also being considered is the route known as the Fort

Yukon Route, which would take the gasline right through Fort Yukon, along the north side of the Yukon River through Canada.

—A route proposed through Fairbanks then along the Alaska Highway to Edmonton, Alberta.

—Another route through Fairbanks would go along the Alaska Highway, and then to a gas liquefaction plant at Haines.

Three other routes involve turning the gas to a liquid before shipping it by tanker. They include:

—The Point Gravina Route, which is favored by the El Paso Co.

—The Cook Inlet Route, which takes the gas from Prudhoe through Fairbanks, down the rail belt, to the existing petrochemical complex at Nikiski Beach, north of Kenai, and from there by tanker.

—The last alternative is the Golovin Route, which would take the gas from Prudhoe by pipeline to the Seward Peninsula, and then by tanker across the Bering Sea.

# Study favors Alaska gas route

By MARK DANIEL

Our Washington Correspondent

WASHINGTON — The Interior Department Monday released the Alaska Natural Gas Transportation Systems study mandated in 1973 by the Trans-Alaska Pipeline Authorization Act. Initially due to be released under terms of the act by December 16, the document was released about a month later, apparently as a result of delays over squabbling over possible bias in the study to one of the two systems competing to supply the gas.

The release of the study was the subject of a letter to the study which con-

veys the potential for interruption of construction on the two proposed routes.

THE ANALYSIS clearly favors an Alaska liquefied natural gas tanker route over an all pipeline Alaska-Canada route.

In writing the study, Assistant Interior Secretary John Carlson placed heavy weight on the risk of interruption of the report. When a reporter pressed him on whether the Interior Department favored one route over the other, he insisted "Interior doesn't have a position." Moments later he replied to a follow-up question that the study was for itself. He said "people may be looking for the Interior's judgment."

The risk analysis reportedly was challenged by officials at both the State Department and the Federal Energy Administration on the basis that it made too many assumptions and then used those assumptions to justify an Alaska-LNG route.

THE STATE Department, particularly, is understood to have felt that the risk analysis would undercut ongoing negotiations with Canada for a hydrocarbon treaty.

However, the risk analysis also concludes that the Alaska-LNG route would stand more chance of interruption once it was in operation.

"Two tentative conclusions were reached,"

the study says. "First the . . . Alaska-Canada system would be the more risky to construct and would have the greater potential for schedule slip and cost overrun . . . Second the . . . Alaska-LNG system is more risky to operate, with a greater potential for flow interruption once in operation."

But, the study concludes that the National Net Economic Benefit (NNEB), a system of assigning economic value to certain aspects of each proposal, for the Alaska-LNG system would be \$9.6 billion compared to \$5.3 billion for the Alaska-Canada system.

The factors compared in the analysis were: Modularity — The Alaska-LNG system, the

study says, can be divided into five discrete components. "This modularity," it says, "provides a distinct advantage in manageability over a more homogenous and interactive project such as the Alaska-Canada system."

Labor — "Potential labor difficulties in Canada are considered more likely than in Alaska."

Arctic Conditions — The Alaska-LNG system, it says, is less exposed to arctic construction conditions because more of it lies below ground. It has the advantage of using facilities built from the oil pipeline.

# Gas production no threat to Slope oil

By ANDY WILLIAMS  
Daily News Staff Writer

Oil industry representatives Wednesday denied production of natural gas at Prudhoe Bay would reduce the amount of recoverable oil there, as was suggested in a study, but said costs of production would be higher than those estimated in the study.

Spokesmen for BP-Alaska, Exxon and Atlantic Richfield Co., the "big three" leaseholders at Prudhoe Bay, took exception to conclusions of a study by the Aerospace Corporation for the Department of Interior that gas production over the life of the field would

ADN  
decrease the volume of recoverable oil by 300 billion barrels.

BUT THEY also objected to the study's figure of 47 cents per mcf (million cubic feet) for the wellhead value of the gas as the break-even point for production of the gas. They said it would be considerably higher.

The testimony came at a meeting of the legislature's Joint Gas Pipeline Impact Committee, which began two days of hearings on relative merits of competing routes for the pipeline and of competing routes for the pipeline and of producing the gas as opposed to reinjecting it into the field. The committee

elicited comments on the Aerospace study, which was conducted by H.J. Gray and Associates.

Forrest Garb, president of P.J. GmW, a consulting firm, said that a 40-million-barrel figure for oil lost through gas production could be reduced by effective management of the field. He said the study used a life of 23 years for the field and that oil produced after that would also cut into the 40-million-barrel figure.

GARB SAID the figure of 47 cents per mcf was influenced by use of a discount rate of 10 per cent, which is the cost producers would pay on money invested. The 10 per cent figure was set by the Interior Department but the actual discount rate would probably be higher, he said.

Oil industry representatives testified there was no reason any oil would be lost through gas production if sound practices were used in management of the field. They said the optimum production of oil and gas could be established early in the life of the field and that reinjection of the gas could hurt the field in the later stages of production.

They agreed with Garb that the discount rate would be greater than 10 per cent, probably in the range of 15-20 per cent per year. However, they said they did not know what the break-even wellhead price would be.

TESTIFYING for the oil industry were Kenneth Keep, resident manager of BP; Judd Miller Jr. of Exxon, and Roward Slack, resident manager of ARCO.

The hearings will continue today with state officials expected to testify on economic benefits to the state of production.

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By MARK FANTICH

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Forrest Garb, president of H.J. Gray, acknowledged that the 400-million-barrel figure for oil lost through gas production could be reduced by effective management of the field. He said the study used a life of 23 years for the field and that oil produced after that would also cut into the 400-million-barrel figure.

GARB SAID the figure of 47 cents per mcf was influenced by use of a discount rate of 10 per cent, which is the cost producers would pay on money invested. The 10 per cent figure was set by the Interior Department but the actual discount rate would probably be higher, he said.

Oil industry representatives testified there was no reason any oil would be lost through gas production if sound practices were used in management of the field. They said the optimum production of oil and gas could be established early in the life of the field and that reinjection of the gas could hurt the field in the latter stages of production.

They agreed with Garb that the discount rate would be greater than 10 per cent, probably in the range of 15-20 per cent per year. However, they said they did not know what the break-even wellhead price would be.

TESTIFYING for the oil industry were Kenneth Keep, resident manager of BP; Judd Miller Jr. of Exxon, and Howard Slack, resident manager of ARCO.

The hearings will continue today with state officials expected to testify on economic benefits to the state of production.

# Arco Discloses Close Of Deal

ADT Special to The Times 12/11/75  
 NEW YORK — Atlantic Richfield Co. has announced the closing of the sale of a \$420 million oil and gas production payment to Alasca, Inc., a Delaware non-profit corporation. The announcement said the proceeds are to be received in seven installments through March 1977.

The credit agreement is to finance development of Alaskan natural gas reserves at Prudhoe Bay.

Alasca, Inc. financed the purchase of the production payment with a private placement of \$200 million of notes with institutional lenders and the syndication of \$220 million of commercial bank loans. First National City Bank of New York acted as a financial adviser in the private placement and as agent and manager in syndicating the commercial bank portion.

Discharge of the production payment will be made out of revenues generated from the sale of production from a 20 per cent portion of Atlantic Richfield's interest in the main Prudhoe Bay field on the North Slope of Alaska and from other properties in Alaska, Texas and offshore Louisiana.

In a separate transaction last March 25, Pacific Lighting Gas Development Co., a subsidiary of Pacific Lighting Corporation, agreed to pay to Atlantic Richfield interest, fees, legal and other costs related to the production payment for the exclusive right to negotiate for the purchase of 69 per cent of Atlantic Richfield's future natural gas production from the main Prudhoe Bay field.

An Atlantic Richfield spokesman said that a major portion of the company's capital commitments, which will total nearly \$2 billion in 1975 alone, is dedicated to development of the Prudhoe Bay field in Alaska.

# Gravel To Amend Bill On Gas Line Decision

By BETTY MILLS  
 Times Washington Bureau

WASHINGTON — Sen. Mike Gravel, D-Alaska, plans to amend his legislation mandating an expedited decision in the natural gas pipeline case to give the Federal Power Commission an additional five months to reach a decision.

Gravel decided to make the change following discussions with members of the commission which has set Dec. 1, 1976, as the target date for reaching a decision in the gas case.

In addition, Gravel has sent a copy of his bill to President Ford.

The Alaskan Democrat said he discussed the legislation with the President when he accompanied Ford to Alaska earlier this month, and the President asked to see the bill.

"In introducing legislation of this type, my hope to add some discipline to the proceedings and prevent any possible slippage in the schedule," Gravel wrote the President. "The commission has agreed that legislation of this type would be helpful to them in attempting to meet their proposed deadline."

Gravel told the President his bill substitutes congressional review for judicial review of the commission decision.

"A seven-year delay such as we experienced in trying to build the trans-Alaska oil pipeline would be devastating to the nation's efforts to become energy self-sufficient.

"A speedy FPC decision and expeditious implementation of that decision are essential to our efforts in this regard," Gravel wrote Ford.

Gravel also sent the president a copy of a letter he had received from Power Commission Chairman Richard I. Dunham, who said a final commission decision by Dec. 1, 1976, is a reasonable target.

Meanwhile, rival legislation sponsored by the Arctic Gas consortium is expected to go into the hopper of the House of Representatives next week.

Rep. Philip Ruppe, R-Mich., said yesterday he intends to introduce the legislation before the Christmas recess. He said he is still talking to other members to gain co-sponsors.

## Congress Gets Gas Line Study

(Continued From Page 1)

cost of the two transportation systems.

The cost of the Arctic Gas transportation system, according to the report, is \$4.538 billion, whereas the cost of the El Paso project is \$5.079 billion.

The department's projections were based on an extensive, year-long analysis of the economic benefits of the gas pipeline proposals, risk studies, national security considerations and international

factors.

The 230-page document went to Congress yesterday, several days past its due date.

In releasing the report, Kleppe said, "the important message of this report is that both of the systems studied are technically and economically feasible, subject of course to the environmental considerations revealed by the final environmental impact statement."

## Kleppe Delivers Gas Line Study

12/11/75 By THOMAS P. SOUTHWICK  
 Times Washington Bureau

WASHINGTON — Interior Secretary Thomas S. Kleppe told Congress yesterday that the Arctic Gas proposal for bringing natural gas from the North Slope involves the risk of substantial cost overruns and schedule delays.

In a report submitted to Congress, the department said the possible cost overruns for the Canadian route could range between \$1 billion and \$3

billion and the schedule delays could be anywhere from one to three years.

In contrast, the department believes the risk of overruns and delays with the competing project, that proposed by the El Paso Natural Gas Co., would be between \$500 million and \$1.5 billion and between six months and 18 months.

However, the Interior document concludes that the El Paso proposal is more expensive and offers fewer economic benefits to American consumers.

The report said the Canadian line would bring a total of \$9.729 billion in national economic benefits to the U.S. The El Paso project would bring a total of \$3.281 billion in the national economic benefits.

These figures take into account the benefits to consumers, the goal of achieving energy independence and the

(See Page 2, Col. 2)

## Official Predicts Gas Shortages

WASHINGTON (AP) — Warm autumn weather has provided a respite from a severe natural gas shortage but the potential for serious shortfalls will increase each year as production continues to decline, a federal energy

official says.

Natural gas production may be restored to present levels in the 1980s if federal price regulations are removed and if new areas offshore and in Alaska are explored, Deputy Federal Administrator Eric Zausner said.

But "we're in for a couple more years of declining supplies of gas" before that, he told reporters Tuesday.

FEA estimated in 1974 that raising wellhead prices to \$2 per thousand cubic feet would not stimulate production any more than a price of 75 cents per thousand cubic feet.

But Zausner said the agency had oversimplified its analysis and FEA now believes that the higher price will be adequate to encourage natural gas discoveries.

Federal agencies had predicted that natural gas supplies this winter would fall 19 per cent below demand, causing fears of industrial shortages and layoffs. The eastern states were expected to be the hardest hit.

# Roderick appointed to state post

Jack Roderick, former mayor of the Prudhoe Borough, has been appointed commissioner of the state department of Natural Resources.

Commissioner Guy Martin announced the appointment Monday, and said Roderick is expected to assume his new post on the first of the year.

Martin said that present deputy commissioner Bill Fackler will become the new director of the Alaska Royalty and Gas Development Board. He also announced the selection of Hope H. Hanson as chief of the newly formed Natural Resources Planning and Research Section.

Roderick, contacted at home in Anchorage, said as far as he's concerned, he's going where the action is.

"Natural resources is really essential to the state's survival," he said. "I feel that the field that is most important to develop is the oil and gas field, and that I have something to contribute to it."

offer." He said he looks forward to working with Martin, and added that despite the move to Juneau he will not sell his Anchorage home.

Roderick has been in Alaska over 20 years, and has a lengthy and varied experience involving Alaska natural resource issues. He was the founder in 1955 of Alaska Petroleum Publications, and three years later founded Alaska Title Guaranty Company. He also founded and directed firms devoted to oil and gas exploration and investment, and was a co-publisher of Alaska Industry magazine from 1963 to 1972.

Earlier, he practiced law for several years with present Sen. Ted Stevens, R-Alaska. In 1968 Roderick took a one-year sabbatical leave to direct the Peace Corps in India. Just prior to his election as borough mayor in 1972, he was a government relations advisor to Alyeska Pipeline Service

Company. "I am delighted that Jack will be joining the department," said Martin. "His record of private and public achievement speaks for itself, and his knowledge of key Alaska resource issues will greatly strengthen the state administration during an exciting and important period."

He said Fackler's new duties as director of the royalty board are crucial to the future of the state, adding that the entire board believed he was ideally qualified to take on the job.

HANSON, who has already assumed his new post, holds a bachelor's degree from Pacific Lutheran University and a master's in resource management. For four years he was with the Environmental Protection Agency in Washington.

Martin said the new section will coordinate resource issues within the department and with other state agencies.



Jack Roderick

# Stevens Submits Plan For All-Alaska Route

By BETTY MILLS  
Times Washington Bureau  
WASHINGTON — Sen. Ted Stevens, R-Alaska, threw a new wrinkle into the gas line debate today, submitting legislation to require that the pipeline bring natural gas from the North Slope must be totally under U.S. jurisdiction.

Stevens' legislation would prohibit the Federal Power Commission from issuing a certificate to the Arctic Gas Consortium, which wants to pipe the gas through Canada.

The legislation is a calculated effort to gain the support of Middle West and Northern State senators who previously have opposed the El Paso proposal to bring the gas through Alaska on a route nearly parallel to the oil pipeline.

The legislation includes language requiring the Federal Power Commission to allocate natural gas produced in the Prudhoe Bay area "in such manner as will supply each such region and state with an equal per centum of the per centum decline in natural gas supplies from all sources to such region or state between the calendar year 1973 and the date transmission of Prudhoe Bay gas commences."

The bill mandates that the commission and other governmental agencies can approve "only such application or request which provides for such pipeline to be constructed or otherwise located in its entirety above, on, or under land areas in a state or states of the United States."

In a lengthy Senate floor

speech, Stevens said recent development in Canada have convinced him that "it will be a long cold wait if we wait for our Canadian neighbors to act" on the Arctic Gas proposal.

Stevens cited three developments in Canada that persuaded him to introduce the bill:

— The present challenge by Arctic Gas of the impartiality of Marshall Crowe, the master of the National Energy Board which is hearing the competing Canadian proposals.

— "The net impact on me regarding the Canadian attitudes is that we will have nothing but a long cold delay" if the U.S. waits for Canada to make a decision, Stevens said.

"My bill does not say the FPC must approve the El Paso approach," Stevens said. "Congress has the right to tell the FPC it must only consider a pipeline under U.S. jurisdiction."

# Gravel sees gas line decision by Dec. of '76

From Our Washington Correspondent

WASHINGTON — Sen. Mike Gravel, D-Alaska, Wednesday advised President Gerald Ford that the chairman of the Federal Power Commission feels a decision on Alaska gas systems competing for certification by the FPC could be made by December 1976.

Gravel said he is changing the target date in a bill he introduced to substitute Congressional review of the FPC decision for judicial review to conform with that view.

Gravel, in a letter to Ford, said he introduced his bill in an effort "to add some discipline to the proceedings and preclude any possible slippage in schedule."

Gravel's office said his letter, a copy of a letter to Gravel from FPC chairman Rick L. L. Dunham and a copy of a response to interest in the subject shown by the President during his recent visit to Alaska, accompanied Ford's letter to Gravel.

In his letter, Dunham said neither application from El Paso Alaska Co. nor from Arctic Gas is yet complete. He said it is "one of the problems which complicate the assessment."

# State declines gas study funds

The Royalty Oil and Gas Development Advisory Board has declined to take action on a private group's offer to contribute \$10,000 toward a study of Prudhoe Bay natural gas reserves.

The board, meeting in Juneau this week, reached a consensus that accepting the offer would be a conflict of interest.

The Organization for the Management of Alaska's Resources (OMAR) offered to contribute \$10,000 for a study on how the state's royalty gas should be allocated. The group seeks to learn how much of the royalty gas can be used in the state and how much could be sold to companies.

OMAR proposed that the board provide \$30,000 for the study. The private group said committing a share of state royalty gas to a company could contribute to a favorable Federal Power Commission decision on routing a proposed natural gas line through Alaska.

The El Paso Alaska Co. and Arctic Gas Co. currently are involved in hearings before the Federal Power Commission (FPC) on a gas line route from Prudhoe Bay. El Paso's proposal calls for an Alaska route; Arctic's an Alaska-Canada route.

OMAR and others supporting a trans-Alaska route fear the state will lose the line unless it shows a willingness to commit all or part of Alaska's 12 1/2 per cent share of Prudhoe reserves to El Paso.

Martin said the state may in the future do so. But he said a number of questions will need to be answered before making a commitment of any kind for Alaska's royalty gas.

In addition, said Martin, the board in its discussions late Wednesday determined that accepting \$10,000 from OMAR for a royalty study would be "clearly a conflict of interest" because OMAR has received donations from El Paso.

Martin said several questions should be answered before any royalty commitment is made.

# State Block Of Gas Line Possible

(Continued From Page 1)

The oil company spokesmen challenged an Aerospace Corporation report to the Department of Interior that there could be a loss of 400 million barrels of oil from the Prudhoe Bay field's ultimate production if gas is produced for sale, rather than reinjected.

Testifying for Arco, Howard Slack said with good reservoir management, it is possible that the 400 million barrel estimated "loss" can be reduced to a negligible amount.

And Dr. Kenneth Keep, Alaska manager for BP Alaska, raised the possibility of a loss in oil production if all the gas is reinjected.

However, he, too, said with good reservoir management schemes this loss could be prevented.

Judd Miller Jr., production manager for Exxon USA, testified that optimum recovery from the Prudhoe Bay field is dependent on early gas sales.

"The gas at Prudhoe Bay will ultimately be sold," Miller said. "The question is one of timing. In our opinion, the benefits from an early sale offset possible loss in oil recovery."

Hamilton said their studies show that if gas production at Prudhoe Bay should exceed 2 billion cubic feet a day, oil

production drops off drastically. Highest recovery from the field would be 2 million barrels of oil a day if no gas were sold and water were injected, he said. Forrest Gard, president of the H. J. Gruy Co., of Dallas, who made the reservoir study for the Department of the Interior, told the committee that 2.5 billion cubic feet a day would be "optimum" gas production.

Martin said both El Paso Alaska, proposing a trans-Alaska pipeline, and Arctic Gas, proposing a pipeline through Canada, have estimated their projects would require 3 to 3.5 billion cubic feet a day.

However, this statement was challenged by both companies. El Paso Alaska Vice president John Bennett later said his company has filed with the Federal Power Commission an alternative to carry 2.5 billion cubic feet a day. And Amos Mathews, executive vice president of Alaskan Arctic Gas, said his company never has said it would require more than 2.25 billion cubic feet of gas per day from Prudhoe Bay, which would be combined with 2.25 billion from Canada's Mackenzie Delta.

Martin also told the committee that the reservoir study "is merely one of the factors" that will be considered by the Federal Power Commission in

arriving at a decision to certify either a trans-Alaska or a trans-Canadian pipeline.

The committee gave about 10 minutes each to Bennett and Matthews, at the end of the two-day meeting.

It was the first appearance before the committee for either El Paso, which already has the state legislature's endorsement for its trans-Alaska pipeline proposal, or Arctic Gas.

The committee, seemed to be unclear what its role or its next step should be.

After hearing economist Arlon Tussing expound for 30 minutes on how it is possible Alaska's natural gas could be "valueless" because of the high cost of building any pipeline, Rader asked, "Can we ignore your pessimistic outlook and go ahead and state a preference for one route over another?"

Tussing responded that "As a member of the state's Royalty Gas Development Advisory Board, a quasi-judicial group, I don't want to speak prejudicially about issues before the board." One of those issues obviously is El Paso's proposal to purchase all or part of the state's royalty gas — a commitment El Paso has said is

needed to insure that a trans-Alaska route will be selected by the Federal Power Commission.

But, he added, "I don't think it wise to push for one route in spite of what the state receives" for its gas. "I would be conservative about committing the state's royalty gas now. There are so many contingencies." The Royalty Board took that position at its meeting in Juneau this week.

One alternative to a pipeline, which would convert the state's royalty gas to methanol, "is worth looking into," Tussing said, although it is "not in the race." There is no one ready to submit such a proposal to the Federal Power Commission, he pointed out.

Sen. John Huber, D-Fairbanks, frequently mentioned the methanol alternative during the two days the committee was in session. He said privately that Wentworth Brothers of Cincinnati is investigating the methanol proposal, and he said if Wentworth could obtain the state's 12 1/2 per cent royalty gas, plus uncommitted gas from other Prudhoe Bay owners, it "might be enough to block a Canadian (pipeline) route."

Another proposal, by Westinghouse, would take the

methanol out by submarine tanker, Huber said.

In his brief time before the committee, El Paso's Bennett said in the last 30 days, his company has amended its filing to the Federal Power Commission updating its total project cost estimate to \$7.8 billion. He said the cost increase is due almost entirely to increases in the cost of materials.

They have modified construction plans for a liquefaction plant, to have it built within five years from the time a permit is issued, he added.

"For the last six weeks," he said, "El Paso has had a team looking at the Alyeska (trans-Alaska oil) pipeline and they have found that 75 per cent of the work pad and the entire haul road could be used for our construction. This moves us into year-round construction, and gives us greater comfort in that five-year time frame."

Bennett said because of new compressor design, they find they can reduce the amount of gas needed to operate the

system to 9.6 per cent, "and we can recover an unknown amount of that," as the liquefied gas is regasified.

Tussing had predicted that a "pessimistic" prediction of the cost of transporting Alaska gas is \$4 to \$5 per thousand cubic feet. Bennett said the president of a gas company supplying gas to Boston told him four days ago that gas there is selling at \$5.45 per thousand cubic feet.

"There are 40 million American homes who must use natural gas. It would cost \$60 billion to convert them" to another form of fuel," Bennett said.

"There are many complex problems facing us and many obstacles, but the lack of a market for Alaska's gas is not one of them."

Bennett predicted that Mathews would agree with that statement, and he did.

Mathews and Arctic's trans-Canadian pipeline system could be built in roughly the same time frame as El Paso's.

# Gas Line Block Seen By State

By SUSAN ANDREWS  
Times Staff Writer

State officials told a legislative committee yesterday they will block any gas pipeline from the North Slope until they are convinced that gas can be produced without drastically reducing the recovery of oil from the Prudhoe Bay field.

"Haven't we effectively

destroyed a pipeline?" committee chairman state Sen. John Rader asked Commissioner of Natural Resources Guy Martin.

Martin replied, "No, only delayed it."

The testimony came yesterday during a two-day meeting of the legislature's Gas Pipeline Impact Committee. Wednesday, officials of Atlantic Richfield Co., BP Alaska and Exxon all said they are confident both oil and gas can be produced from the Prudhoe Bay field without a loss in oil production.

They said water will be injected into the field to replace the pressure removed when gas is produced.

But Hoyle Hamilton, chief petroleum engineer for the state division of oil and gas yesterday said they have yet to see proof that sufficient water is available for injection and that the Prudhoe Bay reservoir will absorb the volumes of water that will be needed.

(See Page 3, Col. 3)

SCOMM

#13:8

PARTIAL BUDGET

OFFICE & STAFF, 5 months.....\$19,675.00

Director & Coordinator.....\$2500 per mo.  
Secretary..... 750 per mo.  
Office rent..... 100 per mo.  
Telephone..... 100 per mo.  
Office parking space..... 15 per mo.  
Supplies & postage..... 50 per mo.  
Travel/per diem..... 420 per mo.

REPRODUCING REPORTS.....Total 1,000.00

MISCELLANEOUS & CONTINGENCY.....Total 500.00

COMMITTEE TRAVEL.....Total 12,600.00

(Based on 4 trips of 5 days each)  
Per diem.....\$600.00  
Plus travel of \$200.00 per trip  
for 9 members.....800.00

TOTAL.....\$33,775.00

## SCOPE

### IMPACT FACTORS

#### ELEMENT I (Immediate or most concern)

- A. Employment
- B. Population
- C. Housing
- D. Public Services
- E. Public Works - Utilities, Sewers, etc.
- F. Transportation
- G. Health
- H. Cost of Living Factors.
- I. Local Government - Organization & Financing -  
Revenues & Taxes
- J. Schools

#### ELEMENT II (Less Urgent Concern)

- A. Service Industries in Support of Functioning Community
- B. Environmental Considerations
- C. Communications
- D. Land Use and Availability
- E. Other Industry
- F. Recreation
- G. Department of Defense Interests
- H. Planning Needs.\*

All factors should be studied in terms of both short and long range impact and need.

\*Planning needs should be determined regardless of the scope of the study.

A. - NOTES ON EMPLOYMENT

1. Historical Information
2. Present Employment conditions
  - a. Labor Force
  - b. Full and partial employment & unemployment - characteristics and statistics.
  - c. Employables, not working, not now considered part of the labor force.
  - d. Numbers of persons unemployed with handicaps of various kinds, with characteristics and education/training levels.
3. Determine employment directly associated with pipeline construction.
  - a. Pipeline consortium.
  - b. Prime and Sub contractors.
  - c. Transportation in direct support - common carrier and contract.
  - d. Contract services in direct support.
  - e. Independent services in support - not directly arranged for by Alyeska or its contractors.
4. Learn if and to what extent construction camps will be set up.
  - a. Total numbers of employees affected and characteristics and locations.
  - b. Logistic Plan for support.
  - c. Extent of dependence of such employees on local supply of:
    - A. Local purchases of personal items.
    - B. Recreation.
    - C. Other services or commodities.
    - D. Time-off policy for employees.
5. Local hiring policy and extent.
  - a. Kinds of labor or skills.
  - b. Utilization of native labor - Native Corp. policies on recruitment.
  - c. Training programs.
  - d. Union policies on local labor.
  - e. Union jurisdictions anticipated.
  - f. Apprentice programs.
  - g. Wage scale schedules - Alyeska policies.
6. Construction phase time period.
  - a. Approximate beginning dates.
  - b. Periods of time for the different phases, with respect to the types of employment and numbers.
7. Other employment generated in local communities not directly associated with construction.
  - a. Expansion of existing industry, or services, and projected increases in employment.
  - b. Anticipated new industry or services and numbers of employees.
  - c. Increased local, state and federal employment based in the community.
  - d. Employment expected for new commercial investments or public works during pipeline construction period.
  - e. Explore potential of using present unemployed during construction.
8. Estimate of numbers of transient workers supported by the community during construction.

A. - NOTES ON EMPLOYMENT

9. Determine employment following pipeline construction by the pipeline complex and the marine transport operations:
  - a. Living in, and supported by, the communities involved.
  - b. Learn support logistics of others not completely part of the community.
10. Estimate employment changes in community at the end of the construction period.
  - a. Contraction of business and industry and associated dis-employment.
  - b. Construction created jobs that will carry over.
  - c. Determine new community jobs that will be indirectly created by the start of pipeline and marine operations.
  - d. Characteristics of new and terminated jobs.
  - e. Effects on community of any job decrease after construction.
    - A. Excess of housing.
    - B. Less of revenue to local and state governments.
    - C. Effect on debt service of local community.
    - D. Effect on quantity and quality of community services.
    - E. Total unemployment.
    - F. Welfare rolls.
11. Possible postponement of other construction during pipeline construction period.
  - A. Government projects, local, state or federal that could be postponed.
  - B. Large private investments not necessary for construction period.

B. -- NOTES ON POPULATION

1. Present population.
  - a. Historical record.
  - b. Total composition and characteristics.
2. Estimate of total population that will live in community during construction, exclusive of work-camp population.
  - a. Composition of population with respect to:
    - A. Permanent residents
    - B. Transient & temporary workers
    - C. Dependents and ages (Non-working)
    - D. Racial composition
    - E. Sex composition
  - b. Size of labor force.
3. Estimated total population after construction, for 5 to 10 years.
  - a. Any future construction anticipated or planned by Alyeska or the pipeline industry or oil industry.
  - b. Normal growth due to natural increase and net in-out migration.
  - c. Increased employment due to other industry or services - new or expanded.
  - d. Increases expected from expanded government activities or public works activities.
  - e. Population characteristics of estimated post construction periods, including labor force estimates.
  - f. Anticipated exploration and development programs.

## C. - NOTES ON HOUSING

1. Existing housing.
  - a. Total units and type
  - b. Persons per unit
  - c. Standards
  - d. Kinds of units.
    - A. Residential
    - B. Apartments
    - C. Public housing
    - d. Mobile homes
    - E. Hotels and motels
    - F. Trailer & other
    - G. Parking
  - e. Range of values
  - f. Total population housed
  - g. Vacancies
  - h. Housing trends since 1968
  - i. Permit records
2. Housing needs - construction phase.
  - a. Total units
    - A. Family
    - B. Worker and spouse
    - C. Single
  - b. How to meet temporary needs
    - A. Apartment
    - B. Temporary barrack type
    - C. Mobile home
    - D. Trailer or other
  - c. Location - zoning restrictions
  - d. Utilities, water, sewer, road requirements
    - A. Subdivision regulations and other code requirements
  - e. Other services or public works requirements
  - f. Post-pipeline-construction disposition of any added facilities
  - g. Costs to community of temporary housing
  - h. Building and housing codes
  - i. Financing - private, Government, or combination
  - j. Rent requirements
  - k. Management
3. Housing needs - post construction
  - a. Total requirements
  - b. Population characteristics, income categories
  - c. Type
    - A. Apartment
    - B. Residential
    - C. Mobile home and other
  - d. Utility, Sewer, water, streets, & other improvements needed
  - e. Land use plan, zoning, etc.
  - f. Availability of suitable land
  - g. Availability of capital
  - h. Construction costs
  - i. Tax rates, revenues, rates and impact on tax base
  - j. Building codes, housing codes, other codes
  - k. Skilled labor supply
  - l. City, State planning
  - m. Availability of federal or state aid
  - n. A.F.N. housing commitment

NOTES ON  
D. - GOVERNMENT PUBLIC SERVICES

1. Historical.
2. Existing services.
  - a. Garbage and solid wastes
    - A. Disposal facilities and disposal methods
    - B. Extent of coverage
    - C. Consideration of health hazards & water pollution
  - b. Street maintenance & snow removal
  - c. Police protection - Local
    - A. Number of personnel - professional proficiency
    - B. Methods of operation
    - C. Cooperation with other law enforcement agencies
    - D. Communications
    - E. Transportation
  - d. State police
    - A. Number of personnel in area
    - B. Jurisdictional area
  - e. Fire protection
    - A. Area of coverage
    - B. Equipment - age and other characteristics
    - C. High-pressure hydrant coverage area
    - D. Alarm system
    - E. Length of runs
    - F. Communications
    - G. Limitations of use beyond normal area of coverage
    - H. Full-time personnel, proficiency, and volunteer reliability
    - I. Facilities and stations
    - J. Protection of water supply from freezing
    - K. Electrical & other codes affecting fire hazards
    - L. Fire prevention programs
    - M. Fuel storage regulations
  - f. Street lighting
  - g. Traffic volumes and control
  - h. Parking facilities - general
3. Estimate adequacy of services, based on expected population, during construction and the impact of non-resident workers.
4. Estimate adequacy of services, based on the estimated post-construction population, following the construction period.
5. Willingness of local community to accept responsibilities.

E. - Notes on UTILITIES & SEWERS

1. Water supply.

- a. Source and capacity
- b. Potential new sources
- c. Transport system and distance
- d. Treatment
- e. Distribution system, meters or flat rate
- f. Adequacy of protection
- g. Conservation methods
- h. Extent of coverage
- i. Percentage of modern living units
- j. Industrial and commercial water uses
- k. Chlorination and fluoridation
- l. Estimate of present per capita use
- m. Estimate of future per capita use
- n. Projected improvements required
- o. Financing

2. Electric power

- a. Present capacity - Yearly KWH potential and Maximum capacity in Kw
- b. Reserve capacity
- c. Present KWH usage
- d. Type of generation
- e. Location of generation
- f. Transmission length and routing
- g. Total customers
  - A. Residential
  - B. Commercial
  - C. Industrial
- h. Fuel source
- i. Fuel storage facilities & capacity
  - A. Normal days of usage
- j. Capability of expansion with respect to:
  - A. Additional generation units
  - B. Transmission line capacity
  - C. Distribution lines and transformer capacities
  - D. Purchase of electrical energy from other sources
  - E. Engineer and technical services
- k. Rates schedule
- l. Emergency maintenance and repair capability
- m. Estimates of increased demands
  - A. Construction phase
  - B. Post-construction period
- n. Estimate of new or modified facilities to meet increased demands
- o. Estimated costs & methods of financing
  - A. Amortization forecast
- p. Federal & State aid programs available

3. Sewage and disposal system

- a. Present system
- b. Capacity of trunks and laterals
- c. Excess capacity above present needs
- d. Treatment
- e. Effluent disposal
  - A. Pollution potential

E. - NOTES ON UTILITIES & SEWERS

3. Sewage and disposal system (cont'd)
  - f. Extent of coverage
    - A. Connections - Residential, commercial & Industrial
  - g. Maintenance program
  - h. Storm drainage system - adequacy with additional population
  - i. Estimated impact of necessary improvements
    - A. Construction period
    - B. Post-construction period
  - j. Costs and methods of financing
  - k. Federal or state assistance available
4. Public buildings
  - a. Present facilities
    - A. Government operations
    - B. Maintenance and repair facilities
    - C. Other
    - D. Present excess capacity
  - b. Estimate of improvements needed
    - A. Construction phase
    - B. Post-construction period
  - c. Costs & methods of financing
  - d. Federal & State assistance available

## F. - NOTES ON TRANSPORTATION

1. Historical Recap
2. Air
  - a. Services provided - scheduled
  - b. Capacity - passengers and freight
  - c. Private and contract potential, with airport and runway limitations in mind
3. Airport facilities and services
  - a. Traffic control
  - b. Navigational facilities - all-weather operations
  - c. Runway lengths and surfacing - loading information
  - d. Runway lighting facilities
  - e. Communications
  - f. Terminal facilities
  - g. Parking
  - h. Aircraft servicing and maintenance
  - i. Fuel facilities and storage
  - j. Traffic capabilities
  - k. Estimate of necessary improvements or expansion
    - A. Costs and method of financing
    - B. Federal and State aid programs available
4. Water Transportation
  - a. Services presently provided
  - b. Potential of contract and private services
  - c. Present capacity in tonnages per month - scheduled
  - d. Adequacy of present & potential services
5. Terminals and Docks
  - a. Navigational and harbor control methods and facilities
  - b. Dock capacity and facilities - characteristics
  - c. Unloading facilities - mechanization
  - d. Efficiency of transfer to land transport
  - e. Storage and warehouse facilities, dock-side and other
  - f. Availability of longshoremen
  - g. Shipping costs, total
  - h. Normal dock time for ships normally used
  - i. Availability of pilots and tugs
  - j. Communications
  - k. Coast Guard availability
  - l. Parking
  - m. Tug availability and capacity
  - n. Regulations on tanker operation
  - o. Estimate of improvements necessary
    - A. Construction phase of pipeline
    - B. Post-construction period
    - C. Plan for meeting needs
    - D. Costs and financing method
    - E. Possible Federal and State aid

F. - NOTES ON TRANSPORTATION

6. Highway
  - a. Common carrier services provided
  - b. Contract and private potential
  - c. Capacities involved
  - d. Highway load limitations
  - e. Problems of keeping passes open
  - f. Estimated needs
    - A. Capability of increasing services
    - B. Alaska Transportation Commission approval
7. Railroad
  - a. Present capacity
  - b. Rates
  - c. Roadway problems
  - d. Capability of increasing services
    - A. Condition of present equipment
    - B. Acquisition of new rolling stock
    - C. Source of funds
8. Pipeline
  - a. Local and state regulations for operation
  - b. Source of power for pipeline operation
    - A. Purchase from other sources?
    - B. Generate own - any excess for sale?
  - c. Source of communications needed for pipeline operation
    - A. Purchase services?
    - B. Provide own - capacity for public use?
  - d. Labor policy of pipeline operators re: transportation
9. Ferry
  - a. Routes
  - b. Schedules and fares
  - c. Kinds of traffic
    - A. Cargo
    - B. Passenger
    - C. Vehicle
  - d. Future plans and capabilities

### G. - NOTES ON HEALTH

1. Historical
2. Present hospital facilities
  - a. number of beds
  - b. Professional help - resident
  - c. Facilities
    - A. Occupancy rates
    - B. Patient days and average stay
  - d. Degree of seriousness or severity of cases that can be handled
  - e. Methods of transport to hospital
  - f. Emergency facilities & procedures
  - g. Parking
  - h. Emergency power facilities
  - i. Out-patient facilities
3. Back-up facilities
  - a. Anchorage
  - b. Seattle and others
  - c. Methods of transport and time element involved
4. Available clinical and doctor's office facilities available as supplemental to emergency hospital services
5. Community professional personnel - Health
  - a. Physicians and surgeons
  - b. Dentists and their facilities and services
  - c. Psychiatrists
  - d. Nurses - RN & LPN
  - e. Other - Paramedic program
  - f. Availability from other communities, if needed
6. Long-term care facilities
  - a. Facilities
  - b. Statistics of past use
7. Needs during construction phase
  - a. Will needs be acute enough for additional facilities and services? Or, can outside facilities (Anchorage, etc.) be used without serious consequences?
  - b. Anticipated hospital & medical needs due to construction, and responsibility of serving all workers within the service area
  - c. Transport requirements, if deemed inadequate
  - d. Survey and analyses necessary to determine expansion in personnel or modification of facilities and procedures
8. Review of State and Federal programs which might be available for expansion of health facilities or services.
9. Health factors related to environment.
10. Occupational safety programs
11. Welfare problems

## H. - NOTES ON COST OF LIVING

1. Elements of economy where potential may exist for shortages, or demand pressures being created.
  - a. Lack of adequate or efficient shipping into community
  - b. Storage or warehouse shortage
  - c. Lack of competition in private enterprise functions
  - d. Lack of labor or shortages in particular skills which might bid up labor costs
  - e. Lack of sufficient or adequate housing
  - f. Lack of necessary financing for general uses
  - g. Lack or shortage of significant and important private or government services which could result in higher prices or labor costs
  - h. Unwarranted or improper bidding by contractors for skilled labor, technicians, and engineers, on a unilateral basis, in the interests of meeting construction deadlines.
2. The necessity of attempting to anticipate any and all shortages of labor, services and supplies, and devise ways to mitigate them on a timely basis.
  - a. Coordinated program, probably under leadership of a State agency.

## I. - NOTES ON LOCAL GOVERNMENT

1. Organization
  - a. Election process
  - b. Administrative system
  - c. Class city - powers
  - d. Taxing powers - limitation
  - e. Area of coverage
2. Financing
  - a. Property tax base - assessed evaluation
  - b. Taxes
    - A. Tax rate
    - B. Total property tax revenue
  - c. Other taxes
  - d. Other revenues
  - e. Utility ownership
  - f. State revenue sharing and other State aid
  - g. Federal aid programs
3. Debts
  - a. Debt service
  - b. Total obligations
    - A. General obligation bonds
    - B. Revenue bonds
    - C. Other debts - method of amortizing
  - c. Credit rating
  - d. Interest rates on outstanding debt
4. Cost of Government
  - a. Annual General Fund budget
  - b. Special operating budgets
5. Anticipated needs during construction
  - a. Operating budgets
  - b. Public works acceleration
  - c. Utility expansion needs
  - d. School operation and construction
6. Estimate of added revenues due to increased population and employment
  - a. Property taxes
  - b. Sales taxes
  - c. Utilities
  - d. Other
7. Post construction forecast and problems

J. - NOTES ON SCHOOLS

1. Historical - Statistical - Characteristics
2. Present plant
  - a. Capacity
  - b. Characteristics
  - c. Excess capacity
3. Enrollment - Characteristics
4. Faculty and staff
5. Anticipated enrollment - Construction period
  - a. Characteristics
  - b. Teachers needed
  - c. Plant needed
6. Financing
  - a. Operation - State & Federal aid programs
  - b. Construction - State & Federal aid programs
  - c. Local support - tax rates
  - d. Indebtedness
    - A. Outstanding debt - rates
    - B. Debt service - source of payments
7. State-operated schools
  - a. Needs along pipeline
  - b. Special construction programs
  - c. Available funds
  - d. Transportation problems
8. Special academic programs
  - a. Vocational training (Private and State)
  - b. Vocational rehabilitation
  - c. MDTA programs
  - d. Other

CHAMBER OF COMMERCE

Claire Banks Sept. 11 lunch  
Bill Tobin

1. The Chamber has had a committee making an economic impact study.....Frank Danner, Chairman  
Jesse Carr....Teamsters  
Bob Richards..NBA economist  
Will get report from them.
2. The Chamber intends to hold a seminar on the Piepline impact with the aim of acquainting business men with what to expect.
3. Mr. Tobin and Mr. Banks were much interested in ways of holding local inflation down, however, no concrete suggestions were made. They agreed if anything could be done to alleviate shortage it should be done.
4. Bill Tobin recommended I see Gen. Sherrill. Contact Col. Roy Brunhart, P.R.
5. Financing may be difficult for private enterprise services needed.
6. Stressed need of careful study of school needs. Discussed 45-15 plan for year-round school.

COPPER CENTER-Interviews  
George Ashby-Mr. Rogge & Mrs. Bayles

1. Copper Center also has no excess housing and there is very little private land. The U. of A. also has land there. Some is already on 55 year lease.
2. Mr. Ashby believes there may be some school impact even here, to the extent that workers and families want to live here. Presently there are only two class rooms and two teachers. The school is presently full (Primary). High school students go to Glennallen and that too is believed to be almost full.
3. If very many more people move into Copper Center, they will have a pollution problem with sewage because of permafrost. They, of course, have no sewers or water systems.
4. Same concern was stated for the availability of money for housing, if there is a housing need.

DELTA JUNCTION - September 6, 1973  
4th Class City

Attendance at meeting.

Don Kobierowski.....Mayor  
Mary Kobierowski.....Wife of Mayor  
Ray Servela.....Highway Director  
Loretta Nessler.....President Chamber of Commerce  
Ken Ryther.....Councilman and Fbxs. Med. & Dental  
Physicians Association  
Glen Chowning.....Councilman and Principal Ft. Greely  
schools  
Roy Gilbertson.....Councilman  
Trooper Brooks.....State Troopers  
Tom Dull.....State Parks  
Bill Freeze.....Delta Chamber and Alaska Motor Coaches  
Fern Harkness.....Husband with I.T.T.....representing  
community  
Don Jameson.....R.C.A.  
Evelyn Peek.....works here at hotel & owns apartments  
in Anchorage  
Garret Vermeulen.....Service Station  
Lloyd Anderson.....owners  
Joe Nessler.....husband of Chamber president

1. Population & Employment. Delta Junction has 2000 population in 10 mile radius. They believe many new families of pipeline workers will want to live in Delta Junction. The people here are not sure whether Alyeska will hire Alaskan residents, however, it was stated Alaska unions have signed agreements and that local members will be hired.

The people of Delta Junction expect a large impact from people just seeking employment, because if they come up the Alaska Highway, Delta Junction will be the first point they hit the pipeline.

It was believed that construction camps would be temporary, mobile-type buildings, self-contained.

They have not had enough information to project employment increases.

Delta Junction has not had any official word of where the construction camps will be located nor the exact route of the pipeline. They have heard that it will go through the center of town, but the City fathers have not been contacted by anyone from Alyeska. The people there said I was the first person who has talked with them about the pipeline, except 2 years ago, Alyeska PR men talked to the Chamber of Commerce, but not much about how Delta Junction would be affected.

2. Public Safety. Delta Junction has 1 State Trooper and an enforcement officer for Fish & Game has just been assigned there. They believe they need at least one more trooper, and that Delta Junction has been bypassed in past trooper increases. Delta Junction does qualify for \$10,000.00 from State but so far they have no local revenues for the required matching funds. (This would probably only be enough for one man and his quarters).

Delta Junction now has a volunteer fire department and 3 pieces of equipment - 2 pumpers (one poor) and a tanker. They believe a full time chief will be needed.

3. Transportation. Delta Junction believes the State should study the air transportation requirements for the area, and determine improvements needed. An area adjacent to town is needed for helicopter pad. They are not now permitted to land in town. The landing field at Ft. Greeley is now jointly used by the military and the public, however, there are no fuel facilities there for public use and should be provided. The airport is virtually always open (weather conditions), since it's been closed only one day in 10 years. Heavy vehicular traffic and smog may change this.

4. Housing. There are 14 private homes under construction in Delta Junction. There was not much concern expressed about the availability of land for housing. There are three trailer mobile-home courts with 14 units being added to one of them now. There is adequate space for 50 more.

5. Government. Delta Junction is a 4th Class City with an elected council and mayor. They presently have no property or sales tax but the Council is considering a tax program (I believe only in the talking stage. Some tax program probably will be necessary)

6. Utilities, Public Services & Health. No concern was expressed on the lack of electric power during the construction. (They are connected to the Fairbanks power net) The City has no central water supply or distribution. Water is dependent upon wells.

Neither is there any sewage system. Because of this an important impact on Delta Junction will be with the health problems created. If the population grows to any great extent some sewage disposal methods may be required.

The Fairbanks Medical & Dental Physicians Ass'n. has a clinic there. It is believed that with population growth and any significant services provided to construction workers, the clinic will be over-loaded. (The professional help apparently commute from Fairbanks on a scheduled basis)

The City will have an ambulance by January 1, 1974.

The City feels the State needs more representation in Delta Junction. There is no public health nurse, only a social worker whose responsibilities take her up and down the highways out of Delta Junction. There are few other State offices.

Solid waste disposal is already a problem. They say the garbage dump is good for only 2 more years at the present rate of use and that only a modest increase in population will overload the present area. Some thought has been given to some kind of solid waste treatment plant.

7. Courts. No concern was expressed in Delta Junction regarding the court system, possibly because it is not too far from Fairbanks. (It is believed further study needs to be done in this area)

8. Planning. Statements were made that the principal impact on Delta Junction will be following the construction. Pumping station No. 9 (Phase 2, probably 1978) will be 2 miles beyond Ft. Greeley.

They claim unable to plan intelligently because Alyeska has been too secretive.

9. Schools. Delta Junction doesn't know how many to plan for in schools because of lack of information. The present schools are full and over-flowing. There are 472 pupils at Delta Junction schools and 338 at Ft. Greeley, both State operated. Of course, they can and may need to double-shift (no community really wants to do this), but more teachers will be needed.

This year when school opened 50 new students registered. No one knows at this time (school had just opened) where they came from, what the parents do, but they think it is indicative of what is going to happen in their community.

There was some concern expressed regarding information they had that the pipeline was to pass very near the city-located schools. They are also worrying about whether the pipe will be above ground because of local soil conditions. They have not been told.

FAIRBANKS - Capt. Ralph E. Shafer, State Troopers  
September 7, 1973

1. The Troopers problem has been to guess at what will happen during the pipeline construction. They haven't been able to get much information. There are many conflicting stories. They have a wide area of coverage and when a single complaint is filed or an investigation necessary it takes a trooper two days in an area where he must fly. The closest man they have in the North is at Barrow. It is usually easier to send a man from Fairbanks to points between Fairbanks and the North Slope.

The Troopers presently have direct communications with Dead Horse from 8 to 10 hours per day (via commercial radio phone services).

Sideband radio is not the answer to the policing problem. VHF with repeaters is the answer.

There is evidently the intent, if the budget is approved, to put two men at Dead Horse and two at Livengood. Housing at Dead Horse will be a problem. Bettles will need a trooper.

Col. Dankworth has talked to the oil companies (and presumably Alyeska) and asked each Trooper Post to submit budget requests. (I have not yet had an opportunity to talk with Col. Dankworth).

Capt. Shafer expects that with a large influx of people they will face abnormally high rates of law breakers (or peace breakers), because of the questionable character of camp followers. The troopers presently police the North Star Borough areas outside the City. City police now adequate but will need more. Furthermore, there will be industrial accidents and fatalities, and for insurance reasons, the first person usually called is the police. He was in Kenai also, and is thoroughly familiar with the problems. Troopers are called for everything, rescue and recovery work, too.

FAIRBANKS - City Manager Wally Droz  
September 7, 1973

1. Employment & Population. Fairbanks has the same uncertainties as other communities as to the numbers of families of pipeline workers that will come to Fairbanks. They think that there will be a gradual influx despite Alyeska efforts to keep them out.

Mr. Droz believes Alyeska will make an effort to hire native workers, but that many will not stay, for several reasons. One is drinking. Fairbanks had an alcoholic rehabilitation program but were forced to discontinue because of abuse by the natives.

Mr. Droz believes much of the construction work will be such that the workers will need to be imported from the other states. He thinks Fairbanks will get mostly service people and few white-collar workers.

2. Public Safety. Fairbanks has made little headway in anticipating problems created by the pipeline construction, and no projection of anticipated police costs. He predicts there will be organized crime activities and all kinds of "fast buck" artists. The City of Fairbanks, however, is sponsoring a Pipeline Law Enforcement study aimed at determining some of the problems and what needs to be done. This study is federally funded under the L.E.A. program.

(No special concern was expressed at this interview in respect to fire-fighting problems. However since the North Star Borough has no fire-fighting powers, this subject needs further study)

3. Transportation. Air transportation is considered adequate since scheduled carriers could increase service and there is charter and contract carriers available. The airport is considered adequate. The A.R.R. now has a spur to the airport.

The only problem with Air will be from the States and they probably can't handle required cargo.

There are potential problems with surface transportation. He believes the highways will not be able to carry the load during the peak of construction. (Teamsters are requiring cargo to move by highway that could be carried by the A.R.R. See interview with the General Manager of the A.R.R.)

Mr. Droz also thinks the railroad capacity may not be adequate.

4. Housing. Mr. Droz doesn't expect housing problems, at least in the early stages of construction, because of the presently high vacancy rate. (It is not known what the break-down is on the relative amounts of high, medium and low income housing is available. This needs study)

5. Government. A distracting element at this time in the Fairbanks area is the attempt toward unification of the City and Borough governments.

6. Utilities. Mr. Droz considers the utility services and capacities to be adequate to handle construction period loads with the exception

of the telephone utility (It has been learned that both trunking and switching equipment are not adequate and are already the cause of many problems).

All areas have water except two but service is being extended to these. The City Government doesn't own the utilities as in Anchorage, but are under separate operating boards.

7. Health. Fairbanks has their new hospital in operation. Medical & dental professions have adequate personnel at present and Droz is confident more will come. Ft. Wainwright is closing half of the post. The hospital there will be de-activated and might be made available for public use if needed.

Air pollution during the severely cold weather is already a problem. Further study by E.P.A. is being done. Severe restrictions are expected in those present activities which add to the smog problem, such as leaving the auto engine running while parked. The pipeline construction period will be certain to aggravate this problem.

8. Community Facilities. The sewer system now is extended to all areas in the City of Fairbanks (or is being constructed now). The 2nd sewage treatment plant will be under construction soon (Concurrently with the pipeline).

Other services are considered adequate or can be expanded.

9. Courts. Mr. Droz says the courts are over-loaded. There are also problems with detention facilities. (State owned)

The courts are expected to be completely over-loaded during the pipeline construction period.

10. Inflationary Pressures. Fairbanks is much concerned with the expected competition with the construction industry for help of all kinds.

There will be other government construction projects that will compete with pipeline construction, or add to the total impact. The flood control project will start. Fairbanks will have a new Federal Building. His belief is that non-urgent construction projects be delayed and phased in as the pipeline construction phases out.

GLENNALLEN - COPPER VALLEY ELECTRIC (& TELEPHONE)  
James Palin - Manager      Sept. 6, 1973

1. Copper Valley serves general Glennallen area, Valdez and points in between. They have been expanding only as fast as demand increases. They recently added a generator in Valdez (total now 3728 KW peak power, firm 1800 KW). B. & B. Fisheries freezer plant will soon start operating and will absorb nearly all surplus they now have. Generators cannot be added easily or quickly.

2. They have been unable to get any answers from Alyeska regarding estimates of electrical power needs. (Alyeska plans to provide their own, and evidently will neither need commercial supplies nor have any excess of their own to sell. (This is a question I have asked Alyeska).

GLENNALLEN - Interview

Sgt. Norman C. Chafin, State Troopers  
September 6, 1973

1. Sgt. Chafin made a report through headquarters on his estimated requirements to meet the pipeline impact. (will talk to Col. Dankworth)

He believes the largest problem will be with job-seekers rather than workers. He knows there will be work-camps but doesn't know where they will be located nor what working hours they will maintain nor their time of schedules.

2. Sgt. Chafin asked for 2 more troopers for Valdez (now 1), one clerical worker and a trooper for Glennallen. He wants to keep the office open 24 hours a day. He has 2 men at Paxson now and no more have been requested. They have 5 men at Tok (mostly involved with dope) and he has asked for one more. If there is much Alaska Highway traffic created by the pipeline construction, they will not be able to handle the problems.

There is presently 16 hours of patrol out of Glennallen, with men being on call the other 8 hours. His request would allow 24 hour coverage at all posts. Now the best he can do is concentrate manpower where needed.

Sgt. Chafin was in Kenai during the construction period there. They were continually snowed under with many emergency situations, including 6 murders. He says he would like to have a full-time investigator stationed in Valdez. Sgt. Chafin expects road traffic to increase 1000% and radar equipment is needed.

3. Communications, especially between base stations and the patrol cars is bad. They presently use the Highway radio system, which is manned only 8 hours per day 5 days per week. Even this is good out to a little over 50 miles toward Valdez, perhaps more in other directions, depending upon the atmospheric conditions. Communications to Anchorage is spotty. A patrol car on the road at night has no communication. Because of potential situations increased highway use and recreational activity of construction workers, better communications are needed. Only land line telephone between Valdez and Glennallen posts, subject to breaks in line at any time or sabotage. Better communications between State Troopers posts will be available when RCA installs the microwave circuits up and down the pipeline. See Delta Junction interview.

4. Sgt. Chaffin says the State jail at Glennallen is very inadequate. The Magistrate, the State Health office and nurse are in one small building. The magistrate has two small holding cells. Under present conditions often some of the detainees must sleep on the floor.

The Magistrate has requested more space. The Trooper thinks a District Court Judge and a prosecutor will be needed at Glennallen.

5. There have been additional liquor licenses issued recently in his jurisdiction, evidently in preparation for the pipeline construction. The Sgt. doesn't know if the population requirements were met since this is not the State Troopers function. There are

Glennallen.....Sgt. Chafin.....cont'd.....page 2.

more applications for liquor licenses on file.

6. There is very little land available for housing in private ownership. There is U. of A. land and also B.L.M. It was not known if the State has land in the immediate area.

7. He believes the schools (State operated) are not able to absorb many more students.

In general, Sgt. Chafin says the Glennallen area has not done anything to gear up for the pipeline construction.

GOLDEN VALLEY ELECTRIC - Robert Huffman, Manager  
September 7, 1973

The R.E.A. Coops of Alaska made a proposal to Alyeska to furnish electric power for certain of the pumping stations and other required power. The proposal, briefly was to run the line of those pumping stations south of the Yukon River which are in Phase 2 and Phase 3 of Alyeska's construction plans.

Great amounts of electrical energy are required (one estimate was for more than presently exists in Alaska). The eventual aim of the coops was to tie in all Central and South-Central Alaska with a common generation and transmission system. With the large loads possible with an integrated system, all users would benefit from lower rates and less reserve requirements. (I attempted three years ago to get some action started on this, in conjunction with the Alaska Power Adm.)

The State Administration (Joe Henri) has worked with the Coops in their study and proposal. The proposal has been turned down by Alyeska, especially in Phase 1. There seems to be some interest in Phase 2 and less in Phase 3.

Without going into details of proposal (I have the proposal and will summarize in further detail later). Mr. Huffman says their program can meet the time schedule needed by Alyeska for Phases 2 & 3, and Alyeska (Patton) did not quarrel with the economics except to question the Coops estimate for fuel costs. Huffman believes they can fully substantiate the economics of their proposal and that it is competitive with Alyeska's own proposed system.

When I asked about redundancy in the power supply, Huffman says Patton was not too concerned about this as long as they have some of the stations on firm power. With a few pumping stations operating, the oil can be kept flowing at a reduced rate.

The Coops were planning on a small LNG pipeline from the North Slope to bring gas to the generating units, and have been assured of the feasibility of this.

With a favorable legislative or Impact Committee position on this matter, Alyeska might review its position, particularly since they have not yet definitely turned down the Phase 2 & 3 proposals.

NORTH STAR BOROUGH - Mayor John Carlson  
September 7, 1973

1. Employment. Mr. Carlson thinks the MSNW report made for Alyeska on the impact is good and that the employment projections are fairly realistic. He says Fairbanks is a strong union town and that they will require local hiring.

2. Public Safety. Mr. Carlson does anticipate both law enforcement and fire protection problems, but since the Borough has neither power, was not prepared to discuss them to any extent.

3. Transportation. He sees one of the most immediate needs, in transportation as building a by-pass from the Alaska Highway to the Steese Highway so as to eliminate the need of all pipeline traffic going through the City. Such a by-pass would require the construction of another Chena bridge.

Mr. Carlson believes local merchants will have difficulty getting merchandise and food and that they may need to rely more on air transportation for many items. He recalled the problem immediately following the 1967 flood and that the air transportation was very inadequate. He was thinking of requesting Pan Am diverting their New York-Fairbanks-Tokyo flight through Seattle since Pan Am evidently has empty cargo space on the west-bound flights. (There could be serious obstacles in putting such a plan into effect).

Mr. Carlson says Wien has cut back their schedules into Fairbanks and Alaska Airlines has cancelled many flights, but assumes also that schedules could be increased.

As to the A.R.R., Mr. Carlson quoted Mr. Rogers Morton as saying the A.R.R. should beef up their power and other rolling stock.

4. Housing. Mr. Carlson says there is not much private land available that has sewer and water available. Much is being held for speculation. There are no large areas available for large housing development projects.

The F. E. Co. has 20 acres but it is not served by water or sewer.

He says the Borough has no involvement in supplying water or sewer services. This is a City function.

The Borough does not have health or sanitation powers. That is still a State function.

Mr. Carlson said there has been talk of establishing service districts but none so far. He is recommending that they encourage cluster housing so that water and sewer can be more easily and efficiently provided.

There is also discussion of getting use of some of the housing being vacated on the closed portions of Ft. Wainwright. This will be studied.

5. Utilities. Mr. Carlson says there is not much concern for utilities with the exception of telephone (There evidently is not too much concern in Fairbanks about the ability of the two electrical entities to provide sufficient power. I did not have time to talk

to the electrical people about the Healy plant, but understand there has been considerable trouble. (This subject needs further study).

6. Health. Solid waster powers are under the Borough. Outside the City this is handled by private collection firms. The Borough operates the disposal area. There was no concern evidenced as to adequacy of the disposal areas.

7. Schools. The school system needs expansion. The fate of the needed construction is again up to the Borough voters in October. There are three bond issues—one to build a Junior High, one to build a Junior-Senior High and the third for maintenance. Carlson thinks there is a 50/50 chance of approval. (I'm not so sure. There is sentiment that since Alyeska is causing this problem, let them build the schools, or else the State should do so).

Mr. Carlson says if the bond issues don't pass, it will mean double shifting or portable school buildings.

In connection with schools, the Borough has what appears to be an excellent program for adult education and careers.

8. Inflationary Pressures. In addition to the \$10 million dollar flood control project, there is the \$15 million dollar Federal Building and if the bond issues pass, \$11 million dollars of school construction in the mill. Mr. Carlson expects there will be a crunch for skilled labor and the added impact. He is suggesting that the Federal Building construction be deferred. (The problems here again may be fear of loss of the appropriation).

Mr. Carlson also believes some of the OSHA regulations will have the effect of increasing the costs of construction.

9. Financing. Mr. Carlson is fearful that there will be a lack of financing for private industry needs and housing at any rate of interest.

VALDEZ - Interview Herbert W. Lehfeldt  
City Manager  
September 5, 1973

1. Mr. Lehfeldt state that there was considerable conflict among the several impact studies in respect to projections of employment and population in Valdez. He says the Powder Company will have 50 families living in Valdez which were not specifically mentioned in the Alyeska report.

He says that Alyeska plans 12 hour shifts and that men will be too tired to play. Mr. Lehfeldt believes there will be a 500 man construction camp at the terminal site across the Bay and one at mile 11 or 12 out of Valdez.

Population of Valdez now about 1000. Mr. Lehfeldt predicts 6500 people during (MSNW shows only about 3000 at the peak) the peak of construction and 300% permanent resident increase after construction.

Valdez is worried about the influx of people not directly associated with construction and people looking for jobs or just looking.

Mr. Lehfeldt thinks that if Alyeska hires most of their construction people outside there will be less serious adjustment problems after construction, especially among the natives. He says they will be unable to adjust to such radical changes.

Mr. Lehfeldt had no opinion as to the validity of the MSNW report that pipeline construction workers would require only 40% of the government services as permanent residents, and that other pipeline workers temporarily located in Alaska would need only 80% of government services offered.

2. Public Safety. Valdez now has <sup>3</sup>city policemen and should have 4 for the present population. Mr. Lehfeldt says they will need to increase their force beyond that, if they can get the men. (Based on Mr. Lehfeldt's Impact Statement he would require 6 more policemen). Mr. Lehfeldt says they expect two additional State troopers to be stationed at Valdez. The City also has 12 men police volunteers for back-up with some training for emergencies and back-up only.

Valdez has 2 Fish & Game Protection Officers stationed at Valdez and possible 2 additional promised.

Valdez uses sideband radio for inter-city police communications. Weather conditions makes it undependable at times. They have commercial telephone for back-up. The City of Valdez furnishes the State Trooper side band equipment so that he can monitor the City frequency.

The Trooper has poor communication with his own headquarters at Glennallen. Commercial telephone is the normal communications channel. The Trooper also is equipped with radio using the Highway Department frequencies, but this is HF gear and is quite limited as to range and can only be used from 8-5 when the Highway offices are manned.

Lehfeldt thinks union jurisdictional problems unresolved in Anchorage might have to be handled or controlled by the State Troopers along the pipeline route.

Valdez has 28 volunteer fire fighters and good equipment. They are expecting Alyeska to provide their own fire protection at the pipeline terminal, tank farm and docks, although they have not been advised of this. If this is not the case, the City would

have very limited capability in the pipeline terminal area without expansion. If they will be required to provide such service, the property tax millage rate on the Terminal property would reflect the service.

3. Transportation. Mr. Lehfeltd expects Alyeska materials will be received over both the City dock and an Alyeska dock to be built.

The Valdez airport is soon to be improved. There is available 2.3 million dollars for this work from a State bond issue. Engineering is complete and work should start soon. A delay has been caused by changes that were made and they are waiting approval of the F.A.A. There will be a 5000 foot, paved runway. There will be no runway lighting at this time nor the required navigational aids needed for all-weather operation. This will probably not be done until such equipment becomes more sophisticated. Alaska Airlines has talked of improved services for Valdez, however, at this time they have no service of their own. The contract with a bush pilot who offers service between Cordova and Valdez with single-engine equipment. Polar Airways offers 5 day per week service from Anchorage. This is with twin-engine aircraft, but requires VFR weather at Valdez.

Lehfeltd says the Highway Department does an excellent job of keeping Thompson Pass open. He says that since he has been there (2 years) the pass was closed only once for about a day but this was the first time in years.

4. Housing. Mr. Lehfeltd says the present population of Valdez is just over 1000. He anticipates 6500 at the peak of construction and about 3000 after construction is completed. There is unused land within the City which could be served with sewer and water, however, most is in private hands. He thinks it may not become available because of speculation. I think most of this land is in the business district, and if not used, may slow business development.

There is a definite problem as to the location of mobile homes, trailers or temporary housing.

There is not much land available which can be served with City services. There is some held by B.L.M. and the University of Alaska. The University land probably could be leased for temporary housing.

Lehfeltd believes that zoning could be a problem despite adequate laws.

Lehfeltd knows of no Federal housing programs that are available, except loans. Most federal programs are for low income groups. Farmers Home has a loan program, but funds have historically been very limited.

There are few federal programs that would aid community in building community facilities. The Better Community Act might have small amounts available but the community to qualify must have received federal assistance in the past. (Valdez qualifies) He thinks that perhaps as much as 50,000 to 60,000 dollars might be available to Valdez, although no application has been made. It is questionable if the receipt of such funds could be timely. Within the Valdez city area there is presently little vacant housing available. There are about three small motels in town and some small over-night tourist quarters which presumably could and would be made available for single or married workers, especially during the off-season. There are two trailer parks in town, but they

appeared to be almost fully occupied. Trailer parks out of town would need to be served by wells and cesspools.

5. Government. Mr. Lehfeldt believes most laws presently exist that will be needed during the construction period. There is one concern in Valdez. Presently only 30 day residency is necessary to run for city government office. With such a high percentage of new residents there is the feeling that all new Council members could be elected, thereby affecting stability and continuity of city government. Worse, undesirables could control the government and perhaps allowing lawlessness in a community that until now is a peaceful, family community. There is thought being given to law changes which would provide lesser numbers of council members to be elected at one time and maintain better continuity of government.

Valdez is concerned with what will happen after the construction period. All previous plans were for reasonable growth. They do not desire to become a depressed area afterward, but hope the City can meet the temporary needs without incurring themselves (at least not beyond the ability of safely meeting the obligations following the construction).

The city must exist afterwards and the hope is that it can return to a family type community.

Mr. Lehfeldt believes the State revenue-sharing formula is equitable. He says there are inequities but that he knows of no better way to allocate.

6. Utilities. Mr. Lehfeldt says he knows of no plans to increase the electrical generating capacity for Valdez. (See interview with Jim Palin of Copper Valley Electric Coop.)

There is no TV in Valdez and no AM or FM radio signals can be normally received from Anchorage or elsewhere. The City operates the Armed Forces Radio Station in Valdez and broadcasts programs coming in by overland telephone circuits from Anchorage. This station can be received only in the Valdez Bay region.

7. Health. There is only one doctor living in Valdez. There are no dentists in residence, but a couple of times a year one or more dentists visit Valdez and set up shop for local residents. Emergency dental work must be done in Anchorage (or elsewhere). It is Mr. Lehfeldt's understanding that Alyeska has contracted with Fairbanks physicians for emergencies along the pipeline.

The hospital and medical facilities in Valdez are very limited as to the severity of cases that can be handled. They must be transported to Anchorage or Fairbanks. Often this is not possible by air. Mr. Lehfeldt believes better facilities are needed there, particularly for emergencies and severe injuries.

Valdez does have a new ambulance. They also have 7 emergency medical trainees in residence who have passed the Sitka training program(I understand these people are not as highly trained as paramedics)

8. Community Facilities. Valdez has a sewage collection and trunk system which Mr. Lehfeldt describes as being adequate for the construction impact. They have a primary sewage treatment plant which will need to be expanded. The effluent from the treatment plant empties into the Bay in the neighborhood of the Old Town site. Although the Bay is deep and there is a 13' tide at least one person has said there is a pollution hazard. Lehfeldt says the flushing action is good.

Mr. Lehfeldt says they do not have sufficient road equipment.

9. Courts. There is a magistrate at Valdez. Mr. Lehfeldt says the court cannot handle their load now and that conditions will get worse. He expects the majority of violations will be misdemeanors and therefore can be handled by a magistrate.

10. Inflationary Pressures. Mr. Lehfeldt is much concerned with the problem of the City government (and local business & industry) competing with the construction industry for workers. He expects to lose some male workers (even possibly policemen, who now make \$900 per mo). Even if they don't lose people, the expected high wage settlements will almost certainly force all wages up. Valdez locked in on budgets will have difficulty keeping or recruiting help. He expects insurance rates to rise, also. He wondered about wage ceilings.

He believes the State needs to take a hard position on excessive Alyeska costs and that audits be made and maybe penalties be assessed or threatened in cases of excessive costs. He believes the only way is to control or set the maximum price per barrel that the oil can be sold for (would probably require Federal legislation).

An increase in cost of living will remain high after the boom period.

11. Planning. The Capital Improvements part of the comprehensive Valdez Plan is completed. (will attempt to get copy)

12. Banking. At least one more bank (maybe 2) will open a branch in Valdez.

13. Postal Services. Postal services believed to be adequate. Mail is brought daily by truck from Anchorage. Airmail service is also available. If the service is cancelled, out-going airmail goes by truck. However, incoming airmail to Valdez awaits the airplane departure, even if delayed or cancelled. Service could be improved if airmail were trucked on days when flights are cancelled or delayed.

The incoming mail is not delivered but placed in post office boxes. An additional tier of boxes could be installed, if needed. Also, a second floor could be added to the building.

14. Schools. Mr. Lehfeldt believes the school system can handle the expected need with double shifting and more teachers, providing Alyeska does not permit pipeline workers to bring their families.

VALDEZ - Interview John Kelsey  
Valdez Dock Co.  
September 5, 1973

Bill Johnson (Homer) has 8 pilots qualified to work in Valdez and Prince William Sound waters. He plans to station pilots in Valdez. Kelsey believes there will be sufficient pilots.

He says Coast Guard will bring in a 90' vessel and expand as required.

B. & B. Fisheries (Bix Bonney) are constructing a large freezer plant (Ready Nov. 1, 1973, for Tanner Crab season) 50% Japanese ownership. They will also meet Alaskan market demands directly (won't ship first to the State).

The Copper Valley Coop also provides telephone service in Valdez and to Glennallen. They need to expand but haven't found way to do it. (See RCA pipeline communications in Delta Junction interviews)

Sea Land transportation is planning some form of scheduled transportation into Valdez and have talked to John Kelsey.

Mr. Kelsey believes the legislature has passed legislation since the installation of the Valdez sewer system that could cut down the planned capacity (5000-6000 persons).

The Valdez State trooper believes if legislation were passed requiring restitution after conviction of stealing or destroying property, it would be a deterrent to committing such acts.

NOTE: Reference is made to the Impact Statement submitted by the Valdez City Manager, which I understand was sent to Committee members.

ALYESKA MSNW REPORT

1. Is forecast made on employment still valid?
2. Which alternative forecast now looks likely?
3. Is the construction camp policy for Valdez assumed in the study valid, or will some workers, or all, be based in town? How about other areas?
4. What will be the logistics plan for support of the construction camps?
5. Native training programs - what are they and which other agencies should, or could, supplement this program.
6. Are any problems anticipated because of conflicting union jurisdictions?
7. Consistency of ALYESKA wage policy with Alaska construction wages.
8. Are there any future construction plans which have not been mentioned in the MSNW report?
9. Was the drilling of production wells and the construction of the gathering system employment considered in the MSNW report?
10. Are there community or government services which may be used by ALYESKA along the pipeline route or elsewhere?
11. What transportation services will be used by ALYESKA during construction and after?
12. Will ALYESKA use any public utilities of communities along the pipeline route or, conversely, will ALYESKA be able to offer services to the public at any point?
13. Comments on potential inflationary pressures due to:
  - a. Lack of skilled labor.
  - b. Inadequate transportation.
  - c. Lack of warehousing.
  - d. Lack of competition.
  - e. Shortage of housing.
  - f. Labor piracy.
  - g. Other.
14. Adequacy of banking facilities.
15. Adequacy of postal services.
16. Availability of ALYESKA's report "Recruitment and Training Task Force Report".

(2)

17. The MSNW report doesn't anticipate any Federal increases in employment because of pipeline construction, nor decreases which may be caused by base cut-backs or closures. Was this because of lack of information?

18. What will be the specific location of the construction camps?

19. Have there been any changes in the assumptions listed on pages 19 to 25 in Vol. II of the MSNW report?

ADDITIONAL QUESTIONS FOR ALYESKA

1. Pipeline construction work-hours and time-off policy.
2. Specific routes of pipeline through communities and whether buried or above ground.
3. What are the plans for fire-fighting at the terminal and at pumping stations, if near communities?
4. Will the medical services provided at the camps be confined to first aid? What transportation will be provided for serious injuries or illness?
5. What are the plans for sewage and solid waste disposal at the camps?

Bob Sharp - Anchorage City Manager  
September 10 - 10-11:20 A.M.  
Manager's Office

1. Water problems. Water supply is expected to be adequate for the pipeline construction period for the area. Ship Creek was considered the main source for the water supply for the next several years. However, foundation problems for the required new dam necessitated a new study. A joint City-Central Alaska Utilities study led to the plan to determine if wells in the Eagle River valley could provide the needs of the next ten years. This will proceed.
2. Government capacity. The City, Borough, and Military bases now depend to a great extent on natural gas, both for heating fuel but for the generation of electric power. Although the well-head supply of gas is considered adequate, the transmission by way of the 12 inch pipeline of sufficient gas to meet the growing needs is questioned. It is believed serious consideration needs to be given to running another 12 inch line. (Two 12 inch lines already span Turnagain Arm). (This will be checked with the Gas Company).
3. Used State & Dept. of Interior employment and population figures. Same on employment/dependent ratio. (Based on judgment of employment expected).
4. Not yet sure what, or if, public works requires state aid. Further study needed.
5. If surface transportation exists, would be between Seward/Whittier and Anchorage. Dock improvements planned.
6. Can't see REA-group, proposal helping Anchorage at this time - could long-range.
7. City will make revenue projection created by pipeline impact. Believes City revenues would lag considerably behind both impacted city operational costs and increased needs of public works.
8. Doesn't believe there will be any substantial delay in other construction projects and there won't be much competition between pipeline construction skills and those needed in other construction, however, didn't deny all additional workers would add to impact. Some public works projects cannot wait, Anchorage Federal Building delay could jeopardize the appropriation.
9. Courts are now jammed. Only solution to add judges.
10. No postal service problems he knows.

11. Mr. Sharp believed surface transportation capacity probably adequate. The City lost their court action regarding certain tidelands south of the present City Port. Part of this land was to be used for additional POL docking and discharging facilities. Phase three of Dock additions is now being planned. The first construction project will be built in 1974. This will be used for general cargo and will almost double the capacity for general cargo. Sea Land will be moved to terminal 2 (which was completed in 1970) and Terminal 1 may be then used for additional POL facilities. Mr. Sharp felt if there were to be any surface transportation problem it might be between here and Seward and Whittier.

Mr. Sharp is yet to be questioned regarding land needs at Merrill Field and Campbell Field use.

12. Mr. Sharp believed there are definite dangers of another regional inflationary trend.

13. Mr. Sharps statement on police problems are in his impact statement. The City contracts with the Spenard Service Area for police protection in that area.

GREATER ANCHORAGE AREA BOROUGH  
Mayor John Roderick  
Paul Carr - Planning  
Wm. Beaty-Planning Director  
Harry Donahue-Mayors Staff Director  
September 12 - 2 - 4 P.M. at Borough offices

1. They have studied MSNW report pretty thoroughly and believe it to be quite thorough. They agree there are unanswered questions.
2. The police problem really is an area wide problem. Either people need to approve area-wide powers or Legislature needs to do so. State troopers don't feel they can provide necessary control, they don't have sufficient people to do so and their men are not trained for patrolman duties. The belief is that adequate law enforcement will not be made under present set-up. With area-wide powers, they could contract with the City for police protection.
3. The Borough now has fire-protection powers for specific areas and foresee no real problems with the exception of the provisions of new equipment on a timely basis, if it is needed. It may be difficult to anticipate the need of additional equipment. There is the belief that the fire protection services of the Borough should be integrated, however, no problems are anticipated because of the present separation.
4. Housing is expected to be a problem for the lower income group. It is believed housing will be available for those with higher incomes. There may be reluctance, as always, of private investors to build housing, especially rental property, for low income families. Emphasis will need to be made on trailer and mobile-home parks. The Borough will need to develop plans for providing water and especially sewer for expanded mobile-home and trailer parks. Funding such expansion on an accelerated basis may be a problem. Building codes are in effect in the Borough. Emphasis will be upon health potential problems which might be created by any temporary housing projects or expanded trailer parks.  
The Borough government will review the trunk road situation relative to expanded housing projects.  
An attempt will be made to get further information on the present population, the housing vacancies now existing with a break-down of availability for lower income families.  
It was suggested that if financing becomes difficult, that the State consider some financing or mortgage guarantee program, particularly for low income rentals or purchases. The Borough has a problem of insufficient inspectors.
5. It was believed that it would be difficult to anticipate additional school requirements but it was believed that projections made by the MSNW report could be accomodated. Further contact will be made with school authorities.

6. The Borough has area-wide health responsibilities. They plan close monitoring of new housing construction, especially in areas where sewers are not yet available. Some problems are anticipated with solid waste disposal.

7. Bob Smith of Central Alaska Utilities says he believes pipeline construction period water needs can be met, both from standpoint of capital investments and water source supply. Long run picture is not so good. Original plan was to further dam ship Creek to provide a larger impoundment, however, because of the depth of bed rock (some 170' below the surface at some points) foundation problems developed. This plan was dropped. They are now exploring feasibility of drilling wells in the Eagle River Valley for additional supply to meet the needs of the next ten years.

8. The Borough Government is concerned with rising wages caused by pipeline construction (and other unrelated construction) making it difficult to hire government workers who are qualified at wages within the budget limitations. It is the belief that as a very interested party, the State should sit in all pipeline contractors/workers wage negotiations in an attempt to avoid another regional inflationary spiral that would establish a new plateau of living costs in Alaska.

9. The Borough believes some State aid will be required. Further study is now being undertaken to attempt to quantify their impact needs, along with anticipated increased revenues and the expected lag of revenue increases behind money needs. I will hold a second meeting with the Borough staff about Oct 10. At this meeting items not covered in today's meeting, such as Transportation and Government Services will be covered. It is expected that a hearing will be held sometime late in October or early November at which local government agencies and community leaders can present their impact needs and statement.

ALASKA RAILROAD  
Walter Johnson - General Manager  
Sept. 12 - 9 A.M.

1. A.R.R. can double tonnage with present equipment. Plan is to replace a number of pieces of power equipment with larger powered units. Effect will be to have a lesser number but each higher powered.
2. Equipment can be leased from railroads in the States and brought up on Seatrain or Hydro-train.
3. If there is a need for special equipment they have not been advised. However, any such traffic will probably be put aboard needed special cars and sent to Alaska via sea-train and left on the special equipment.
4. Alyeska has not advised the A.R.R. as to their transportation needs.
5. A.R.R. is operated under an industrial fund basis. Therefore, expansion needs would be expected to be met from reserve funds generated by revenues.
6. Many of SeaLand vans are transported to Fairbanks by rail. More could be handled, however, Sea Land unions apparently will not permit increases but insist on moving them via highway.
7. Mr. Johnson believes the majority of A.R.R. employees will stay with them, particularly those that have 5 years or more employment (because of retirement benefits). It may be difficult to meet recruitment needs during the pipeline construction period. The A.R.R. would probably need to hire less qualified people and be faced with lower quality performance. Despite the desire to employ more natives, experience has been that many are not too dependable, however, efforts will be made to employ more.
8. Mr. Johnson doesn't believe there will be much success in postponing construction projects, although he agrees that the impact will be aggravated by additional employment and population.
9. The A.R.R. doesn't have much of their own warehousing. They are making small areas available which will be used for warehousing. He foresees a shortage of warehousing here as well as in Fairbanks. He believes at least two individuals will construct warehouses at Anchorage.
10. The recent court action decided in favor of the A.R.R. in the tideland ownership south of the City port area. The City apparently intended to provide more POL docking facilities, evidently needed. The A.R.R. will have no immediate use, but is considering partnership in an ocean van service that would come in here instead of Seward or Whittier. However, A.R.R. would prefer such service to operate into Seward or Whittier, because of the longer A.R.R. haul.

It would be expected, under these circumstances, that no immediate use would be made of the tidelands mentioned. Of course, there is no assurance that the City would make use of the land during the pipeline construction period, although a PCL facility could probably be built quicker than a dock capable of receiving vans.

11. The A.R.R. will make further projections when and if Alyeska makes its needs known.

Capt. H. G. Lyons  
U. S. Coast Guard  
Sept. 11 10 A.M. his office

1. His area of jurisdiction:

- a. Merchant Marine Safety-all area west of 134th(7) meridian (Alaska-Yukon border)
- b. Oil spills-Port Safety-more limited area which includes Cook Inlet and Prince William Sound.

2. Coast Guard plans:

- a. Coast Guard station at Valdez-two men to start to monitor shipping and unloading of explosives and hazardous substances.
- b. Two boats to be stationed at Valdez with approximately 35 men and officers. \$3,000,000 plus to be expended for facilities.
- c. New navigational aids and communications facilities to be installed between Hinchinbrook entrance and Valdez to aid tanker operations. Method used will be monitoring movement of all vessels (except fishing boats), communications between Coast Guard and ships and bridge-to-bridge between ships; radar; traffic separation, with an IN route and an OUT route from Hinchinbrook entrance to area outside of Valdez Bay. From this point into and out of Valdez Bay, only one ship at a time will be allowed.
- d. Explosives and hazardous substance will be unloaded at locations away from other docks (possibly at Alyeska dock on south side of Bay). Explosives may also come to Whittier, Seward, Anchorage or Kodiak for trans-shipment. Also, methods will need be worked out for land transportation via highway or railroad (for explosives).

3. Pilots are required by State law on foreign vessels operating in Alaskan waters. Federal regulations require federal pilots on coastwise vessels (over 150 tons) operating in coastal waters. Thus, pilots will be on all ships entering Valdez Bay.

The Coast Guard believes many domestic ships will carry their own pilots and require only a docking pilot after entering Valdez Bay.

Otherwise, a pilot station at a convenient location, or a pilot boat, will be necessary. The location of the pilot station (or boat) should be as near as possible to Hinchinbrook Entrance (compromises on the location may be necessary). The costs of maintaining pilots at the right location will need to be born by the operating ships as a necessary cost of doing business.

4. Capt. Lyons believes the Traffic Separation method of controlling tankers (and other vessels) will be satisfactory and safe. This method gives the control at both ends of a trip, when approaching land, but allows the captain freedom to take his own course when at sea to avoid storms or inclement weather.

5. Capt. Lyons does not believe there is need for change in the State pilotage laws, since the combination State/Federal laws are now adequate.

Capt. Lyons.....Coast Guard.....cont'd.

6. Capt. Lyons says the Coast and Geodetic Survey has recently charted the waters in Valdez Bay and in Prince William Sound (?). New charts are expected to be available by next year.

September 17, 1973

SPECIAL PETROLEUM IMPACT COMMITTEE MEMBERS:

Enclosed are the following papers:

1. A summary of the potential problems which you may want to consider. These are taken from interviews made during my trip from Valdez to Fairbanks and in Anchorage. These subjects will require further study.

2. A study outline I prepared before arriving in Anchorage but after I learned I would be working on this project. It was completely subjective and covers only those impact factors I arbitrarily classed as Element I priority on the front sheet marked "Scope".

3. The highlights of the interviews conducted on the trip and so far in Anchorage. These interviews were not meant to be in-depth or very searching, but in the limited time to get only a perspective.

4. A list of questions that I submitted to Alyeska in August. I have others now to add to the list when I meet with them. They have called me to advise I will be contacted September 17 in regard to a meeting. At the same time they advised me they were considering seminar-type meetings at various locations to answer these and other questions.

5. Presentation by T. F. Bradshaw, President Atlantic Richfield Company before the Vancouver Rotary Club.

6. Partial budget.

In regard to my future activities, I have some 30 people on my list for interviews here in Anchorage to develop further information about the pipeline construction and the post-construction period.

It is my aim to further delineate problems and, with your approval, develop more specific information or research needed for you to determine what your course of action should be.

You will be holding hearings and meetings with others to learn first-hand what people are thinking and planning. I will arrange for such meetings and provide a record of them. Since recording such meetings completely can be very expensive, I will appreciate your advice on how fully you will want such meetings recorded and transcribed.

It is my belief that you will want legislative programs or budget proposals which you believe are necessary or desirable,

Special Petroleum Impact Committee Members  
Page Two  
September 17, 1973

prior to the convening of the Legislature. Further, I would assume you may want your information in time to have draft legislation prepared.

I shall look for further guidance on this work-plan and more detail regarding your own ideas on the specific objectives of the Committee.

George Sharrock

### POTENTIAL PROBLEMS OF PIPELINE CONSTRUCTION

1. Occupational safety and health programs and budgets.
2. Question of opening the Yukon-Prudhoe road prior to completion of the pipeline.
3. Question of asking local governments for estimates of revenue increases generated by the pipeline impact, in addition to costs.
4. Question of encouraging government (all levels) to delay construction projects not urgently needed during the pipeline construction period.
5. Question of auditing pipeline construction cost by the State.
6. Borough-wide police powers (Anchorage and Fairbanks).
7. Borough-wide fire protection.
8. Availability of State, BLM or U. of A. land in urban areas for housing or mobile home use.
9. Financial aid, State loan programs or mortgage guarantee, for low income family housing or mobile home parks.
10. Aid for impacted area public services largely needed to serve transient workers or pipeline workers.
11. Aid for public works programs needed either on a crash basis or on an accelerated basis due to pipeline construction. Grant programs, loan programs, or if the community indebts itself, aid in early interest payments or debt service payments.
12. Aid for communities to provide recreational facilities needed during the pipeline construction period especially.
13. Legislative actions required in the unorganized borough area for expanded schools, extra police and other services needed to meet the pipeline construction problems.
14. Legislation that might be required for general health problems caused in impacted communities.
15. Consideration of ways to maximize long range benefits to the State by encouraging Alyeska to purchase their electric power requirements.

16. The funding of special road projects necessary (because of the pipeline project) in and around communities.
17. Should the State make an attempt to be a party to wage negotiations between pipeline contractors and the unions?
18. Problem of inadequacy of courts, jails and detention areas.
19. State Trooper strength requirements in impacted areas.
20. State Trooper communication needs which now appear to be inadequate.
21. Possible legislative action regarding the point at which pilots should board incoming ships and leave out-going ships.
22. Will the Legislature wish to protect our road system by a requirement to use the railroad more.
23. There have been recommendations for rent controls and wage ceilings, however, there are many problems associated with such programs.
24. Legislative review of the local-hire law.
25. Review of organized community taxing ability in communities not now taxing themselves.
26. The question of residency requirements for voting in local elections.
27. Emergency equipment for State Troopers.
28. Para-medic program funding.
29. Aid for school operation or construction costs caused by pipeline construction impact.
30. Committee position on Alyeska allowing families of pipeline workers to come to Alaska.
31. Restitution legislation to deter property crimes.
32. Liquor license issuance along pipeline.
33. Problem of electric power capacity in Valdez.
34. Consideration of more scattered State offices and services along the pipeline.

35. Forty-Five to fifteen school attendance program -- year around school.
36. OSHA regulations that may increase costs substantially.
37. Resolutions asking for Federal aid in areas and functions for which the Federal Government should accept some responsibility. For example, in areas where native populations are high.

ARCO Tankers-  
A Commitment to Safety

T. F. Bradshaw  
President  
Atlantic Richfield Company

Presented to  
The Vancouver Rotary Club

Vancouver, B.C.  
July 24, 1973

Thank you for permitting me to be in your very beautiful city. As I flew in yesterday afternoon, I saw the beautiful mountains, and the city set against those mountains, and I saw lots and lots of very clean water. I am here really as a sailor. In a few minutes I will have to talk as an oil company president, but basically I am here to look over sailing opportunities. I have had the good fortune to be able to play around with small boats, as they say, and my hobby and my love is sailing. Until our company moved its headquarters from New York to Los Angeles about a year ago, I did all my sailing on the East Coast. Now I plan to do it on the West Coast. So I am really up here to just sort of "case the joint," to see if the waters are as pristine and as clean as they say they are.

I should say, having been driven out of Long Island Sound by garbage flotsam, jetson and oil, that I do not expect to be driven out by the same from Puget Sound. But now I have to talk as the president of an oil company, though I would love to go on talking as a sailor.

Some of you are familiar with Atlantic Richfield; others may not be. Atlantic Richfield is a rather large company with about four billion dollars in sales and about four billion dollars in assets. It operates in some 22 countries but is principally what we consider a domestic company operating in the United States. In the recent Federal Trade Commission blast at the major oil companies which attempts to prove

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once more that we are engaged in monopolistic practices, Atlantic Richfield made the list, but only as the last one of the eight.

Once again we are going to have to defend ourselves against being a so called monopoly. This has gone on for a long time, gentlemen, as you perhaps know. I have often said that if the petroleum industry is a monopoly it is the worst run monopoly I have ever seen. It has for years reminded me of a cartoon which showed a herd of elephants breaking through the jungle on a stampede. One old elephant turns to another and says, "Worst run stampede I've ever been on." Worst run monopoly I have ever been on.

I had hoped to be able to see your Premier, Mr. (David) Barrett, but I understand that he is at the Calgary Rodeo. But I do hope to see him when I come up here again.

Our company, in addition to finding oil and gas, refining it into products, marketing it, and transporting it in ships and pipelines, also has rather large interests in Canada.

We have been here for a long time searching for oil and gas and have found it. We are heavily involved in the tar sands situation in Alberta. We are very hopeful that our group will build the next tar sands plant. We hope we have been good citizens of Canada.

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Now, I wasn't really invited here. I sought this opportunity to come to talk to you because of the impending decision on the Alaskan pipeline. Being of an optimistic turn of mind, I thought that the Alaskan pipeline was inevitably going to go through and, therefore, this would then mean some tanker passage along your coast. I have heard that there is some opposition to that. So I did seek out this opportunity to talk to you, and I am very glad that you have permitted me to.

I did not realize the timing would be quite so apropos. As you know, the Senate of the United States passed a bill last week which not only corrects a technical deficiency in the building of the pipeline, but permits the pipeline to go ahead without any further litigation. A companion bill to this will shortly be taken up by the House of Representatives. So we are almost there, I would say, and my timing is somewhat more apropos than I had thought.

I would like to talk to you about this matter of the trans-Alaska pipeline and with quite specific attention being given to the implications of the tanker traffic which would arise from it. By way of background I would like to contrast very briefly the energy situation in the United States with the energy situation in Canada.

The United States is now a have-not nation in energy after many years of being a surplus nation with more energy than it could

use; with enough surplus so it could take care of Europe, for instance, in times of difficulty. All of a sudden it appears that the United States is a have-not nation.

As recently as 1967 the United States had surplus oil producing capacity. Alaska was opened up by the discovery of the North Slope in 1968; offshore California came through in 1968. Everything looked as though it was coming up very well in terms of providing the energy needs of the United States.

And now here it is three or four years later and we are really a have-not nation. For instance, in 1972 the United States used 17 million barrels of oil a day and produced 11 million barrels of oil, giving rise to the necessity for importing about one-third of its needs. That is a tremendous contrast to 1967.

This oil was imported at a cost of some four to five billion dollars, and you may recall that our balance of payments deficit in 1972 was about 4.5 billion dollars. That led to the first devaluation of the dollar and then a second devaluation of the dollar. Looking forward to 1985, we anticipate that the needs of the United States for energy will be some 27 million barrels a day and we will be producing about 12 million barrels a day meaning that more than half of our oil requirements will have to come from foreign nations, principally from the Middle East. The cost by 1985 will be something like 25 billion dollars a

year. That faces the United States with some very severe problems, problems to which we do not have the answers now.

The first problem is can we pay for it? What will we pay for it with? It must be paid for with increased trade. Certainly the Arab nations are not going to take pieces of paper, particularly when we devalue those pieces of paper quite regularly.

The second question is, will the Arab nations let us have the oil? After all, they will have their own problems as to what to do with all the money that will be pouring into those nations at that time. They will not only be getting 25 billion a year from the United States; they will be getting about the same amount from Europe and they will be getting some 15 billion a year from Japan.

So the total may be something like 50 to 60 billions of dollars pouring into a very few Middle Eastern nations which are largely undeveloped at this time. What will they do with that? Can you conceive of a monetary system that would endure that kind of a capital buildup in such a concentrated area? Can you conceive of a trade system that would support that? What would they do with it? They could build up balances, but that would certainly ruin any monetary system. They cannot spend it at home. They cannot spend that kind of money in a country like Saudi Arabia, for instance, which has a population of six million people and is largely underdeveloped.

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This dilemma poses very real questions. One of the things that they might do is not supply the oil because oil is a very finite resource. They might want to spread that resource over a 50 year period instead of a 25 year period and this might possibly be in the best interests of Saudi Arabia and Iraq and the other nations which have the oil.

If they do indeed cut back on the oil, what then will happen to the developed nations of the world? What will happen to the United States if it cannot get the energy which it needs? So we face some very real problems. I do not know the answers to them.

How did we get into this mess in the United States? I will very briefly mention some of the things that I think caused us to get into this mess, only because it might help Canada avoid some of our mistakes. Basically what happened was that our government did not recognize what was going on until far too late and we did not have the appropriate kinds of energy policies in the United States which would have staved off this kind of a situation.

We now have the realization of this kind of a crisis, but it is far too late. It is too late to bring new sources of supply on stream; it is too late to build refineries in time. The United States is going to have to do with less energy and this is going to be a very difficult thing.

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Now how it happened: Demand increased beyond all expectation both because of our affluent society and our high per capita use of oil, and because of our profligate use of energy.

We have always had it, and we spent it. A friend of mine went to a hotel in Houston, Texas. Of course the hotel was air conditioned. When he went to bed he found that he had a heating blanket on his bed to keep him warm. This is all right if you have got it and can flaunt it. But we do not have it.

About 1969 or 1970 the environmental age dawned in the United States and none too soon as far as we are concerned. We hope it is not too late, as a matter of fact. We have an energy crisis in the United States but we also have an environmental crisis in the United States.

Ironically, legislation passed in early 1970 which required control of auto emissions, and the emission control devices already on our cars in the United States, increased the consumption of gasoline by some 15 per cent. By 1975 emission control devices will add another 10 per cent.

Supply has been decreased by some of the same environmental legislation. We can no longer use coal under our boilers to generate electricity because of the sulfur emission standards set by law. We have the North Slope frozen in because of

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environmental differences of opinion. We have offshore California locked in. We have slowed down on our offshore drillings.

So demand has increased enormously while supply has gone down and we find ourselves facing a large and widening energy gap. Against this background the North Slope find of 1968 is an extremely important factor. It is the largest single find ever in the history of North America -- about 10 billion barrels.

It is very essential to get this oil to market. Even more important, basically, than getting this oil to market is for the United States to find out how much more oil there is in Alaska. We do not know because oil exploratory efforts stopped when the pipeline was blocked.

We do not know if we have 30 billion barrels there, 15 billion barrels, or just 10 billion barrels. Our whole attitude towards the future, our relationships with other nations, could undergo a significant change if we knew that we had enough oil in Alaska to help take care of our needs.

What does all this mean to Canada? I would only quote a Canadian Minister who spoke to me a few months ago and said it is one thing for Canada to have a giant south of the border; Canadians have learned to live with that. But, he said, it would be quite another thing to have a sick giant south of the border. If the

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United States cannot get the energy it needs it will be the sick giant, indeed, and I think that may give Canada some thought.

By contrast, Canada is in an enviable position. I believe I am right if I say that Canada is the only industrialized, developed nation in the world which is self sufficient in energy. A very enviable position. It does not mean you do not use very much. The United States, for instance, uses the energy equivalent of 60 barrels of oil for each person each year. Canada uses 50. And the next nation I think is Great Britian with something like 25, or West Germany, perhaps.

And your reserve situation is not doing all that well. You have about eight billion barrels of conventional crude in reserve, but the reserves have been declining since 1966. Right here in British Columbia, for instance, your natural gas reserve life index has slipped to 26 years from 40 or 50 years which was the case in the early 60's. If you would continue to use gas at the rate of increase which you have been using it in British Columbia, and if you found no reserves in British Columbia, you would run out in six years.

So, I think you have a most enviable position at the moment but I think you have a very large need to look at your own reserve situation and your own possibility for finding oil and gas.

You have very large needs for far-sighted government policies in order to protect Canada to retain its reserve situation and its self-sufficiency. I think my basic conclusion would be that Canada does have the opportunity for continuing self-sufficiency, but there is very little opportunity for Canada to come to the help of the United States.

Against this very broad background, why do we find the trans-Alaska pipeline to be the preferable route? You might assume that we find it to be the preferable route because we bought a lot of pipe and have about four hundred million dollars invested in the Alaskan pipeline. Those of you who are in business know the time value of money, know that this is a very large incentive, and might well say that the pipeline has got to go through Alaska because we have that kind of money invested in Alaska.

We may have felt that way for awhile. But there is one factor that in my opinion is the lead factor, the important factor, in the comparison of the Canadian line and the trans-Alaskan line. That is the matter of time. We have run out of time in the United States. We have got to get the oil in as fast as we possibly can. We have got to get back to exploring in Alaska to find out how much more oil there is and whether there is enough to help alleviate our energy problem.

We can complete the trans-Alaska line in three years from the time of approval, and we would hope that approval would be sometime

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this summer. We do not know how long it would take to complete a Canadian line.

We know the actual building would take about five years; in other words, two years longer than the actual construction work of an Alaskan line. But we do not know how long it would take before we could start in Canada. We have not done the engineering work in Canada; we have not done the environmental studies - the millions and millions of dollars of environmental studies which we have done in Alaska. Those would still have to be done. We do not know the extent of the opposition of Canadian environmentalists and we do not know the kind of problems we would have with provincial government and with the Canadian government.

We think that this whole process might take two to three years, although that is anybody's guess. When you add that to the five-year building time, you come up with something like seven to nine years and we cannot wait that long.

I am not speaking for a company now; I am speaking for the United States. We cannot wait that long.

The other thing that this delay would do is, in turn, delay the delivery of gas from Northern Alaska. As you know, with the oil was found one of the largest gas pools in the United

States - some 26 trillion cubic feet. The obvious route for that gas is a pipeline through Canada merging with the Delta Gas Line and picking up Canadian gas and distributing it either in Canada or the United States in whatever proportions might be required at that time.

There is no possibility of building an oil line and a gas line at the same time in Canada. There just is not the available capital nor the available manpower -- the construction crews. It just could not be done.

But we can build a line through Alaska and then when we are partially through with that line we could start a line through Canada, if that is Canada's desire at that time. We then could have gas coming down through Canada two years after the completion of the oil line in Alaska.

There have been many other difficulties with thinking about building this first oil line through Canada. I did visit a number of years ago with various Canadian ministers at their request. We discussed this matter and at that time the kinds of conditions they discussed with me -- and this was not a government to government contact by any means -- would have made it impossible for a private company or a group of private companies in the United States to finance the line through Canada.

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This may have changed since then, but I have not had further conversations. In any event, it begins to look as though the line through Alaska is rapidly becoming a reality. Therefore, I think the thing to do is to turn to the problems of what we call the "tanker-leg."

As you all know, the oil will come down to a port in Southern Alaska, Valdez, and there it will be picked up by tankers and delivered some 1200 miles to various ports along the West Coast of the United States.

I should spend a few minutes talking about what I am sure is your concern about the possibilities of oil spills. I would suggest that you remember, and I am sure you do, that oil has been coming down the coast from the Cook Inlet for about ten years and we have had no oil spills in that particular traffic.

I would point out that the addition of the Prudhoe Bay Field production of two million barrels a day will not really result in very much increase in Puget Sound traffic, by almost any measure, because, after all, this oil will be coming to several ports in the United States, not just to Puget Sound.

We estimate that there will be some six tankers a month coming into Puget Sound with this North Alaskan oil, or about 80 a year. Our own refinery at Cherry Point, Washington, will take one tanker every nine days. In order to put this in perspective,

you might compare this with the total of 2,460 ship departures from Puget Sound in 1971. So it is basically 80 tankers in addition to the normal traffic of 2,460 ships of all kinds. I would say this is a rather insignificant addition.

I will not say Puget Sound is an under-utilized port because perhaps you do not want it utilized very much more. But by comparison with the major ports in the United States, which are vastly inferior to Puget Sound as a port, the figures are rather startling. For instance, Portland, Maine - and this is tanker traffic only - has 1,635 tankers a year. New Orleans - 1,270. Boston - 1,511 tankers. Puget Sound - 460.

But then you begin to look at the kind of a port that you have here in Puget Sound. I think you will find it to be a sailor's delight. It is a remarkable port. The width of the entrance, for instance, is very important as is the depth. My own sailing boat has a 6-foot draft so depth does not mean all that much. But some of these rather large tankers like to have a lot of water under them.

Boston, for instance, has a 900-foot channel coming into the harbor with a 40-foot depth. Portland has a 700-foot width for the channel coming in with a 45-foot depth. New Orleans is 600 feet wide with a 36-foot depth. Puget Sound - the Rosario Channel - is one mile in width - 108 feet in depth.

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The Juan de Fuca Strait is 12 to 15 miles in width and 600 feet in depth. Furthermore, a very remarkable thing for any channel in the world, I am told, is that the sides of this channel are absolutely straight so you have got the entire width of the 12 to 15 miles at 600 feet. And, of course, these are very sheltered waters. So this port, I say, is a sailor's delight.

How will the tankers come; what is the route they will follow for the 1200 miles from Valdez to Puget Sound? Most of that time they will be far outside of Canadian waters - several hundred miles off the coast. They will come south about 35 miles off Vancouver Island to a point off Cape Flattery, so they will avoid the lee shore of the Island. From that point on they will be coming up to the Juan de Fuca Strait.

How safe are tankers? Well, someone, I am told, in some responsible organization has estimated that two per cent of the oil found in the oceans is a result of tanker collisions, tanker mishaps. I do not have the faintest idea how you would get a statistic like that and I cannot really believe it.

In any event, whether two per cent is right or not, we did analyze the 730 oil spill complaints in Puget Sound in 1970. Of those, 520 were less than five gallons. Another 133 were traceable to freighters and tugs and barges which were not carrying oil and had nothing to do with oil traffic. When we finally come down to

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the spills directly attributable to oil tankers and barges we find then 28 out of the 730 and they were all small.

For this run from Valdez to Puget Sound, our company is building five new ships -- three 120,000 - deadweight - ton tankers, two 70,000 - deadweight - ton tankers. The other companies are also building new ships and these are American flag ships. They have to be built in American yards and they have to be operated by American seamen and they come under the control of the United States Coast Guard.

Let me talk a few minutes about the specifications -- safety, and so forth -- which are under our control when they are American built ships, but not under our control when they are foreign ships.

We know that the larger the ship the less chance for oil spillage because there is less traffic. The ships are all compartmentalized so if a ship is stove in, it is just a compartment that leaks out, not the whole ship. So the total size is not all that important. However, we are not building super tankers for this run; we are building 120,000 ton tankers. A super tanker is 200,000 tons up to 500,000 tons. Ours are not super tankers. They are larger than the normal ships that come into the United States because you have got a better port here. But they are not super tankers.

They are equipped with all the kinds of navigation and anti-collision equipment that would make any sailor's heart beat a little faster. Each ship has two completely separate radar systems, where most ships have only one. Each ship has a long range navigational system, the LORAN system, for navigation at night and bad weather. They have radio direction finders. My boat has that too, for short range homing in. They have fathometers, echo sounders, for determining the depth. They have radio telegraph systems, medium and high frequency transmitters, plus total emergency receivers. They have bridge to bridge radio telephones, something that our company pioneered about 15 years ago. The Captain can pick up the phone and talk from his bridge over to the bridge of another ship.

These ships have the most modern ballast equipment that we know about. There are two kinds of ballast handling; one is if your ship gets in trouble if you are in a storm. You may have to take on water in order to stabilize your ship. For this purpose there are special tanks provided which never contain oil so sea water is then put into clean tanks. When the storm has abated that sea water is pumped out again. The second kind of ballast handling concerns empty ships. When the ship returns empty she has to have water in her tanks in order to maintain her stability and, of course, that means putting sea water into tanks which have contained oil. One of the largest causes

for spillage of oil in the oceans has been the flushing out of these tanks underway.

This is not permitted in any of our ships. At Valdez we plan to build a receiving tank, at a cost of over 10 million dollars, which will receive the dirty water that is impregnated with oil. We will have a skimming device which will skim that oil off the water. Then, after the water reaches a certain degree of purity, it will be pumped back into the sea.

I think I will at this point quote David Anderson, member of your legislature here. He is not often quotable by me, but he did say, "ARCO tankers are probably the best ships that any one could put in water. In fact I'd say, if we have to have oil tankers, I'd say thank God they'll be American-built, American-owned and American-manned. I have no doubt they will be the safest ships available."

We certainly thank David Anderson very much for that. I am sure that was in return for a favor we did him. And the favor was the timing of our oil spill at our Cherry Point refinery. One or two days after the oil spill at Cherry Point, Mr. Anderson was scheduled to appear before a Senate committee and he strolled into the committee room with an armful of your newspapers with very large headlines and he had something to talk about.

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Now that I mentioned that spill I should say it was caused by a faulty fitting on a foreign ship over which we had no control. It was a cast iron fitting that broke under pressure on a Liberian flag ship that was delivering Persian Gulf oil. Had it been one of our ships, had it been a U. S. flag ship, the fitting would have been steel and it would not have broken.

We also have a large number of safety devices at the dock itself at Cherry Point, which is close enough I know for you to be interested in. The dock is concrete on steel pilings, with shock absorbing fenders. It has loading arms on swivel joints which go up and down with the motion of the ship. The arms have quick closing valves that can be shut off in a moment's time.

There is a heavy floating boom which is laid around each ship as it comes in and in case there is a spill it will be contained within that boom. You might ask what happened in the Cherry Point oil spill of last year. The boom was too low, it was too small, and we had not had experience with it. We have since replaced that boom with a very heavy, high boom that we think can handle any spill that might occur at the dock.

On the dock we have work boats and skimmers and we can get them into the water right away if there is a spill.

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I would say just in passing, not relating perhaps to the tanker passage, that the Cherry Point oil refinery cost about 200 million dollars and it has 17 million dollars of equipment relating to pollution control on it.

It was visited by a delegation from the United States Congress a few months ago. In the official report which was delivered to the Congress, Congressman Silvio O. Conte of Massachusetts said, "I had to ask whether the refinery was operating," and we are very glad that he was in the position where he had to ask.

We have put every safety feature into our ships that we know about. In addition we are, of course, cooperating with Clean Sound, the clean-up group in Puget Sound, in case there is a spill. And we are, of course, bound to obey the U. S. Coast Guard's Oil and Hazardous Substances Control Plan.

We support very much an international organization for the control of ships comparable to our Federal Aviation Agency.

Safety is paramount, first and foremost, but there will be human error. There is no way we can go through this life without human error. There is no way we can go through this life without accident. And part of the price of our industrial society is that we do have to make compromises. I am not standing up before

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you and saying there will be no spills. All I am saying is that we have made every possible plan to insure that there will not be spills. And - if there are spills, we stand ready to clean up.

Now what are the alternatives? One has been suggested, and peculiarly enough by Canadians, that no Alaskan oil come into Puget Sound. Mr. Donald S. MacDonald has suggested, as you know, that Canada might be prepared to insure that the Puget Sound refineries are supplied with Canadian oil.

As of today, I understand a deputation from your Parliament has gone down to Washington to talk to some representatives from our Congress about this kind of a possible deal.

I think that all I can say on that score is that the appropriate place for such discussions is at a government to government level. I do not think it is appropriate for this kind of discussion to take place between the Canadian government and Atlantic Richfield Company, for instance. We operate an enterprise in a profit making environment and our job as managers, within the rules of our society, is to direct our investments in those directions which return the most to our shareholders. The Cherry Point refinery was built for Alaskan oil; we cannot bring it up to capacity with Canadian oil. It cannot operate at its

optimum economic output with Canadian oil. It is most appropriate, then, that this become a government to government matter. I can see that certainly on the minds of the Canadian delegation must be this matter which I began with: How much oil does Canada have and can Canada afford to set aside enough oil to supply four refineries in the Puget Sound area for 25 years in view of its own depleting reserves?

This is something the Canadian delegation, I am sure, had to face up to in the Canadian government. And our government, I am sure, will have to face up to the fact that if Canada cannot supply this oil without decreasing exports to the United States, what part of the United States will those exports be drained from. Presumably, of course, from the Mid-Western states. Our government will have to look at it from the point of view of can we afford to take this oil that comes from Canada out of the Mid-Western states and have it go to the Western states.

Those are, thankfully, matters for governmental deliberation, outside of my scope.

Another alternative which we have looked at is the matter of unloading outside the Juan de Fuca Strait. We found this is utterly impossible; the weather conditions are impossible; we just couldn't possibly unload tankers at sea and pipe oil to shore. There is no way to hold the tankers.

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In conclusion, then, I know you are very apprehensive about this movement of oil along your coast, even though it is a very small matter as compared with the total traffic in Puget Sound. I think that part of your apprehension arises from the fact you cannot quite see what the quid pro quo is.

What is in it for Canada? What do you in British Columbia get from this transmitting of oil from Alaska to feed the voracious appetite of the United States? Well, I cannot answer that because I do not think there is anything particularly in it for British Columbia.

But I do think there is something in it for Canada because on the other side of Canada, as you well know, there are tankers moving along the East Coast of the United States, foreign flag tankers, carrying foreign oil to Portland, Maine, where the oil is then piped to Montreal. In 1970 this accounted for 150 million barrels of oil and about 800 tankers were used. This compares with the 80 tankers which we anticipate will supply oil to the Puget Sound refineries.

This, of course, is not quid pro quo; it is something which is already there. It is part of our normal relationship with Canada and I hope will continue to be a normal relationship with Canada.

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We do think that the early building of a pipeline will benefit Canada because we are quite sure that you will want to get together with us on the building of a gas line in order to utilize your own gas.

And we do feel that the building of the Alaskan pipeline at this time does insure that the ships which carry the oil are American flag ships and subject to all of the controls and safety devices which I have mentioned. And, finally, I will come back to what I said at the start: Energy to the United States is very, very vital, and if you are not to have a sick giant to the south, the United States must get its energy supply.

Thank you.

SCOMM

#13:9

March 26, 1976

The Honorable John L. Rader  
Chairman, Gas Pipeline  
Impact Committee  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Senator Rader:

Support for a trans-Alaska gas pipeline has been a top priority of this Administration for some time, and the recent activities of the Legislature's Gas Pipeline Impact Committee and the Legislature as a whole indicate that the priority of this issue is a shared judgment. Stated conclusions and findings recently issued from your Joint Committee and apparently well accepted in the Legislature indicate that additional activities and governmental actions in support of an Alaska gas line should be considered at the earliest possible time. To this end, I would like to indicate to you some existing and contemplated actions of the Administration in this regard.

First, I should point out to you that the Administration has recently made a decision to participate in the hearings of the National Energy Board in Canada as it takes up the issue of gas pipeline routing. Although a schedule for this has not yet been set, the intention of the State to participate is firm, and our participation will be supported under existing funding provided to the Department of Law. In addition, Lieutenant Governor Thomas will be making a major appearance in Canada in May in support of an Alaskan line.

Second, within the very near future, a supplemental appropriation request will be forwarded for the purpose of supporting professional legislative and administrative assistance for the State in Washington, D. C., on this issue. This request in the amount of \$50,000 will be used to further represent the State's position on the gas line issue at the Federal level and insure that lines of communication between the State and Washington are as good as possible on this issue.

Third, the stated conclusions and findings recently issued from your joint committee and well accepted in the Legislature indicate that, as an exception to the stated

objectives of the royalty oil and gas statute to foster in-State use, the sale of royalty gas now for the purpose of assisting the promotion of a trans-Alaska pipeline may be appropriate.

Consideration of a sale for this purpose has been an ongoing aspect of the Administration's work respecting both the gas line and royalty gas issues. To date, in spite of substantial efforts on our part, it is my judgment that no offer to purchase gas has been put forward that presents benefits of a sale to promote the gas line which outweigh the disadvantages of losing options relating to in-State use which occurs if State royalty gas is sold for export from the State.

Nonetheless, our efforts to investigate this possibility have continued, and pursuant to the recent actions of the Joint Committee, a substantial renewed effort is now being made to stimulate new and better offers from all of those previously interested in State gas, as well as some new potential buyers. As you know, the Administration has supported the supplemental appropriation for this purpose submitted at the request of the Gas Line Impact Committee.

To be acceptable, any new offer will have to be predicated on important new support for an Alaskan route, be valid only if this route is selected, and offer to purchase only Alaska surplus gas so as to leave an unquestionably adequate supply for Alaska's future use. Some future needs within Alaska are known. Others are not, nor will they be known in the short-term future. Any sale, to be satisfactory, must protect the State's future both for the known and the hoped for but presently unknown, uses of its royalty gas.

I hope and intend that this process will be successful in determining if a gas sale can be made which makes a difference in the gas line decision, or if such a sale is not in the Alaska interest at this time. Substantial difficulties exist regarding the limited time available for the processes of the royalty sale statute to be carried out. Such time constraints are undesirable, but in an effort to explore all avenues on this matter, my efforts will continue and be emphasized during the short time period available.

Since no acceptable offer has been made yet, in my view, the entire royalty process must take place, including the submittal of new offers, negotiations, administration decision, Royalty Board and Legislative approval. For this process to take place within the confines of the present Session will be difficult, yet the effort is important, and it is already actively under way. The length of the Session is the limiting factor which must be recognized, and I solicit your cooperation in informing me at appropriate times regarding

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your expectation for adjournment. Although I will make every effort to expedite Administration consideration of this matter, I think it extremely unwise that we subvert the overall State interests to a pressured decision on this matter if it is avoidable, and I know you agree.

I hope this brief outline, in addition to the material already supplied by members of the Administration to your recent hearings, details the continued intent of this Administration to aggressively pursue its policy favoring the trans-Alaska gas line. Our efforts will continue in this spirit, and we look forward to cooperation with the Legislature.

Very truly yours,

Jay S. Hammond  
Governor

cc: The Hon. Chancy Croft, President of the Senate  
The Hon. Mike Bradner, Speaker of the House

bcc: The Hon. Lowell Thomas, Lieutenant Governor  
Commissioner Martin

GRM:lb

-TO: Rep. Steve Cowper, Chairman  
Subcommittee on Revenue Sources

FROM: Jim Rhode  
AA to Rep. Malone, Chairman  
House Finance Committee

SUBJECT: The Rothschild Memorandum

At your request, we have reviewed "The Trans-Alaska Pipeline and Prudhoe Bay Crude Oil Production . . . Profit Potential", prepared by Rothschild and Co., New York, dated 2 December 1975 ("Corrected Version").

Rothschild concludes that the pipeline and the Prudhoe Bay fields will have a ". . . return of 18% on the estimated \$10 billion initial investment . . ." (page 3) as follows:

\$ .6 billion annual net profits of pipeline	\$1.2 billion annual net profits of field production	=	\$ 1.8	=	18% return
<u>\$10 billion initial investment</u>			<u>\$10.0</u>		

This "simple accounting profit" is not the proper basis of tax policy for the oil industry, lumps pipeline and oil field numbers that should be kept separate, is computed in an incorrect manner, and rests on a bad estimate.

Unlike the calculations of Tanzer Economic Associates and of the oil companies themselves, these "returns" are not based on "discounted cash flow". That is, they do not allow for the fact that profits are impacted not only by the relative amounts of revenue and cost that are involved, but also, by how long this money can or cannot be put to use.

If simple accounting profits were a sound measure of profitability, the returns for the pipeline would not be averaged with those for the oil fields. Pipelines, as regulated public utilities, are limited by law to seven percent on total investment. Lumping the returns for the pipeline with those for the field is to claim that investors and companies should have their smaller returns on the pipeline made up by far larger returns on the field. (Actually, the best measure here would be returns to equity which, under ICC practice, are 15% of total investment. In this instance, the net annual income of \$.6 billion is a 46% return on the equity of \$1.3 billion - including a return on the interest charges for borrowed capital.)

Once the field is separated, the simple accounting profits should be annual net profits over total investment (exploration, leases, and development, but not operating costs). Instead, we are given annual net profits in a peak year (not the average) and "initial" (not total) investment. Presumably, \$8.65 billion of the \$10 billion is the final cost of the pipeline (including funded interest) with 1.5 million bbls per day capacity, for

this is the case used to compute the net profits on the field (page 6). This leaves \$1.35 billion for the "initial" field investment alone, a figure that is unaccounted for by any text or table and several billions under the figure used by Tanzer. Indeed, were this our measure of the profitability of the field, \$1.2 billion on \$1.35 investment would bring the stunning return of 89%.

There are many other errors and questionable numbers in the memorandum. No mention is made of the reserves tax and its credit against severance. They do not realize that our severance tax is graduated nor do they cite the provisions or collection history of the Interstate Tax Compact on income taxation. They do not accord separate tax treatment for intangible (drilling) and tangible expenses. The 20 mill property tax on pipeline and field equipment is miscalculated. Their estimate of the major reserve positions in Prudhoe Bay are mistaken. No data in the paper is documented. In addition, no attempt was made to obtain the production buildup or pipeline tariff estimates of the State Treasury Division and the Oil and Gas Division.

Remarkably, after reviewing three of their estimates of net profit per barrel, we find they are not significantly different from comparable Tanzer estimates.

Given the faults of this memorandum, we are not suprised at reports that, until recently, oil industry officials criticized Rothschild for concluding that an ". . . 18% . . . (is) . . . not a terribly attractive return . . .", fearing this would affect their latest efforts to obtain financing.

## SPECIAL REPORT

### Alaskan Tax Proposals

January 22, 1976

NORTH SLOPE OIL AND GAS

State Senator John Huber, Chairman of the Special Committee on Revenue and Taxation, has announced his intention to introduce three bills to further tax the oil and gas industry in Alaska. These measures call for: (1) an increase in the effective severance tax to 12½%\* (estimated statewide weighted average) from the current approximate 8% rate; (2) the introduction of a "properties net proceeds tax," which would revamp the state corporate income tax for oil companies and assure that, at a minimum, income taxes would amount to about 9.4% of pretax income; and (3) the establishment of an "excess value surtax" mechanism, whereby the state's share of the "net proceeds" (after all costs) from the sale of Alaskan oil — at prices above a state-determined crude oil value — would escalate significantly.

In essence, neither of the first two proposals are particularly new or surprising. Our October 16, 1975 *Industry Review* discussed in some detail the State of Alaska as a source of investment uncertainty in evaluating the North Slope project and specifically pointed to the likelihood of a resurrected proposal to revise the severance tax upward. Similarly, our previous calculations have also assumed accrual of a full 9.4% state corporate income tax rate. However, a restructuring of the tax in the form of a net proceeds levy, with provisions for a larger take above a certain crude price level, is without question a new and disturbing twist in the Alaskan petro-political situation.

At the start, it should be stated that this proposal, which is still in committee, is very preliminary in nature. Notwithstanding this important caveat, it is useful to review the

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\*The revised severance tax schedule is as follows:

<u>Well Output</u>	<u>Rate</u>
0 — 300 b/d	5.0% (unchanged)
300 — 1,000 b/d	6.0 (unchanged)
1,000 — 2,000 b/d	11.0
2,000 b/d +	14.5

Thus, for a 10,000 b/d Prudhoe Bay well, the weighted average severance would amount to 13.3%. Also, it appears that the state will retain its alternative minimum cents-per-barrel computation.

mechanism contemplated here to clarify some of the initial confusion about how such a tax would work and to assess the potential impact on production earnings for the three principal Prudhoe Bay leaseholders.

There has been some confusion about the proposal as to whether this new tax would be based on landed West Coast values, a wellhead price, or some intermediate standard; however, our contacts with this committee clearly indicate that the starting point for computation is currently intended to be a West Coast market value. In essence, the proposed "excess value surtax" would determine a "long-term price" for Alaskan oil and would levy a tax higher than the 9.4% current rate on the difference between the market price of the oil and this "long-term price" less full allowances for existing burdens on the gross proceeds of production (i.e., royalty and severance taxes). In describing his scheme, Senator Huber has emphasized that he intends the "long-term price" to be high enough to ensure that capital continues to be attracted to the Alaskan petroleum industry. Toward this end, his bill incorporates certain safeguards for setting and revising this state-determined value (discussed below). He has further stated that the tax is designed only to capture for Alaska a portion of any windfall resulting from a rise in prices above the threshold price required for new investment.\*

The following calculations are offered only as two specific examples. However, they are based on a methodology that has been confirmed by a staff aide of the Special Committee on Revenue and Taxation and on indications of what might constitute reasonable ranges for both the state-determined "value" of oil (above which an "excess value surtax" would be imposed) and the rate of incremental taxation.

(See tables on following pages)

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*\*These apparently comforting remarks are far less reassuring when coupled with Senator Huber's stated belief that there will clearly be a windfall for Prudhoe Bay producers, in contrast to our October 1975 calculations, which showed -- based on a \$12 West Coast price and a 1.5 million b/d production rate -- a total current return (including pipeline earnings of \$586 million) that would approximate 17%. However, it should be noted that this calculation does not take into account the time weighting of several billion dollars of expenditures that will have been nonproductive for many years.*

Case A

Pipeline throughput 1.5 million b/d

\$12.00

West coast price				
"Long term price"	\$7.00		"Excess value"	\$5.00
Less: Pipeline tariff & tankers	4.51			-
Wellhead	\$2.49			-
Less: Royalty @ 12 1/2%	0.31			0.63
Severance @ 13.3% (12.22)	0.33 (1.275)			0.66 (0.55)
Lifting, depreciation & amortization	0.44			-
Pretax profit	\$1.41 (1.46)		3.82	\$3.71
Less: State income tax (a)	0.13 (9.36% rate) (1.13)		1.91	1.86 (9.4% + 40.6%)
Federal income tax @ 48%	0.61 (1.2)		.92	0.89
Net income per barrel	\$0.67 (1.71)		2.99	\$0.96
Combined profit per barrel			\$ 1.63 (1.70)	
Previous estimate (HCW Industry Review 10/16/75)			2.54	
Downward adjustment			\$ 0.91	

(a) Assumes deductibility of state income tax for Federal tax purposes.

Production earnings effect:

Atlantic Richfield								
315,000 b/d	x	365	x	\$2.54/bbl	=	\$292 million	or	\$ 5.06/sh.
			x	1.63/bbl	=	187 million	or	3.24/sh.
				(1.70)		\$105 million		\$ 1.82/sh.
						(201)		
Standard Oil of Ohio								
714,000 b/d	x	365	x	\$2.54/bbl	=	\$662 million	or	\$10.17/sh.
			x	1.63/bbl	=	425 million	or	6.53/sh.
				(1.70)		\$237 million		\$ 3.64/sh.
						(443)		
Exxon								
315,000 b/d	x	365	x	\$2.54/bbl	=	\$292 million	or	\$ 1.31/sh.
			x	1.63/bbl	=	187 million	or	0.84/sh.
						\$105 million		\$ 0.47/sh.

State of Alaska Revenues (In millions):	Previous (10/16/75)	Revised	Net Increase
Royalty	\$ 514.7	\$ 514.7	-
Severance taxes	388.7	542.0	\$153.3
State income taxes	279.2	1,089.5	810.3
Total revenues	\$1,182.6	\$2,146.2	\$963.6

Case A: State-determined "long-term price" \$7.00 per barrel; 50% combined state income tax.

Case B: State-determined "long-term price" \$9.00 per barrel; 25% combined state income tax.

Case B

Pipeline throughput 1.5 million b/d		\$12.00	
West coast price			
"Long term price"	\$9.00		"Excess value" \$3.00
Less: Pipeline tariff & tankers	4.51		-
Wellhead	4.49		-
Less: Royalty @ 12½%	0.56		0.38
Severance @ 13.3% (12.62)	0.60 (1.50)		0.40 (33)
Lifting, depreciation & amortization	0.44		-
Pretax profit	\$2.89 (2.99)		\$2.22 (2.29)
Less: State income tax (a)	0.27 (9.36% rate) .25		0.56 (9.4% + 15.6%) (5)
Federal income tax @ 48%	1.26 1.30		0.80 (1.82)
Net income per barrel	\$1.36 1.41		\$0.86 (1.90)
Combined profit per barrel		\$ 2.22 (2.21)	
Previous estimate (HCW Industry Review 10/16/75)		2.54	
Downward adjustment		\$ 0.32 (2)	

(a) Assumes deductibility of state income tax for Federal tax purposes.

Production earnings effect:

Atlantic Richfield									
315,000 b/d	x	365	x	\$2.54/bbl	=	\$292 million	or	\$ 5.06/sh.	
			x	<u>2.22/bbl</u>	=	<u>255 million</u>	or	<u>4.42/sh.</u>	
						\$ 37 million	or	\$ 0.64/sh.	
Standard Oil of Ohio									
714,000 b/d	x	365	x	\$2.54/bbl	=	\$662 million	or	\$10.17/sh.	
			x	<u>2.22/bbl</u>	=	<u>579 million</u>	or	<u>8.89/sh.</u>	
						\$ 83 million	or	\$ 1.28/sh.	
Exxon									
315,000 b/d	x	365	x	\$2.54/bbl	=	\$292 million	or	\$ 1.31/sh.	
			x	<u>2.22/bbl</u>	=	<u>255 million</u>	or	<u>1.14/sh.</u>	
						\$ 37 million	or	\$ 0.17/sh.	

State of Alaska Revenues (In millions):	Previous (10/16/75)	Revised	Net Increase
Royalty	\$ 514.7	\$ 514.7	-
Severance taxes	388.7	547.5	\$158.8
State income taxes	<u>279.2</u>	<u>454.4</u>	<u>175.2</u>
Total revenues	\$1,182.6	\$1,516.6	\$334.0

Case A: State determined "long-term price" \$7.00 per barrel; 50% combined state income tax.  
 Case B: State determined "long-term price" \$9.00 per barrel; 25% combined state income tax.

Based on our understanding of the mechanics of the various tax proposals, the \$2.54 per barrel estimate for Prudhoe Bay field (Sadlerochit, Sag River, and Shublik formations) unit profitability at a pipeline throughput rate of 1.5 million b/d and a \$12 per barrel West Coast landed price, as contained in our October report, would be reduced to a range of \$1.63-\$2.22 per barrel, as illustrated by Case A ("worst case") and Case B ("best case"), respectively. Conversely, the State of Alaska's revenue take would be significantly boosted — by \$334 to \$964 million — by the combination of an increased severance tax and the "excess value surtax."

It should be emphasized, however, that several items under consideration for inclusion in Senator Huber's proposed windfall profits tax could moderate its eventual impact on the Alaskan oil industry. These possible provisions include:

- (1) An automatic inflation adjustment (tied to the Wholesale Price Index) to be applied annually to the state determined "long term price";
- (2) The formation of a State body or board to periodically review (and presumably propose modifications to) the "long term price"; and
- (3) A \$1 per barrel supplemental allowance to the "long term price" for a given field in which the sum of all pretax expenses (including state royalty and severance tax) would fall within \$1 of the "long term price" set by the State of Alaska.\*

At this point, a few comments about legislative procedure and scheduling are appropriate. It is now contemplated that the three bills on oil taxation will be formally introduced within the next week or so. To become law, they must undergo consideration by four other committees (the Finance and Resource committees of both Houses), have all differences resolved in joint committee sessions, be voted out in final form by both Houses, and be signed by Governor Hammond. Clearly, a great deal of coordination will be necessary if all of this is to be successfully accomplished during the current 90-day session, which is expected to run until mid-April. Moreover, the possible reintroduction of one other piece of oil-related legislation — revival of an earlier concept for additional taxation of pipeline earnings — may further complicate the 1976 legislative calendar.

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*\*This provision appears designed to aid the economics of high cost fields. Given the relatively low costs of the Prudhoe Bay field, however, the \$1 per barrel profit safeguard will not be generally applicable. For example, under Case A, the sum of all expenses — \$5.59 per barrel — would be 42¢ below the level required to qualify for the \$1 per barrel increment.*

January 22, 1976

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NORTH SLOPE OIL AND GAS

A more definitive assessment of Prudhoe Bay field economics, as well as the future environment for oil company exploration and development activity in Alaska, will be possible as further details on these proposed tax changes emerge following introduction of the bills into the Legislature — when it will become clear what inevitable compromises must accompany broad legislative support of parts or all of the package.

H. C. WAINWRIGHT & CO.  
Thomas A. Petrie  
Paul R. Leibman

AGO 531843

## INDUSTRY REVIEW

This Report Replaces Our Report of October 7, 1975

October 16, 1975

NORTH SLOPE OIL AND GAS  
Atlantic Richfield (ARC)  
Standard Oil (Ohio) (SOH)

### Commentary

During the past five months, there have been further developments affecting a number of key elements of the North Slope development project that, of necessity, were addressed in a provisional manner in our May, 1975 North Slope Oil and Gas *Industry Review* and the accompanying *Basic Reports* on Atlantic Richfield and Standard Oil of Ohio. In particular (1) the 1975 construction season is well along, providing an additional basis for assessing the pipeline completion schedule; (2) the State of Alaska has enacted a tax on hydrocarbon reserves to finance its anticipated budget deficits prior to the start of production; (3) Alyeska has announced another upward revision in its estimate of the total cost of the pipeline system — to \$6,375 million — for the 1.2 million b/d configuration; (4) Sohio has formally announced its plan for transporting Alaskan crude to the Midwest via a southern pipeline system utilizing idled natural gas transmission facilities; and (5) BP/Sohio have essentially concluded a mammoth \$1.75 billion private placement of long-term pipeline debt.

In view of the substantial additional information that has become available in connection with these various developments, a detailed review of the economics of both the pipeline and wellhead production is in order. This report will again utilize the tariff and production profitability models developed in our earlier *Industry Review*. However, the analysis here has been carried a step beyond our "representative" case to show the positions of Arco and Sohio, and their individual recognition of investment tax credit benefits along with the likely effects of reconciling differences in their respective tariff positions. Our approach to the key question of crude prices has also undergone some modification; the \$6.00 per barrel case has been eliminated as both unlikely and too pessimistic in terms of real prices to provide an adequate incentive for new exploration projects. Also, a \$12.00 case has been included to allow for continued OPEC control of world price levels and/or domestic energy policy considerations, although the base price for our longer term company earnings projections continues to be \$10.00 per barrel. This position is predicated on our earlier documented belief that, notwithstanding the historical tendency of oil to underperform inflation following price runups analogous to that of 1973-1974, domestic oil will at least maintain its 1975 average real value in an environment of 5% inflation assumed for the balance of the decade.

As shown in the following table of contents, this report concludes with updates of longer-term earning power and reviews of the financial positions of two of the principal North Slope participants.

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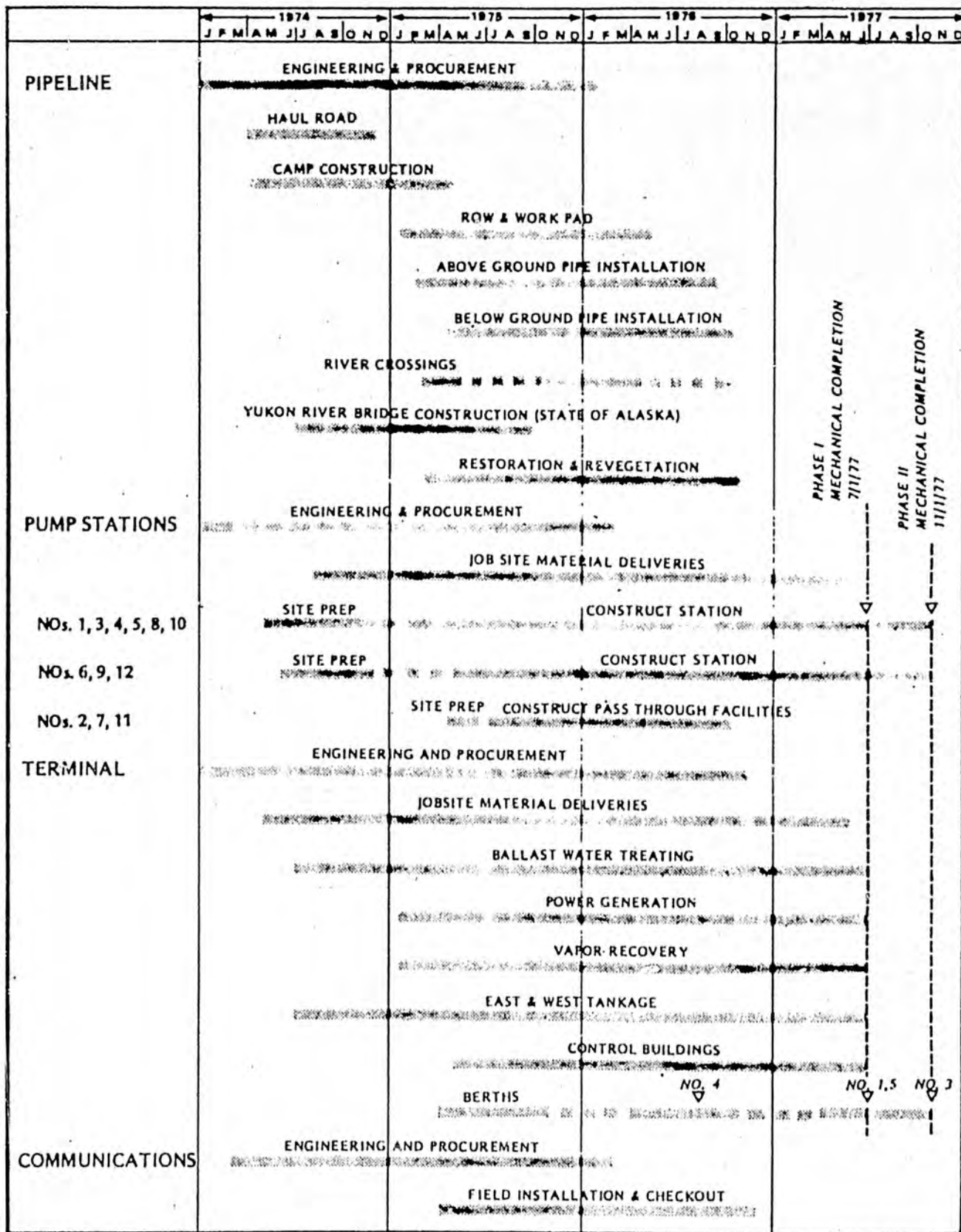
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TAPS Construction and Field Development Progress

The following chart shows revisions in the timetable for the principal TAPS construction tasks since our last *Industry Review*.

(See chart on following page)

### Pipeline project schedule



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The main differences between this schedule and that presented earlier are (1) stretchouts in the time required for engineering and procurement at the pump stations and the terminal and (2) jobsite delivery of materials to the pump stations. Even though the Valdez terminal is still the pacing item for an on-time completion of the initial system, none of the revisions to date for individual activities have been sufficient to necessitate a postponement of the mid-1977 target for startup. In fact, the experience so far reemphasizes the point that equal delays in different construction activities are not of equal significance. In the year to date, Alyeska has already shown noteworthy ability to reschedule work and to shift manpower and equipment as requirements change. This flexibility (albeit often obtained at higher costs) should be borne in mind throughout the following review of particular aspects of the project.

**Project Management.** In June, Alyeska announced a redefinition of the scope of the Bechtel Corporation's duties as the prime contract manager for TAPS construction. Under the new organizational structure, Alyeska assumed full direct supervision of all subcontractors, relegating Bechtel to a project advisory status. Confusion, unnecessarily slow responsiveness to Governmental requirements, and communications difficulties which arose under the prior organizational arrangements were cited by the Alaska State Pipeline Coordinator in a March, 1975 report detailing potential sources of delay in pipeline construction. In assessing the reorganization, it should be recognized that awkwardness incorporated into the basic structure of Alyeska opened the door to top-level organizational difficulties, as evident from the following description by one of the participating companies:

Eight companies which own Alyeska, operating through the Construction Committee in which each has a representative, must approve major projects, audit performance and agree to furnish funds. This is in contrast to usual joint venture pipeline construction projects where one company is normally the managing partner and where contract responsibility can be given a contractor.

Accordingly, Alyeska's move to streamline the contract management function appears well-conceived, though perhaps somewhat belated. In the view of one Government monitor, it has already improved Alyeska's ability to respond to problems with more timely system design and scheduling modifications.

**Valdez Terminal.** Good progress is continuing to be made in this critical area. At last report, construction was well underway on 10 out of the 14 crude oil tanks in the eastern tank farm; thus, the goal of completing nine of these tanks by year-end appears easily attainable. The finished tanks will provide 50% of the required crude storage capacity for the phase II configuration (1.2 million b/d) and serve as a positive sign toward completion of the terminal, despite its still-tight schedule. The three ballast tanks needed for phase II are also well along (*ranging from 80% to 92% complete*). The primary current concern regarding the terminals' completion date of mid-1977 is the need for further disposal facilities to handle an extra 5-6 million cubic yards of overburden from excavation. It is both ironic and indicative of the fast changing nature of the situation that, at an earlier stage, the excavation questions at Valdez centered on whether or not there would be *sufficient* overburden material to accommodate landfill requirements for 18 acres of lowland and thus expand the usable land area at the cramped terminal site. Now there is more than enough material, but it is of such low grade that it must be hauled away and better quality fill is being imported to meet the terminal needs. In any case, at recent Congressional oversight hearings on TAPS, Alyeska

officials indicated that this disposal of extra overburden might become a pacing item affecting completion of the terminal. However, with significant tankage already well under way, it appears that, at most, this problem would somewhat restrict the volume of initial shipments.

**Pipeline Construction.** Actual pipelaying activities still seem to have the greatest slack in any critical path analysis of the project. Moreover, while there remain several identifiable problems that could cause sufficient stretchouts to make pipelaying the determining factor in the timing of system completion, the responsiveness of Alyeska's contractors to difficulties has been particularly impressive in this area.

For example, as of last spring there had been only limited progress (perhaps 5% of the total effort) in drilling the 75,000 boreholes which will be used to hold the vertical support members (VSM) for approximately 50% of the line that will be elevated. This was primarily due to late delivery of sufficient specially designed augers and spare parts. The delay caused Alyeska to miss its first winter season, which is the ideal time for working on most of the permafrost regions where VSM's will be used.

To regain time, Alyeska quickly obtained additional conventional boring equipment and rescheduled a portion of the work to the summer, even though more complicated drilling procedures were required in some cases. As a result, as of late September, 34,426 VSM's (over 45% of the total) had been installed. Clearly, progress during the past two months has been especially encouraging, suggesting that a learning curve is indeed present. Thus, at present, VSM installation is advancing extremely well, with the availability of spare parts the only continuing concern of Governmental monitors of the project.

In all, the VSM situation provides a good illustration of Alyeska's ability and dedication to make up lost time on certain paths by reallocating manpower and equipment and incurring added costs. River crossings are another area where this approach will be necessary. Through 1975, Alyeska had initially planned to complete a total of 10 crossings. However, slippages during the winter of 1974-1975 delayed commencement of this activity until last April; since that time only three crossings have been completed. The bulk of the remainder have been reprogrammed for the coming winter season. Theoretically, such rescheduling should not seriously affect either costs or overall project timing, since it only shifts project manhours from 1975 to 1976. Importantly, however, if such a change also necessitates the performance of work planned for 1976 in 1977, there is an implicit added cost, since the present union wage scales of most Alyeska contracts only apply until mid-1976.\*

A factor that could affect construction progress is the pipeline design modifications necessitated by new information gained in the field. For example, in section three where H.C. Price is the contractor, the terrain has proved highly unpredictable so that early borehole data on soil conditions is not always proving correct. Accordingly, there has been rather extensive redesign, including changes from elevated to buried configurations (and the reverse). In this case, although such work lapsed beyond the slippage allowances in the schedule, time gained in completing the gravel workpad has enabled Price to stay within 2% of its completion target. Nevertheless, the lesson from section three has been that field redesign of pipeline segments can require major adjustments for which allowances will need to be made on occasion.

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\*Alyeska's latest cost estimate assumes that a 12% increase in wage rates will be negotiated effective in mid-1976.

Worker productivity remains a key imponderable for an on-time completion. The experience this summer in selected areas appears to have been encouraging. Though there is undoubtedly a risk in drawing general conclusions, the following is a summary of observations about a few specific activities. In addition to its excellent progress in installing VSM's and terminal tankage, Alyeska has completed its double-jointing program. This involves welding 40-ft. pipe sections in shops at Valdez and Fairbanks to cut in half the amount of welding to be done under much more difficult conditions in the field. More than 625 miles of pipe have been welded at Fairbanks and Valdez. Considering the smoothness with which double jointing operations proceeded, there is little question that the overall efficiency of the welding task has been significantly improved. A second factor that may further assist welding productivity during field installation is the recent authorization by Federal and state monitors that permits welders to produce the first two passes of mainline welding at 10-20 inches per minute versus the 5-8 inches per minute previously allowed.

A less encouraging aspect of worker productivity to date involves attitudes of some of the laborers. Although the Teamsters are the only union to have actually violated a no-strike provision, there have been reports of work slowdowns and the use of numerous "safety meetings," reflecting the inevitable grievances associated with the performance of arduous and sometimes dangerous labor under the added pressure of time. It is all but impossible to gauge the significance of this factor from the available information, but its potential consequences are self-evident and the situation bears close scrutiny in the period ahead.

Of necessity, the foregoing discussion is based on only partial analysis of a highly complex and dynamic project. In fact, the ability of an outside observer to *comprehensively* review the status of TAPS construction will probably remain impossible until actual completion of the system, by which time an examination will be largely of academic interest. Nevertheless, the limited information available does provide a basis for a tentative judgment about the progress of TAPS construction. Our May 1975 report accepted Alyeska's contention that a construction delay beyond mid-1977 was not a foregone conclusion, but also pointed out some of the numerous possibilities for delay and cost escalation as the project unfolded. The validity of this view remains intact; however, one cannot help but be impressed by Alyeska's responsiveness to various difficulties as they arose this past summer — especially its flexibility in work rescheduling in an attempt to attain an on-time completion, notwithstanding the cost trade-off involved. Regarding the trade-off, it should also be noted that the combination of carrying charges in 1977 on about \$7.0 billion of pipeline debt and the now established precedent of an Alaskan ad valorem tax on nonproducing reserves provides a powerful incentive to spend currently in order to stay on schedule. With tangible evidence that this is indeed Alyeska's strategy, our inclination is to increase the probability of an on-time completion of the initial *pipeline* configuration but, concurrently, to allow for higher costs than contained in Alyeska's latest control estimates. Based on this expectation along with the companies' last-minute success in getting most of the barges loaded with critical modules for field development to Prudhoe Bay, our production volume assumptions are that throughput will average 600,000 b/d during the second half of 1977, reaching twice that level in early 1978.

#### Alaskan Reserves Tax

To help alleviate an anticipated fiscal crunch prior to the flow of North Slope oil to market, the State of Alaska has enacted an ad valorem tax (House Bill 297) on hydrocarbon reserves

for a two-year period beginning January 1, 1976. Since provision has been made in the bill for a credit of the tax against future severance tax obligations once production begins, the reserves tax can be alternatively viewed as an interest-free advance by the oil companies to the state.

The circumstances surrounding passage of the reserves tax can be traced to the long delay in TAPS completion, along with unrelenting growth of state budgetary expenditures. Under an initial expectation that TAPS would be operational by the fiscal year (FY) ending June 30, 1974, Alaska has been drawing down its \$900 million lease bonus fund (garnered at the 1969 sale of Prudhoe Bay leases) to cover its budget shortfalls, on the belief that the receipt of oil royalty revenues starting in 1974 would be sufficient to restore the lease sale fund to its original size. At the same time, the existence of the \$900 million fund provided impetus for an expansion of Government spending. Thus, Alaska's general fund budget rose from \$168 million in FY 1970 to \$364 million in FY 1974. Accordingly, by January 1975, the lease sale fund had shrunk to \$504 million. However, of that latter amount, only \$311 million was held as liquid investments (the balance was in relatively illiquid Alaskan loans and mortgages as well as deposits in Alaskan banks).

In FY 1975, general fund expenditures of about \$540 million exceeded approximate revenue receipts of \$340 million, necessitating a bonus fund drawdown of \$200 million for the entire year, or to about \$370 million by June 30. Based on an estimated general fund budget of \$620 million for FY 1976, the state anticipates that the resulting budget deficit and already mandated loan programs will require an additional \$350 million, against which, the sale of remaining lease bonus monies — both investments and deposits — should net only \$300 million. Hence, beginning in FY 1976, a significant cash crunch is foreseen. Latest projections indicate that the state will need \$400 million in total additional revenue for the years 1976-1978 if the pipeline is completed on schedule (July 1, 1977). A six-month delay would boost the amount needed to \$600 million and a full-year delay to \$850 million.

In attempting to meet the anticipated cash flow shortfall, Alaska's legislators had to choose from among the following mix of revenue-producing measures: (1) budget cuts; (2) sale of loans and mortgages from the general fund; (3) oil and gas lease sales; (4) advance sales of royalty oil and gas; (5) general tax increases; (6) ad valorem taxation of oil and gas reserves; and (7) short-term borrowing. Some of these alternatives involve limitations with respect to either the amount of revenue generated or the time frame for receipt of additional revenue. For example, given Alaska's limited economic base, it would be difficult to raise much of the required \$400 million and still retain an equitable tax system. By eliminating some of the loopholes in the Alaskan corporate tax that exist because of "piggybacking" the Federal income tax and increasing the natural gas severance tax from 4% to 10%, an additional \$20 million in revenue is expected. The final alternative, short-term borrowing, would require an amendment to the state constitution to permit borrowing for operational purposes beyond a one-year period. Unfortunately, an enabling constitutional amendment could not be voted upon until the next general election in November, 1976 — too late to meet the initial fiscal crunch.

Among the other available alternatives, an ad valorem tax on oil and gas reserves was selected as the principal ameliorative for maintaining fiscal solvency prior to pipeline startup. It is

interesting to note that Alaska opted for a reserves tax (HB 297) over the opposition of one of its key consultants, Lipton, Levy & Associates, who favored a Beaufort Sea lease sale. As enacted, the reserves tax is similar in structure to existing statutes in California and Texas, except for the provision of a tax credit against severance tax payments once oil production starts. In fact, the provision has led a legal consultant of the state to conclude that HB297 may violate the due process and equal protection clauses of the 14th amendment to the U.S. Constitution. In effect, Alaska is seen as coercing the lending to it of monies on an interest-free basis by lessees of state oil and gas leases. The legal consultant believes that to convert HB 297 from a mandatory lending statute into a genuine tax law, it will be necessary to modify its tax credit provisions so as to produce a substantial amount of new and independent tax revenue. While a potential legal challenge cannot be ruled out, it is difficult to see how the oil companies could benefit by challenging the reserves tax since it can be easily converted into an independent revenue raising device by simply eliminating the severance tax credit.

As far as the actual mechanics of the reserves tax are concerned, it relies on the income appraisal method of oil and gas property valuation to determine the fair market value of the property using discounted present value techniques. A number of difficult estimation problems arise in any attempt to arrive at the value of the leasehold or other mineral interest involved, including: (1) reserves in-place; (2) production rates; (3) out-of-pocket operating expenses; (4) prices; and (5) discount rate. As such, an ad valorem tax on oil and gas properties can be highly-arbitrary in nature.

In early 1975, a study commissioned to assess, as of January 1, 1976, the value of oil and gas contained in the Sadlerochit formation of the Prudhoe Bay field arrived at a figure of \$11.5 billion. This analysis assumed that oil production would begin at 1.2 million b/d in 1978, and rise to a peak rate of 1.8 million b/d in 1981. A wellhead price of \$4.93 per barrel was used initially, which subsequently rises to \$7.50 per barrel by 1980 based on a \$10 per barrel refinery price. For natural gas, production was assumed to begin in 1982 at a rate of 1 billion cubic feet per day, with an eventual peak of 3 billion cubic feet per day in 1997. A wellhead price of 50¢ per Mcf was used. After deducting out-of-pocket expenses — capital expenditures, lifting costs, property taxes — from gross revenue, the resulting pretax income figure was discounted at an 18% annual, mid-year rate. Of the resulting \$11.5 billion appraised value, \$10.8 billion was attributable to oil alone.

The rate of levy for the tax year beginning January 1, 1976 is 20 mills (2¢) per dollar of assessed valuation, payable by June 30, 1976. The Alaskan legislature will annually set the rate of levy, but it cannot exceed 20 mills. A reading of the exemption and credit provisions of the tax would appear to limit its impact primarily to the Sadlerochit formation and several small gas fields in the Kenai area.\* Using the above-derived valuation for the Sadlerochit, the first year tax would amount to \$230.3 million.\*\* The legislation also provides for a system of development incentive credits by which the affected oil companies will receive, beginning in

\*To the extent that severance taxes paid on a producing property for a 12-month period prior to the tax payment date equal or exceed the reserve tax assessment, no payment is required. Also, a property wholly or partially underlying a discovery well is exempted from the tax for a period of five years beginning on the date of the completion, suspension, or abandonment, whichever occurs first.

\*\*Until a permit or license is issued for construction of a natural gas transmission line, natural gas reserves at Prudhoe Bay are exempted from the tax. The natural gas exemption reduces tax revenues by \$14 million, or to \$216 million.

1978, a reduction in severance taxes equal in amount to total reserves tax payments. However, the development incentive credit cannot exceed 50% of severance taxes computed on a monthly basis — a limitation which effectively increases the payback period to some 4½ years.

Coming as it does when the major Prudhoe Bay leaseholders face already significant TAPS and field development expenditures, the reserves tax has imposed yet another financing burden on the oil industry, especially Sohio. As such the tax joins the minimum cents-per-barrel severance tax as a seemingly inequitable revenue-producing measure and a source of anxiety to the companies in terms of possible follow-on tax measures. Regarding the latter point, the legislature's refusal to adopt the so-called "Sohio amendment," which would have allowed a reserves tax credit against royalty rather than severance tax, is indicative of Alaska's strategy of taking a portion of its royalty oil entitlement in kind to establish the regulatory functions of the Alaska Pipeline Commission.\*

The preceding discussion is not meant to alarm the reader, but only to reiterate the risk of viewing tax terms at any Governmental level as fixed. In fact, a bill introduced during the past session of the Alaskan Senate, (Senate Bill 295), sought to raise the oil severance tax from a maximum of 8% of wellhead value to 12%. *Moreover, it should be noted that this latter measure is likely to be resurrected again during the next legislative session starting in January*, and thus bears close monitoring. Nevertheless, given Alaska's future cash flow stream from the North Slope, as well as the need to allow adequate economic incentive in order to maximize long-term oil development opportunities, an overly cautious attitude regarding the future relationship between Alaska and the oil companies does not appear warranted at this time. To illustrate the financial benefits that will accrue to Alaska once North Slope oil production begins, the following table depicts our derivation of potential sources of revenue under a variety of the throughput rates using a \$10 per barrel West Coast price. For comparison purposes, general fund budget expenditures are projected to reach about \$1.2 billion in 1980.

(See table on following page)

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*\*By taking a portion of its royalty oil in kind, either at some intermediate point or at Valdez, Alaska will have established an intrastate movement of North Slope crude, thus enabling its Pipeline Commission to assert regulatory control, including tariff rates, over the intrastate movements. Also, the state is presently a party to an ICC determination, ex parte 238, which involves questions relating to what items shall go into the rate base and the allowed rate base return.*

State of Alaska Revenues  
(In millions)

	Pipeline Throughput		
	1.2 mil. b/d	1.5 mil. b/d	2.0 mil. b/d
Ad valorem taxes (a)	\$178	\$183	\$177
Severance taxes (b)	201	252	375
Royalty	261	376	586
Income tax:			
Pipeline	69	73	74
Wellhead	131	196	303
Total income tax	<u>200</u>	<u>269</u>	<u>377</u>
Total revenues	\$840	\$1,080	\$1,515

(a) Includes ad valorem taxes on field development facilities. Assessed valuation is assumed to be based on the gross cost of the main Prudhoe Bay field facilities (\$2.375 billion) less amortization of investment at the rate of 24 ¢ per barrel on a unit-of-production basis. Because of the unavailability of data related to the cost of facilities required to ultimately develop the Lisburne and Kuparuk formations, an ad valorem tax estimate has not been made for this potential component of field development spending.

(b) Before deduction of severance tax credits, over a 4½ year period, amounting to a maximum of \$474 million based on a preliminary appraisal of the oil reserves contained in the Sadlerochit formation.

### Economics of Prudhoe Bay Production

#### Pipeline Economics

On June 19, 1975, Alyeska Pipeline Service Company announced a revised control estimate of \$6.375 billion for the construction of TAPS to an initial design capacity of 1.2 million b/d. Although the revised figure includes provision for escalation of the costs of labor,\* material, equipment, and consumables, a contingency allowance is not specifically included in the new control estimate.\*\* However, Alyeska did suggest to the TAPS owners that a contingency allowance of 5% might be added to the control estimate to provide for unforeseen cost changes during the remainder of the construction period. Alyeska has also estimated that the cost to expand TAPS from 1.2 million to 2 million b/d would approximate \$850 million, of which \$490 million would be required to expand system capacity to an intermediate level of 1.6 million b/d.\*\*\*

In full cognizance of the TAPS construction cost progression to date and the aforementioned tradeoff between on-time project completion and final system cost, our projections allow for a final cost of 10% above Alyeska's latest estimate of total project cost.

\*A Project Labor Agreement entered into with the major international and local unions involved in the project has established wage rates only for the period through June 30, 1976.

\*\*It might be recalled that Alyeska's previous control estimate of \$5.98 billion last October incorporated a \$424 million contingency allowance.

\*\*\*Expansion of TAPS to an intermediate capacity level between 1.2 and 2.0 million b/d would require an amendment to the TAPS Agreement.

The following analysis of pipeline earnings and tariffs includes a "representative" case applicable to all the TAPS participants — similar to the approach used in our May *Industry Review* — and individual computations for ARCO Pipeline Company and Sohio Pipe Line Company. The latter analysis illustrates the variable tariffs that arise under the undivided interest form of ownership due to cost of capital differences among the TAPS owners and individual company preferences regarding usage of debt and equity in financing the project.

Working assumptions for our "representative" case include the following:

- (1) Construction of TAPS to an initial design capacity of 1.2 million barrels per day will cost \$7,012.5 billion. Expansion of the system to 2 million b/d will cost an additional \$935 million.
- (2) TAPS will be financed (including capitalized interest) utilizing 85% borrowed funds at an average borrowing rate of 9.5%.
- (3) Capitalized interest charges during construction are estimated at \$1.52 billion, of which \$1.47 billion is applicable to the 1.2 million b/d system configuration.
- (4) Capitalized interest will be amortized over a 25-year period. Amortization of debt used to finance TAPS (exclusive of refinancings) will not begin in a time frame relevant to the scope of the analysis included herein.
- (5) The main pipeline system assets placed in service in mid-1977 will be depreciated over a 35-year period for ICC purposes. For IRS filings, a 22-year sum-of-the-years'-digits method will be employed, with a possible requirement that any resulting tax deferrals be flowed through as a reduction in pipeline tariff. As additional pipeline capacity is added beyond mid-1977, a shorter depreciable life is used for assets associated with the expanded capacity (mainly pump stations) to conform with the remaining depreciable life of the main pipeline system assets.
- (6) Ad valorem taxes of 20 mills (2¢) per dollar of assessed valuation will be collected by the State of Alaska on qualifying pipeline system assets.
- (7) Current ICC procedures will govern rate base determination. A return of up to 7% of net pipeline valuation\* is allowable in posting ICC tariffs under the terms of the 1941 Consent Decree.

On the basis of the foregoing assumptions, the following table depicts, both for book and tax purposes, pipeline earnings and required tariffs for various throughput levels.

(See table on following page)

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\* Assumed to be \$7.72 billion upon initial completion of TAPS.

**Pipeline Earnings and Tariffs — Ex ITC**  
(In millions)

	1.2 million b/d		1.5 million b/d		2.0 million b/d (a)	
	Book	Tax	Book	Tax	Book	Tax
Revenues	\$2,267	\$2,267	\$2,388	\$2,388	\$2,413	\$2,413
Operating costs	50	50	60	60	70	70
Ad valorem taxes(b)(c)	130	130	137	137	136	136
Amortization of capital- ized interest	59	59	60	60	61	61
Interest expense	682	682	724	724	748	748
Depreciation	200	610	216	631	228	611
Total expenses	<u>1,121</u>	<u>1,531</u>	<u>1,197</u>	<u>1,612</u>	<u>1,243</u>	<u>1,626</u>
Pretax earnings	1,146	736	1,191	776	1,170	787
Income taxes (d):						
Cash	389	389	411	411	416	416
Deferred	<u>217</u>	<u>—</u>	<u>217</u>	<u>—</u>	<u>203</u>	<u>—</u>
ICC allowable return	<u>\$ 540</u>	<u>\$ 347</u>	<u>\$ 561</u>	<u>\$ 365</u>	<u>\$ 551</u>	<u>\$ 371</u>
	Case A	Case B	Case A	Case B	Case A	Case B
Gross revenues required	\$2,050	\$2,267	\$2,169	\$2,388	\$2,210	\$2,413
Oil shipments (million barrels)	438	438	548	548	730	730
Required tariff per barrel	\$4.68	\$5.18	\$3.96	\$4.36	\$3.03	\$3.31

- (a) Capacity of 1.5 million and 2 million b/d is assumed to be reached one and three years, respectively, after completion of the first stage.
- (b) 2% of the remaining net tangible investment in pipeline facilities after approximately \$500 million of properties transferred to the State of Alaska (Yukon River bridge, certain airfields, and the Alaskan highway) are deducted.
- (c) Not including amortization of capitalized ad valorem taxes of \$138.6 million incurred through mid-1977.
- (d) Includes statutory Alaskan income tax of 9.36%.

Case A: With flow-through.

Case B: Without flow-through.

(See table on following page)

Pipeline Earnings and Tariffs — Including ITC  
(In millions)

	1.2 million b/d		1.5 million b/d(a)		2.0 million b/d(a)	
	Book	Tax	Book	Tax	Book	Tax
Revenues	\$2,267	\$2,267	\$2,388	\$2,388	\$2,413	\$2,413
Operating costs	30	50	60	60	70	70
Ad valorem taxes (b)(c)	130	130	137	137	136	136
Amortization of capitalized interest	59	59	60	60	61	61
Interest expense	682	682	724	724	748	748
Depreciation	200	610	216	631	228	611
Total expenses	1,121	1,531	1,197	1,612	1,243	1,626
Pretax earnings	1,146	736	1,191	776	1,170	787
Income taxes:						
Federal - cash						
Pre-ITC	320	320	338	338	342	342
ITC	(406)(d)	(406)(d)	(25)	(25)	—	—
Federal-deferred	217	—	219	—	203	—
State @ 9.36%	69	69	73	73	74	74
Total income taxes	606	389	630	411	619	416
ICC allowable return	540	\$ 347	\$ 561	\$ 365	\$ 551	\$ 371
ICC allowable return plus ITC	\$ 946	—	\$ 586	—	—	—
	Case A	Case B	Case A	Case B	Case A	Case B
Gross revenues required	\$2,050	\$2,267	\$2,169	\$2,388	\$2,210	\$2,413
Oil shipments (million barrels)	438	438	548	548	730	730
Required tariff per barrel	\$4.68	\$5.18	\$3.96	\$4.36	\$3.03	\$3.31

- (a) Capacity of 1.5 million and 2 million b/d is assumed to be reached one and three years, respectively, after completion of the first stage.
- (2) 2% of the remaining net tangible investment in pipeline facilities after approximately \$500 million of properties transferred of the State of Alaska (Yukon River bridge, certain airfields, and the Alaskan highway) are deducted.
- (c) Not including amortization of capitalized ad valorem taxes of \$138.6 million incurred through mid-1977.
- (d) While the indicated level of ITC benefit exceeds the statutory limit (\$25,000 plus 50% of taxes payable) on a project stand-alone basis, the assumed availability of sufficient income from other sources should allow each of the TAPS participants, except for BP and Sohio, to fully recognize this benefit on a current basis.

Case A: With flow-through.

Case B: Without flow-through.

Given that the State of Alaska will undoubtedly opt to receive a portion of its 12½% royalty oil entitlement in kind, with an attendant need for common carrier transportation services, a strong likelihood exists that the state will elect to file a contested rate application with the ICC opposing the indicated maximum tariffs shown above.\* To illustrate the impact of

\*Since Alaska's major sources of revenue are directly tied to the Prudhoe Bay field wellhead price, a strong bias exists in favor of minimizing transportation charges.

a lower allowed ICC return, pipeline earnings under the 1.2 million b/d throughput level would fall to \$386 million and result in a revised flow-through tariff of \$3.94 per barrel under the assumption of a 5% allowable return. *For companies whose interests in production roughly approximate their interest in TAPS, the overall impact on earnings is negligible, since lower pipeline earnings are largely offset by the benefits of a higher wellhead price.*

#### Allowable Tariff Positions of Individual Companies

In addition to the possibility of a contested rate application, there are other circumstances under which actual pipeline tariffs could vary from the "representative" 7% return case developed above. Under the individual interest form of pipeline ownership, each company with a stake in TAPS will individually arrange and reflect its portion of the pipeline debt financing on its own balance sheet and will file separate tariff schedules with the Interstate Commerce Commission based on a proportionate share of TAPS' overall operations. As mentioned previously, this approach results in differences in the maximum allowable tariffs for individual companies due to variations in (1) the cost of capital, (2) the debt/equity mix, and (3) the rate at which debt is taken down for pipeline financing. To illustrate these differences, the following calculations have been developed for the specific cases of ARCO Pipeline Company and Sohio Pipe Line Company, using the approach already outlined for the "representative" example above, along with the additional working assumptions outlined below:

- (1) Operating costs, an valorem taxes, and depreciation are each based on the company's ownership percentage applied to the appropriate totals for these items in the "representative" case.
- (2) ARCO Pipeline's TAPS financing is assumed to consist of 90% debt and 10% equity, with all of the remaining requirements for the latter\* contributed during 1977. Sohio Pipe Line's capitalization mix will be 85% debt and 15% equity, with the balance of the equity contributed after mid-1976.\*\*
- (3) Average pipeline borrowing rates of 9% and 10% are anticipated for ARCO and Sohio, respectively.
- (4) Capitalized interest and commitment fees during construction will be \$275 million for ARCO Pipeline, of which \$268 million is attributable to the 1.2 million b/d configuration. For Sohio Pipeline, the corresponding amounts will be \$465 million and \$445 million.

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\*On March 31, 1975, ARCO Pipeline's long term capitalization totaled \$695.4 million, of which \$155.4 million was stockholders' equity. Of the latter amount, \$75 million is assumed to be creditable as an equity contribution toward TAPS, leaving a 1977 requirement for an additional \$105 million.

\*\*At year-end 1974, Sohio Pipe Line's equity was \$42 million. To achieve an 85%/15% debt equity mix in 1977, another \$308.7 million will be required during 1976-1977. A portion of this requirement can be met by converting existing parent company advances of \$110 million to equity contributions.

## ARCO Pipeline Earnings and Tariffs - Ex ITC

	1.2 million b/d		1.5 million b/d		2.0 million b/d (a)	
	Book	Tax	Book	Tax	Book	Tax
Revenues	\$468	\$468	\$492	\$492	\$571	\$571
Operating costs	11	11	13	13	17	17
Ad valorem taxes	27	27	29	29	33	33
Amortization of capitalized interest	11	11	11	11	12	12
Interest expenses	141	141	150	150	178	178
Depreciation	42	128	45	133	55	146
Total expenses	<u>232</u>	<u>318</u>	<u>248</u>	<u>336</u>	<u>295</u>	<u>386</u>
Pretax earnings	236	150	244	156	276	185
Income taxes						
Cash	79	79	83	83	98	98
Deferred	46	—	46	—	48	—
ICC allowable return	<u>\$111</u>	<u>\$ 71</u>	<u>\$115</u>	<u>\$ 73</u>	<u>\$130</u>	<u>\$ 87</u>
	Case A	Case B	Case A	Case B	Case A	Case B
Gross revenues required	\$422	\$468	\$446	\$492	\$523	\$571
Oil shipments (mil. barrels)	92	92	115	115	175	175
Required tariff per barrel	\$4.59	\$5.09	\$3.88	\$4.28	\$2.99	\$3.26

Case A: With flow-through.

Case B: Without flow-through.

(a) Assumes that ARCO Pipeline's interest in TAPS increases to 24% following implementation of a nomination to expand system throughput to 2 million b/d to accommodate incremental North Slope production. The additional cost to ARCO Pipeline involved in the reallocation of ownership interests is estimated by the writer to amount to \$236 million exclusive of unamortized capitalized interest.

(See table on following page)

## Sohio Pipe Line Earnings and Tariffs -- Ex ITC

	1.2 million b/d		1.5 million b/d		2.0 million b/d	
	Book	Tax	Book	Tax	Book	Tax
Revenues	\$756.5	\$756.5	\$798.2	\$798.2	\$795.6	\$795.6
Operating costs	16.7	16.7	20.0	20.0	23.3	23.3
Ad valorem taxes	43.3	43.3	45.7	45.7	45.3	45.3
Amortization of capitalized interest	17.8	17.8	18.3	18.3	18.6	18.6
Interest expense	235.7	235.7	250.7	250.7	247.5	247.5
Depreciation	66.7	203.4	72.0	210.4	76.0	203.4
Total expenses	380.2	516.9	406.7	545.1	410.7	538.1
Pretax earnings	376.3	239.6	391.5	253.1	384.9	257.5
Income taxes						
Cash	126.7	126.7	133.9	133.9	136.2	136.2
Deferred	72.4	—	73.2	—	67.4	—
ICC allowable return	\$177.2	\$112.9	\$184.4	\$119.2	\$181.3	\$121.3
	Case A	Case B	Case A	Case B	Case A	Case B
Gross revenues required	\$684.1	\$756.5	\$725.0	\$798.2	\$728.2	\$795.6
Oil shipments (mil. barrels)	146	146	182.7	182.7	243.4	243.4
Required tariff per barrel	\$4.69	\$5.18	\$3.97	\$4.37	\$2.99	\$3.27

Case A: With flow-through.

Case B: Without flow-through.

From this analysis, it is evident that at intermediate throughput levels, ARCO Pipeline's maximum allowable tariff would be 8¢-9¢ per barrel less than the "representative" case, largely due to the company's advantageous cost of capital. In Sohio's case, the higher relative capital costs obviously result in a greater allowable tariff than for ARCO, but the interesting point is that the company's intended use of proportionally more equity\* in the pipeline should partially offset this effect so that Sohio's calculated per barrel transportation postings should closely approximate the "representative" case.

There are circumstances under which the foregoing differences could become significant. In particular, during a period of less than full pipeline utilization,\*\* actual tariffs would be likely to gravitate toward the maximum levels of the lower cost suppliers of transportation services as producers exercise nominating preferences for such capacity. This tendency would thus preclude the full realization of the maximum allowable ICC return on pipeline investments of companies with the highest rate bases.

\*For comparison, it appears that Exxon's and Mobil's TAPS pipeline capitalizations will consist of 10% or less equity.

\*\*It is possible to see this occurring as capacity is expanded to 2.0 million b/d and depending on the degree of future exploratory success and the timing of the development of the Lisburne and Kuparuk formations.

To better demonstrate the tariff-setting mechanism here, it should also be noted that the *potential* for variation in per barrel tariff is actually wider than indicated by our calculations for ARCO and Sohio. For example, not long ago one owner of a fairly small interest in TAPS was reportedly contemplating funding its entire share of pipeline costs with equity, thus foregoing any rate base credits for interest expense and capitalized interest during construction. Holding all other assumptions constant, the effect of using this financing mix for TAPS would be to reduce the maximum ICC allowed tariff to \$2.75 per barrel for Case A at 1.2 million b/d of throughput, fully \$1.94 below that of Sohio. This is clearly an extreme example with at least some chance that this company will ultimately more closely conform its financing strategy to that of other TAPS owners. Since only a few percentage points of transportation capacity are involved, the downward pulling effect from this one participant would still be limited. However, the comparison helps to illustrate the likely mechanism for tariff determination, and is one more factor dictating caution in simply using a tariff based on an ICC allowed 7% return for a given company.

The investment tax credit is another factor that could give rise to differences in individual company tariffs if such benefits are flowed-through in a manner similar to ICC treatment of deferred taxes. As indicated in both the "representative" tariff analysis and the Financial Position Review sections for Arco and Sohio, ITC benefits will be quite significant for leading TAPS participants. However, due to the differing abilities of Sohio and Arco to utilize portions of their TAPS and field development ITC prior to pipeline startup under the "qualified progress payment" option,\* it is clear that a company's ITC benefits available at commencement of operations will not simply be a function of TAPS and field ownership percentages. Because of the inherently greater difficulty in predicting what Sohio will be able to realize in ITC benefits at given throughput levels, we have excluded this factor from the analysis in the preceding table.

#### Prudhoe Bay Field Profitability

In estimating unit producing profitability, the following assumptions have been made:

- (1) The landed crude oil price on the West Coast will fall within a broad range of \$8-\$12 per barrel toward the end of the decade.
- (2) With additional exploratory activity on the North Slope, delineation of the Lisburne and Kuparuk oil pools and any new pools could contribute sufficient additional reserves to enable pipeline throughput to reach 2 million b/d by mid-1980.

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*\*Under the Tax Reduction Act of 1975, a participant in a project which has a leadtime of more than two years may elect to recognize its ITC associated with qualified expenditures in a given year on a ratable basis over a period of up to five years from 1975. Both ARCO and Sohio have adopted this treatment of ITC, but it appears that while ARCO should be able to fully realize such benefits currently, Sohio may be unable to fully utilize these credits in 1975 and 1976, resulting in its having proportionally greater ITC carryforwards available in 1977.*

- (3) Production operating costs (lifting, depreciation, and amortization) will approximate 44¢ per barrel for the Sadlerochit formation\* and 97¢ for possible incremental production from the Lisburne, Kuparuk, and any other as yet undefined pools. The latter figure involves an admittedly arbitrary assumption that the unit profitability of oil pools other than the Sadlerochit will, at a *minimum*, fall 25¢ per barrel below the comparable figure for the Sadlerochit; this reflects significantly lower per well producibility and higher drilling and completion costs on a unit-of-production amortization basis.
- (4) Royalty payments (12.5%), severance taxes (8%), and ad valorem taxes will approximate 22% of wellhead value, except that severance taxes, as currently indicated by the Bureau of Labor Statistics' index of wholesale crude prices, would be a minimum of 46¢ per barrel for a 10,000 b/d well (34¢ per barrel for a 1,000 b/d well) before provision for credit against the ad valorem tax on in-place reserves.
- (5) Wellhead profits will be taxed at a full 48% Federal rate (before investment tax credits related to field development expenditures) and a 9.36% Alaskan rate. Because of differing individual company treatment of ITC under the terms of the Tax Reduction Act of 1975, the unit profitability figures shown below do not include provision for this credit. (See Financial Position Review section for a discussion of the individual treatment by Arco and Sohio).

Incorporating the foregoing assumptions into projections for unit producing profits, the next table shows their impact under the three throughput configuration cases.

(See table on following page)

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*\*Field development costs are presently estimated at \$2.375 billion to reach producibility of 1.5 million b/d versus \$1.9 billion in our earlier assessment. Field development expenditures include \$100 million for a power station and \$350 million for a gas compression plant. A portion of the cost of these facilities is thus applicable to natural gas production — on a Btu equivalent basis, total field development costs work out to 24¢ per barrel for oil and 1¢ per Mcf for natural gas.*

## Unit Profits

## Pipeline Throughput: 1.2 million b/d

	\$8.00	\$10.00	\$12.00
West Coast price	\$8.00	\$10.00	\$12.00
Pipeline tariff	\$4.68	\$4.68	\$4.68
Tanker costs (a)	<u>0.55</u>	<u>0.55</u>	<u>0.55</u>
Total transportation costs	5.23	5.23	5.23
Wellhead price	2.77	4.77	6.77
Royalty, severance and misc.	0.85	1.13	1.49
Lifting, depreciation & amortization	<u>0.44</u>	<u>0.44</u>	<u>0.44</u>
Total producing costs	1.29	1.57	1.93
Pretax profit	1.48	3.20	4.84
Income taxes at 52.9%	<u>0.78</u>	<u>1.69</u>	<u>2.56</u>
Net income per barrel	\$0.70	\$ 1.51	\$ 2.28

## Pipeline Throughput: 1.5 million b/d

	\$8.00	\$10.00	\$12.00
West Coast price	\$8.00	\$10.00	\$12.00
Pipeline tariff	\$3.96	\$3.96	\$3.96
Tanker costs (a)	<u>0.55</u>	<u>0.55</u>	<u>0.55</u>
Total transportation costs	4.51	4.51	4.51
Wellhead price	3.49	5.49	7.49
Royalty, severance and misc.	0.95	\$1.23	\$1.65
Lifting, depreciation and amortization	<u>0.44</u>	<u>0.44</u>	<u>0.44</u>
Total producing costs	1.39	1.67	2.09
Pretax profit	2.10	3.82	5.40
Income taxes at 52.9%	<u>1.11</u>	<u>2.02</u>	<u>2.86</u>
Net income per barrel	\$0.99	\$ 1.80	\$ 2.54

## Pipeline Throughput: 2.0 million b/d

	\$8.00	\$10.00	\$12.00
West Coast price	\$8.00	\$10.00	\$12.00
Pipeline tariff	\$3.03	\$3.03	\$3.03
Tanker costs (a)	<u>0.55</u>	<u>0.55</u>	<u>0.55</u>
Total transportation costs	3.58	3.58	3.58
Wellhead price	4.42	6.42	8.42
Royalty, severance and misc. (b)	1.05	1.41	1.85
Lifting, depreciation & amortization(c)	<u>0.57</u>	<u>0.57</u>	<u>0.57</u>
Total producing costs	1.62	1.98	2.42
Pretax profit	2.80	4.44	6.00
Income taxes at 52.9%	<u>1.48</u>	<u>2.35</u>	<u>3.17</u>
Net income per barrel	\$1.32	\$ 2.09	\$ 2.83

(a) Includes 5¢ per barrel for the TAPS Liability Fund.

(b) For the \$8 per barrel case, severance tax is a weighted average of 46¢ per barrel for 1,500,000 b/d and 34¢ per barrel for 500,000 b/d. The cents-per-barrel minimum severance tax is superseded by the 8% of wellhead maximum under the \$10 and \$12 per barrel cases.

(c) 1,500,000 b/d at 44¢ per barrel and 500,000 b/d at 97¢ per barrel.

*Financial Position Review***Financial Position Review — The Standard Oil Company (Ohio)**

In our May, 1975 *Basic Report* on this company, five contingencies were identified, which could result in significant additional financing requirements. These included (1) construction delays, (2) system cost revisions, (3) early commitment to expansion of throughput beyond 1.2 million barrels daily (4) enactment of an Alaskan reserves tax, and (5) a decision to proceed with a trans-U.S. pipeline to move North Slope oil to the Midwest. With three of these factors now realities, a review of Sohio's financing needs for the critical 1975-1977 period is in order.

The next table summarizes Sohio's past and projected North Slope expenditures for each increment of pipeline capacity and for development of the main field based on our revisions of estimates for system costs.

**Estimated North Slope Pipeline & Development Costs**  
(In millions)

	Expended Through Mid-1975	Approximate Remaining Obligation	Total
TAPS:			
To 1.2 million b/d	\$ 816	\$1,522	\$2,338(a)
To 2.0 million b/d	—	312	312(b)
Capitalized pipeline interest	84	381	465
TAPS total	<u>\$ 900</u>	<u>\$2,215</u>	<u>\$3,115</u>
Field development	517	749	1,266(c)
Tankers	—	720	720(d)
Total North Slope (c)	<u>\$1,417</u>	<u>\$3,684</u>	<u>\$5,101</u>

- (a) 33.34% of Alyeska's latest cost estimate (\$6,375 million) escalated an additional 10% to \$7,012.5 million.
- (b) Not including additional costs associated with possible realignment of TAPS ownership interests. Thus, 33.34% of Alyeska's latest cost estimate (\$850 million) increased by 10% to \$935 million.
- (c) 53.3% of an estimated \$2,375 million for field development costs necessary to reach 1.5 million b/d.
- (d) Covers construction contracts for eight tankers which the company is in the process of assigning to others in return for charter or lease arrangements.

In all, Sohio's expenditures through mid-1975 amount to just over 32% of the above estimated total expenditures for the North Slope project (excluding chartered tankers). The field development costs shown are directly proportional to our estimate of Sohio's ultimate share of the main unit's reserves. While it is normal that unitized field development costs are equalized, there is no such agreement in this instance. Accordingly, during unitization negotiations, Sohio will be seeking some adjustment against its share of additional costs for development of the eastern half of the field to reflect the company's early development expenditures at lower costs due to lower prices for labor and materials. Since the difference in development costs for the field's two halves could well exceed \$200 million, even partial compensation for Sohio's share of this excess may be a meaningful adjustment in the field development funding requirements shown here.

The financial requirements picture has been further complicated by several other contingencies identified in our May *Basic Report*. These include the company's Alaskan reserves tax obligations for 1976 and 1977 and its preliminary planned expenditures toward a trans-U.S. pipeline to move Alaskan crude into Texas. These considerations have been included in the following revised projections which show the timing and magnitude of Sohio's remaining balance sheet financing requirements through 1977.

Standard Oil (Ohio) Financing 1975-1977 (In millions)					
Sources:	1975		1976	1977	Cumulative Tot. mid-1975-1977
	Actual First Half	Estimated Second Half			
Net income plus deferred taxes (a)	\$ 85.0	\$ 95.0	\$ 190.0	\$448.6	\$ 733.6
Depreciation, depletion, and amort.	39.6	38.4	85.0	130.4	253.8
Funds from operations	<u>\$124.6</u>	<u>\$133.4</u>	<u>\$ 275.0</u>	<u>\$579.0</u>	<u>\$ 987.4</u>
Less:					
Debt maturities	3.4	0.6	11.0	18.0	29.6
Dividends	24.9	25.1	51.0	51.0	127.1
Available from operations	<u>\$ 96.3</u>	<u>\$107.7</u>	<u>\$ 213.0</u>	<u>\$510.0</u>	<u>\$ 830.7</u>
Uses:					
TAPS outlays	\$364.0	\$465.0	\$ 863.7	\$300.3	\$1,629.0
Capitalized pipeline interest	28.0	54.0	196.3	120.5	370.8
Field development	145.0	190.0	367.0(b)	192.0	749.0
Total North Slope expenditures	<u>\$537.0</u>	<u>\$709.0</u>	<u>\$1,427.0</u>	<u>\$612.8</u>	<u>\$2,748.8</u>
Other expenditures (c)					
Existing activities	81.0	141.0	115.0	75.0	331.0
Alaskan reserves tax	—	—	115.0	140.0	255.0
Trans-U.S. pipeline	—	—	75.0	50.0(d)	125.0
Total	<u>\$618.0</u>	<u>\$850.0</u>	<u>\$1,732.0</u>	<u>\$877.8</u>	<u>\$3,459.8</u>
Indicated financing needs	\$521.7	\$742.3	\$1,519.0	\$367.8	\$2,629.1

(a) 1977 figure includes \$88.9 million of producing profit (58.8 million barrels) @ \$1.51/bbl, \$44.5 million of pipeline profit (36.8 million barrels @ \$1.21/bbl) based on pipeline throughput of 600,000 b/d from July 1 through December 31, and 1.2 million b/d thereafter. Also included are estimated TAPS and field development ITC benefits of \$117.5 million.

(b) Assumes realignment of expenditures with unit interests by year-end 1976.

(c) Excludes capital projects to be financed off-balance sheet including \$720 million for tankers and \$200 million for the estimated capitalized value of lease obligations in connection with El Paso natural gas pipeline facilities to be used for TRUSS.

(d) Assumes that 50% of TRUSS pipeline system will be sold to other companies at year-end 1977.

Clearly, 1975-1976 is the period of peak outside funding needs for the company. In 1977 initial cash flow from startup of the pipeline at 600,000 b/d along with a drop off in TAPS expenditures should result in sharply reduced external financing needs. The importance of the \$117.5 million of investment tax credit as a source of earnings in the 1977 projection is particularly noteworthy. Because of these benefits, actual North Slope earnings of 600,000 b/d will be significantly higher than might be suggested by simply applying an estimate for fully taxed margins on the oil at that level of throughput. Non-cash charges including pipeline depreciation (\$16.8 million), capitalized interest amortization (\$4.5 million), and deferred taxes (\$42.6 million) are also quite meaningful factors assisting the 1977 funding picture. Based on all of these considerations, and *assuming that similar ice problems do not develop in 1976*, permitting an on-time startup at the *phase one* volume, it appears that the financial consequences of this year's barge difficulties can be handled within Sohio's current funding plan.

As discussed in some detail in our May report, Sohio's financing of the pipeline should be viewed separately from Prudhoe Bay development and other expenditure needs. To meet its mammoth pipeline requirements of the next few years, Sohio management has already lined up several substantial sources of funds including (1) a \$600 million line of bank credit (of which \$125 million was drawn down as of September 5, 1975), (2) two public debt issues totaling about \$339 million (8 5/8% Notes due 1983 and 9 3/4% Debentures due 1999), and (3) a \$1.75 billion private placement of BP/Sohio pipeline debt of which \$1,186.5 million is net to Sohio. In all, slightly more than \$2.0 billion of pipeline debt has been arranged if it is assumed that bank lines will be completely drawn down and converted to an intermediate term loan, as is Sohio's option. At an assumed 85% debt ratio for total pipeline expenditures, including capitalized interest, additional pipeline debt funding requirements would be on the order of \$325 million if the system cost assumption used here (i.e. 10% further cost escalation) remains intact.

Beyond TAPS debt needs, the remaining capital obligations of the parent company consist of (1) the unfunded portion of the 15% equity in the pipeline, (estimated at \$280 million through 1977\*), (2) the \$749 million of field development work, (3) other capital expenditures of \$331 million, (4) \$255 million of Alaskan reserves tax obligations, and (5) \$125 million toward a trans-U.S. pipeline system. Available to partly meet these \$1,740 million of other requirements, Sohio has \$275 million of unused bank lines (parent's \$300 million facility) and an estimated \$852 million of available cash flow. This leaves an unfunded balance of approximately \$888 million.

Viewed in the foregoing context, management's decision to proceed with an equity offering is hardly surprising, and it seems fair to conclude that the current two million share sale may not be the last. In fact, this analyst's working assumption continues to be the ultimate sale of up to six million new shares prior to commencement of North Slope production. At an average price of \$75 per share, this would cover slightly more than 50% of the remaining external funding needs already outlined, with the balance currently expected to be met by (1) additional parent company debt, (2) inter-company adjustments in field development

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\*This assumes that the parent company's advances to Sohio Pipe Line which total approximately \$110 million, are fully converted to equity.

costs, (3) advance crude sales, and (4) disposition of other corporate assets. The latter two options were both discussed in our earlier report and are available to management under the soon-to-be finalized covenants of the private placement. The next table recapitulates these details of Sohio's financing needs and arrangements to date.

Standard Oil (Ohio)			
Financing Requirements & Arrangements			
(In millions)			
TAPS expenditures	\$2,428	Arranged but unused credit (a)	\$1,355
Capitalized interest	455		
Total TAPS	<u>\$2,883</u>	Remaining TAPS debt to be arranged	
Less expenditures through mid-1975	900	(\$1,680 less \$1,355)	325
Remaining expenditures	<u>\$1,983</u>		
TAPS debt financing to 6/30/75	923	Total additional debt	<u>\$1,680</u>
Remaining expenditures to be financed			
(\$2,883 less \$923)	1,960		
Equity needed (\$2,883 x 15% less		Remaining parent pipeline equity	
\$152) (b)	280	requirement	280
Debt capacity (\$2,883 x 85%, less	1,680		
\$771)(c)	<u>1,680</u>		
Total to be financed	<u>\$1,960</u>	Total	<u>\$1,960</u>

#### Other Activities

Total uses (ex TAPS) less total sources		
(\$1,460 less \$831)	\$ 629	
Non-debt sources (d)	170	
Debt requirements	459	
<b>Combined Financing Needs:</b>		
Debt	\$2,139	
Non debt	450	
Total	\$2,598	

(a) \$1,186.5 million private placement plus \$168.5 million of Sohio Pipe Line's bank credit not backing up \$431.5 million of commercial paper.

(b) Includes \$42 million of existing equity and assumed conversion of \$110 million of parent company advances.

(c) TAPS debt financing through mid-1975 is \$771 million.

(d) \$450 million of assumed proceeds from equity sale less \$280 million contributed to pipeline equity.

Based on the financing expectations just outlined, it appears that Sohio's long-term debt will nearly triple from the mid-1975 level as shown in the following projection of the company's balance sheet position for year-end 1977.

(See table on following page)

## Standard Oil (Ohio)

Partial Balance Sheet Data  
(In millions)

	June 30, 1975 (Unaudited)	December 31, 1977 (Estimated)
Long-term debt	\$1,180	\$3,319(a)
% of total capitalization	48.0%	64.9%
Preferred stock	11	11
% of total capitalization	0.4%	0.2%
Special stock (BP)	25	25
% of total capitalization	1.0%	0.5%
Common shareholders' equity	1,247	1,758
% of total capitalization	50.6%	34.4%
Total capitalization	\$2,463	\$5,115

Totals may not add due to rounding.

(a) Does not include \$720 million of tanker construction/charter obligations and lease commitments of \$200 million for the use of the El Paso natural gas facilities.

If our projections prove reasonably accurate, footnote (a) above could become significant since Sohio management has agreed to a covenant in the TAPS private placement which establishes a \$3,750 million limitation on permitted indebtedness for financing its share of TAPS construction costs, production facilities, and tankers. If the company's non-North Slope related debt is backed out of the estimated 1977 figure, it appears that Sohio could be approaching this ceiling by late 1977. However, one must also note that management has considerable flexibility here in that it is possible to reduce its tanker obligations by arranging to sell oil at Valdez, which in effect shifts tanker commitments to other offtakers. The explicit provision allowing for this possibility suggests that it is an option that will receive active management consideration if further cost escalation or an earnings shortfall from these projections causes Sohio to more closely approach the debt ceiling. In all, further cost escalation for TAPS and field development, along with the Alaskan reserves tax, have certainly made Sohio's financing task no less formidable than at the time of our last *Basic Report*; however, Sohio's arrangements to date — including an all but concluded private placement financing — provide good evidence of the continuing manageability of the financial situation.

#### Financial Position Review — Atlantic Richfield Company

Based on our revised cost parameters for pipeline construction and Prudhoe Bay field development, the following table summarizes Arco's past and projected cost position.

(See table on following page)

## Atlantic Richfield

Estimated North Slope Pipeline and Development Costs  
(In millions)

	Expended Through 1974	Approximate Remaining Obligation	Total
TAPS:			
To 1.2 million b/d	\$285	\$1,188 (a)	\$1,473(b)
To 2.0 million b/d (c)	—	196	196(d)
Capitalized pipeline interest through mid-1977 (c)	25	250	275
TAPS total	\$310	\$1,634	\$1,944
Field development	79	341	420(f)
Total North Slope	\$389	\$1,975	\$2,364

(a) Includes \$215 million spent through May 31, 1975.

(b) 21% of Alyeska's latest cost estimate (\$6,375 million) escalated by 10% to \$7,012.5 million.

(c) Not including additional costs associated with a future realignment of TAPS ownership interests.

(d) 21% of Alyeska's latest cost estimate (\$850 million) escalated by 10% to \$935 million.

(f) 21% of an estimated \$2,375 million of total field development costs necessary to reach producibility of 1.5 million b/d.

Out of total North Slope expenditures of \$2,364 million outlined above, \$389 million, or 16%, had been expended through 1974. Based on a number of unspecified assumptions, Arco management's own estimate of the cost to develop its share of the proven oil and gas reserves in the main Prudhoe Bay field through 1990 approximates \$2.5 billion. As discussed in the Sohio Financial Position section, field development expenditures do not take into account the possibility that the time value of early expenditures made by Sohio for the western operating area will be recognized under field unitization.

Including an incremental financing requirement necessitated by the passage of the Alaskan reserves tax and other appropriate modifications to the writer's earlier assumptions, the next table updates Arco's sources and uses of funds and indicated financing needs over the 1975-1977 period.

(See table on following page)

## Atlantic Richfield

Projected Financing Needs 1975-1977  
(In millions)

	1975	1976	1977	Cumulative Total
<b>Sources:</b>				
Net income (a)	\$ 320	\$ 383	\$ 599	\$1,302
DD&A	375	425	494	1,294
Dry hole drilling costs	90	90	90	270
Deferred Federal income taxes	50	50	80	180
Cash flow from operations	\$ 835	\$ 948	\$1,263	\$3,046
BP note receivable	58	58	—	116
Sale of assets (b)	16	—	—	16
Issues of common stock	—	—	—	—
Long-term borrowings (b)	500	—	—	500
Total sources	\$1,409	\$1,006	\$1,263	\$3,678
<b>Uses:</b>				
TAPS outlays	\$ 512	\$ 544	\$ 188	\$1,244
Capitalized interest	61	110	79	250
North Slope development	200	144	76	420
Alaskan reserves tax	—	55	65	120
Capital expenditures (ex. No.Slope) (c)(d)	900	900	1,000	2,800
Cash dividends	157	157	157	471
Debt repayments	48(b)	117	24	189
Total uses	\$1,878	\$2,027	\$1,589	\$5,494
Indicated financing needs	\$ 469	\$1,021	\$ 326	\$1,816

(a) 1977 figure includes \$36 million of producing profit (23.2 million barrels @ \$1.54/bbl) and \$28 million of pipeline profit (23.2 million barrels @ \$1.21/bbl) based on pipeline throughput of 600,000 b/d from July 1 through year-end. Also included are estimated TAPS and field development ITC benefits of \$113.8 million.

(b) Through June 30, 1975.

(c) Excludes capital projects financed off-balance sheet estimated at \$300 million, \$300 million, and \$150 million in 1975, 1976, and 1977, respectively.

(d) Includes dry hole drilling costs shown above.

As a result of an improved level of 1977 cash flow associated with the initial buildup of Prudhoe Bay production and an assumed lower level of non-Alaskan capital spending, Arco's indicated 1975-1977 funds shortfall of \$1,816 million compares quite favorably with the figure of \$2,140 million contained in our May report, despite an intervening increase in both pipeline system and field development costs and the passage of the Alaskan reserves tax. Even with the assumption of restricted output of 600,000 b/d from July 1, 1977 through year-end, the writer estimates Arco will earn \$178 million (\$3.08 per share) from the North Slope for 1977. Also, depreciation and amortization charges and deferred Federal income taxes (calculated on the basis of a normalized pipeline throughput rate of 1.2 million b/d) are estimated to contribute \$19 million and \$21 million, respectively, to internally generated funds during the first six months of project operation.

North Slope derived investment tax credit benefits obviously represent a non-recurring source of earnings; nevertheless, the assumed availability of these credits provide yet another source of funds to meet pre-startup financing needs and a potentially sizable benefit to reported earnings in the 1975-1977 period under progress payment rules newly enacted under the Tax Reduction Act of 1975 (see footnote on page 18 for discussion of this treatment). To illustrate the amounts involved for Arco, the writer estimates ITC benefits will total to \$12 million (21¢ per share), \$37 million (64¢ per share) and \$114 million (\$1.98 per share) for 1975, 1976, and 1977, respectively. In succeeding years, as operating earnings begin their impressive rise, the amount of ITC will drop precipitously.

Once again, in attempting to gain additional insight into management's possible financing strategy, it is useful to segregate the TAPS project from the remainder of Arco's corporate activities. Assuming a 90%/10% and 30%/70% debt/equity ratio for TAPS and other corporate projects, respectively, the following breakdown of financing requirements results.

Financing Requirements & Arrangements  
(In millions)

TAPS Project		Other Activities	
TAPS expenditures	\$1,529	Total uses (ex. TAPS) less total sources (ex. TAPS borrowings)	\$822
Capitalized interest	275	(\$4,000 less \$3,178)	
Total TAPS	<u>\$1,804</u>		
Less expenditures through 1974	<u>310</u>		
Remaining expenditures	\$1,494	Non-debt needed (\$822 x 70%)	\$575
TAPS financing to date(a)	865		
Remaining expenditures to be financed(\$1,804 less \$865)	\$ 939	Debt capacity (\$822 x 30%)	\$247
Equity needed (\$1,804 x 10% less \$75)	\$ 105		
Debt capacity (\$1,804 x 90% less \$790)	<u>834</u>		
Total to be financed	\$ 939	Total to be financed	\$822
Combined financing needs	\$1,761		
Debt	\$1,081		
Non-debt	\$ 680		

(a) Financing to date has included \$200 million of 8.7% Guaranteed Notes of 1981, \$250 million of 8% Guaranteed Notes of 1982; \$250 million of 8 3/8% Guaranteed Notes of 1983; and \$90 million of other intermediate and long-term debt. To cover short-term borrowing requirements, ARCO Pipeline also has available \$250 million of the parent company's unused \$532 million credit lines and a \$150 million four-year backup credit from a group of European and Canadian banks. Also included in financing to date is \$75 million of equity which is arbitrarily assumed to be available from ARCO Pipeline Company's existing shareholders' equity.

Arco has available a number of options to cover its \$680 million of imputed non-debt financing requirements. These include: (1) property sales, (2) a drawdown of working capital (3) sale of common stock, (4) advance payments by natural gas transmission companies, (5) advance sales of crude and/or natural gas, and (6) a further cutback in the level of non-Alaskan capital expenditures. Funds from property sales could be potentially significant if the company can successfully divest itself of the East Chicago refinery and the bulk of its Midcontinent marketing properties. Recent agreements have been concluded with three natural gas transmission companies providing for interest-free advances to Arco totaling \$720 million to finance the costs of exploration, development, and production of natural gas from the Prudhoe Bay field. Assuming necessary regulatory approvals are forthcoming, a sizable portion of these monies could be forthcoming by year-end 1977. Even with the likelihood of expenditures associated with the company's participation in the construction and/or lease of a trans-U.S. pipeline to move surplus North Slope crude to midcontinent markets prior to 1978, Arco continues to enjoy a comfortable financing burden.

Based on the financing pattern outlined above, including the sale of one million common shares at \$100 per share, the next table shows balance sheet data for 1974 and a projection for year-end 1977.

## Atlantic Richfield

Partial Balance Sheet Data  
(In millions)

	As of December 31	
	1974	1977
Long-term debt	\$1,219	\$2,800
% total capital.	26%(b)	39%
Minority interest	\$ 68	--
% total capital.	1%	--
Preferred stock	\$ 49	\$ 49
% total capital.	1%	1%
Shareholders' equity	\$3,406	\$4,337
% total capital.	72%	60%
Total capitalization	\$4,742	\$7,186
Common shrs. outstdg.(c)	56.7	57.7
Book value per share	\$60.07	\$75.16

(a) Including \$500 million of long-term debt issued to date in 1975.

(b) Including the present value of noncapitalized financing leases (\$343 million), the ratio becomes 31%.

(c) Including common share equivalents (representing an additional 10,615,249 shares as of March 31, 1975).

As indicated in the right-hand column of the table, Arco's December 31, 1977 long-term debt comprises 39% of total capitalization — a position nearly identical to that developed in our May report. Unlike Sohio, where the parent company itself faces a significant financing burden which dictates some reliance on the sale of equity, Arco's assumed use of common stock rests mainly on cost of capital considerations.

### Longer Term Earnings

#### Longer Term Earnings — The Standard Oil Company (Ohio)

The foregoing revisions in North Slope pipeline and production economics point to the need to also adjust our earlier projections for Sohio's earnings power by 1981. Additional specific assumptions underlying these revisions include:

- (1) Sohio Pipe Line Company's interest in TAPS will remain at 33.34%.
- (2) BP-Sohio's estimated 53.3% ownership in the main Prudhoe unit will provide Sohio with a similar percentage of actual production of 1.2 million b/d.
- (3) When output from the main unit reaches its estimated 1.5 million b/d potential, BP-Sohio's share will approximate 800,000 b/d (still 53.3% of the total); but under the terms of the merger agreement Sohio's interest before royalty will be 714,000 b/d. (The merger agreement is summarized in Appendix I of our May *Basic Report*.)
- (4) BP-Sohio's combined share of an additional 500,000 b/d of production will be 125,000 b/d or one quarter of the increment of which 31,250 b/d or 25% would accrue to Sohio under the BP merger agreement.
- (5) In view of the enormous political, procedural and economic difficulties involved in completing the natural gas transmission system to tap Prudhoe Bay gas, this earnings source is likely to start up sometime after 1981.

(See table on following page)

## Standard Oil (Ohio)

Potential 1981 Earnings  
(In millions)

Crude Price (Signal Hill 27°)	\$8.00	\$10.00	\$12.00
Production profit per barrel	\$1.20-\$1.39	\$1.92-\$2.18	\$2.67-\$2.92
North Slope production:			
Sadlerochit pool	\$362.8	\$566.4	\$752.5
Other pools (Lisburne/Kuparuk)	13.7	21.9	30.3
Total production profit	\$376.5	\$588.3	\$782.8
33.34% of equity in TAPS	177.9	177.9	177.9
Earnings from existing operations	150.0	150.0	150.0
Cost of added interest & deferred interest amortization	(33.0)	(33.0)	(33.0)
Total net earnings	\$671.4	\$883.2	\$1,077.7
Earnings per share	\$10.31	\$13.56	\$16.55

The earnings estimated here for the \$10.00 and \$12.00 per barrel crude prices correspond quite closely to those we had previously projected for \$8.00 and \$10.00 prevailing realizations under our earlier assumptions involving lower system costs and about \$55 million in 1981 natural gas profits. This illustrates how important the crude price scenario for 1980 and beyond has become for this highly capital intensive project. To date, limited prospects for other U.S. producing provinces and the continued viability of OPEC have provided good support for the view that lower 48 U.S. realizations will be more than sufficient to keep Valdez netbacks attractive. On balance, a sanguine view of crude price prospects is still appropriate, with even a bias toward the upper end of the range used here. However, the dynamics of the situation as outlined in the discussions on the State of Alaska and overall pipeline/wellhead economics dictate ongoing analysis over a range of possible prices and close monitorship of such evolving political elements, especially given the state's role as royalty owner likely to take its crude *in-kind*.

## Longer Term Earnings – Atlantic Richfield Company

The incorporation of the revised pipeline and Prudhoe Bay field profitability parameters developed above, with the following specific set of assumptions for Arco, leads to an outline of possible 1981 earnings power for this large prospective producer of North Slope oil and gas.

## Assumptions:

- (1) ARCO Pipeline Company's ultimate interest in TAPS will approach 24%.

- (2) Atlantic Richfield will have an approximate 21% interest in the main Prudhoe Bay reservoir (Sadlerochit) and as much as 33% of the additional 500,000 b/d of North Slope-production, provided it comes from currently leased acreage (i.e., not the Beaufort Sea), that may be needed to attain peak pipeline throughput of 2 million b/d in the 1980's.
- (3) Existing operations will earn \$9 per share in 1981, an 8% growth rate from 1975's base, mainly reflecting improved oil and gas realizations superimposed on a declining rate of output, and initial *modest* returns accompanying the company's aggressive petrochemical expansion program. To the extent that a higher crude price assumption has been used, a corresponding adjustment has been made to the expected earnings contribution from ARCO Chemical Company.
- (4) In view of the overwhelming political, procedural, and economic difficulties involved in completing a natural gas transmission system to tap Prudhoe Bay gas supplies, earnings from this source are unlikely in a 1981 time frame and have consequently been excluded from the following analysis.

Atlantic Richfield			
Potential 1981 Earnings (In millions)			
Crude price (Signal Hill 27°)	\$8.00	\$10.00	\$12.00
Production profit per barrel	\$1.20-\$1.39	\$1.93-\$2.18	\$2.66-\$2.91
North Slope Production:			
Sadlerochit pool	\$159.2	\$250.6	\$334.6
Other pools (Lisburne / Kuparuk)	72.3	116.2	160.2
Total production profit	\$231.5	\$366.8	\$494.8
24% equity in TAPS	127.5	127.5	127.5
Earnings from existing operations	518.8	518.8	518.8
Total net earnings	\$877.8	\$1,013.1	\$1,141.1
Earnings per share	\$15.21	\$17.56	\$19.78

Earnings figures derived for the \$10 and \$12 per barrel cases conform quite closely with the results obtained using a price range of \$8-\$10 per barrel and natural gas earnings of \$1.08 per share in our May report. This demonstrates the importance that highly-unpredictable future trends in crude oil prices assume in any overall assessment of the economics of the North Slope project. For example, as is evident in the table above, the difference between the \$10 and \$12 per barrel price scenarios gives rise to a \$128 million (\$2.22 per share) variance in total North Slope crude oil production profit. To date, the need for a high price dictated by the marginal economics of new U.S. exploration\* and the continued viability of OPEC have provided good support for our view that the likely prevailing level of lower-48 crude oil prices will be more than adequate to keep Valdez netbacks attractive.

H. C. WAINWRIGHT & CO.  
Paul R. Leibman  
Thomas A. Petrie

\*A recent study by an independent petroleum consultant concluded that for a producer to earn a 15% DCF return on new oil investments after taxes in 1974, a \$12.73 per barrel gross oil price at the wellhead would be required.



*Council file*

601 WEST FIFTH AVENUE, ANCHORAGE, ALASKA 99501 • 907-279-1424

January 17, 1975

Mr. John M. Elliott  
Executive Director  
Legislative Affairs Agency  
State of Alaska  
Pouch Y - State Capitol  
Juneau, Alaska 99801

Dear Mr. Elliott:

Thank you for your letter of January 9, 1975 inviting our firm to propose on the consulting engagement being directed by your Legislative Council to study the Alaska corporate income tax structure. As you correctly noted in your letter, our firm, in particular our Anchorage office, has closely followed the development of this study since its first public announcement. After reviewing your specific outline of matters to be covered in the study, however, we have had to reconsider the desirability of becoming involved with your study at its present stage. Our decision, regrettably, is that the immediate study objectives, particularly those outlined as points 1, 2, 3 and 4 in your letter, (copy enclosed) do not require the specific capabilities and expertise that our firm offers. Therefore, for reasons which I will briefly describe, we respectfully decline your invitation to consider our services as consultants for this stage of the Alaska corporate income tax study. I assure you of our continued interest in your Council's efforts and our willingness to assist in any facet of the undertaking where our firm's experience and expertise may be particularly beneficial.

Since we have expressed a continued interest in the development of this study over a period of several months, I would like to briefly describe the considerations that led to the decision that our participation as primary consultants at this stage of the corporate income tax study would not provide the most effective means of accomplishing the Council's outlined study objectives. Objectives 1, 2 and 3 outlined in your letter are in the nature of a statistical abstract of tax information which can only be gleaned from confidential tax returns. This information will almost certainly have to be compiled within and by the Department of Revenue. Even if such

AGO 531876 +

January 17, 1975

information should be made available for review by your consultant, we feel that our firm's continuing association and ethical responsibilities to our Alaska corporate and business clients, and the competitive ethics within our profession, would preclude our involvement with any such confidential records which might pertain to either our clients or our clients' competitors.

Study objective 5 presents practical as well as theoretical tax considerations where the experience and expertise of Price Waterhouse & Co. could prove very beneficial to your study group. Consideration of the questions outlined in objective 5, however, depend entirely on the development of reliable and meaningful statistical information under objectives 1, 2 and 3.

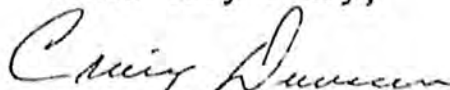
The additional items for consideration which you have listed in your letter seem to address several narrow areas which the Council may feel represent special interest "loopholes" or merely untapped revenue sources within the corporate income tax framework. In either case, we feel that our firm's consideration of such questions would place us in an untenable conflict of interest with clients that might be affected by legislative changes resulting from our recommendations. A conflict of interest situation would not be acceptable, of course, to either the Council, our firm or our clients.

\* \* \* \* \*

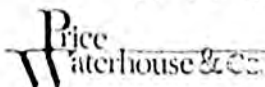
We would like to once again express our thanks for the time you have taken to answer questions regarding your Council's study and your extension of the opportunity to propose. We are vitally interested in Alaska and the Alaskan community and we look for an opportunity to express our interest through service to the community and to the State. As a final item of interest, I am enclosing a copy of the study by the Governor's Commission on Tax Reform for the State of Connecticut. I obtained this copy from Mr. Carl Ward, a partner in our Hartford office and a member of the Commission. Perhaps this example of what another state has done might provide your Council with additional ideas for consideration during the course of your study.

Again, we continue to be interested in the progress of your study and we express our appreciation for your consideration.

Yours very truly,

  
C. P. Duncan

Enclosures-  
As stated

  
Price  
Waterhouse & Co.

AGO 531877

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

January 9, 1975

Mr. Craig Duncan  
Price Waterhouse & Company  
601 West Fifth Avenue  
Anchorage, Alaska 99501

Dear Mr. Duncan:

I am writing at this time in regard to the resolution passed during the 1974 legislative session requesting the Legislative Council to conduct a study of corporate income taxes in Alaska. Although the resolution called for the study to be presented to the legislature by the tenth day of the 1975 session, circumstances prevented the study from commencing until this time. Now, however, the Council has made a firm determination to proceed with the study, realizing that the time limits set forth in the resolution cannot be met. The Council is desirous of getting someone on board immediately, however, to commence work and to complete the study at the earliest possible time feasible. Price Waterhouse has expressed an interest in being considered when persons or firms were being considered to conduct the study. This letter is a formal invitation for Price Waterhouse to make a specific proposal to the Council should that be your wish.

Matters which the Council desires to be covered in the study are the following:

1. An analysis of corporate activity in Alaska by industry, size of firm and location;
2. What is the combined tax burden on various industries and firms of various sizes of the income, business license, property, severance and other state taxes;
3. To what extent are multi-state or multi-national corporations involved in Alaska industry - what is the amount of income apportioned to Alaska for multi-state or multi-national corporations doing business in Alaska;
4. How good is corporate compliance with the state tax laws, the multi-state compact, and the foreign tax treaty; and

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Jan. 9, 1975

5. What would be the effect on State revenues and corporate tax burdens of deleting or otherwise changing special provisions (such as the depletion allowances, foreign tax credits, etc.) or changing the tax rates or tax structure. Would specific changes cause any significant change in incentives toward corporate activity or affect long range growth in Alaska?

Other items discussed with a view for inclusion, some of which would obviously be inherent in an examination of the matters listed above, would be:

1. Are particular industries or other classes of firms posing particular problems;
2. What specific reporting methods enable the avoidance of Alaska taxes and how much is involved;
3. What enforcement efforts are there and are they adequate. What is the Federal role and the multi-state role;
4. What potential revenues stand to be collected from various industries and various sizes of firms;
5. What special provisions relating to the taxation of corporations in general (ADR, DISC, etc.) and specific industries in particular (depletion allowances, foreign tax credits, etc.) currently give rise to significant "tax expenditures" by the state or will in the future;
6. How does Alaska's situation compare with other states, and
7. What, if any, legislation is needed?

If there are other pertinent areas that Price Waterhouse might feel should be included, you are invited to include same in any proposal forwarded to the Council.

Because of the fact that the present Legislative Council will go out of existence once the 1975 legislative session convenes, time is a critical factor as the Council is desirous of choosing the firm or person to conduct the study before that time. The next (and most likely the last) meeting of the Council will be held in Juneau on Friday, January 17th. If at all possible, a written proposal should be before the Council at that meeting. You are cordially invited also to have a representative make an oral presentation before the Council if you so desire. Estimated costs, approaches to meeting the Council's requirements, and some sort of preliminary timetable for the

Mr. Craig Duncan

-3-

Jan. 9, 1975

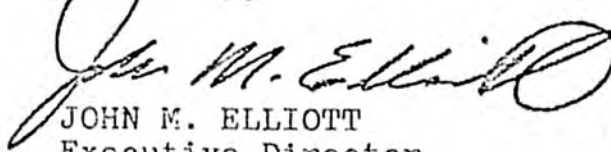
completion of the study should be included in any proposal you might desire to make.

If you have any questions concerning this matter, please feel free to give me a call at any time.

For your information, the meeting on the 17th will be held in this office (Room 109, State Capitol Building) commencing at 10:00 a.m. It will be possible, however, for me to set this matter for the afternoon if you desire to have someone present. That way, he could come to Juneau on the morning flight rather than having to arrive a day before the meeting.

Finally, a copy of the resolution, as passed by the legislature, is enclosed for your information and perusal.

Sincerely,



JOHN M. ELLIOTT  
Executive Director

JME:hg

Enclosure: HCR No. 78, 1974

cc: Rep. Richard L. McVeigh  
Rep. Tom Fink  
Sen. Robert H. Ziegler, Sr.

AGO 531880

## Wertheim

Joseph S. Clark, Jr.

January 16, 1976

ALASKAN TAX LEGISLATION

We continue to view the shares of Arco (88) and Sohio (70) as attractive long-term investments, although if Alaskan State Senator Huber's proposed tax legislation passes in its entirety, the stocks could demonstrate further nearer-term weakness as questions of still higher potential taxes would continue. In analyzing the investment issues involved, it seems appropriate to deal first with the financial impact of the proposed taxes on the companies' estimated 1978 earnings, and second, to analyze the possibility of further adverse tax legislation by Alaska at some future date. It is clear, for instance, that investors have not forgotten the recent history of rising oil company taxation worldwide, although investors sporadically seem to forget that Alaska is a state. While, of course, one can only speculate at the present time, we believe that while the Alaskan legislature will probably raise taxes somewhat and may raise taxes again in the future somewhat, tax levels will not be radically changed, and that over the long run, the profitability of Alaskan oil will equal or exceed the \$2.00 per barrel which we have assumed as a base level to generate 1978 profits of \$11.00 per share for Sohio and \$13.15 per share for Arco. Consequently, we believe that once the Alaskan tax issue is thoroughly discussed, it will be put to rest in a rational manner.

Our analysis is based on recent conversations with the oil companies involved, with Senator Huber and his staff, and with officials in the Alaskan Department of Revenue.

At this point in time, it is perhaps unnecessary to note that the Alaskan legislature will convene on January 19th to consider, among other legislation, a proposal by State Senator Huber to increase state taxes on Alaskan oil production. Senator Huber, a ~~liberal~~ Democrat but not an environmentalist, who is Chairman of the State Senate's ~~Ways & Means Committee~~ *Special Committee on Taxation and Revenue* and is running for reelection this year, has for several months been attempting to construct a method of increasing future state revenues via higher taxes on Prudhoe Bay production. Presently, the severance tax is based on a sliding scale relating to the production volume by well and should average 8% for the high output Prudhoe Bay wells. The state income tax, which, like the severance tax, is deductible for Federal income tax purposes, currently is set at 9.36%.

Recognizing that our Alyeska pipeline tariff estimates may be lower than those projected by others (see Sohio Investment Recommendation dated

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March 24, 1975 for a complete discussion of our tariff assumptions), the following table summarizes our estimates of Prudhoe Bay profitability per barrel based on the current Alaskan tax structure. We have used two price assumptions for delivery in California, \$9.00 and \$12.00 per barrel:

	----- Per Barrel -----	
California Price	\$9.00	\$12.00
Tanker Cost	<u>0.50</u>	<u>0.50</u>
Valdez Value	\$8.50	\$11.50
Pipeline Tariff	<u>2.60</u>	<u>2.60</u>
P. B. Wellhead Price	\$5.90	\$ 8.90
Operating Costs	\$0.45	\$0.45
Severance Tax (8%)	0.47	0.71
Royalty (12.5%)	0.74	1.11
State Tax (9.36%)	0.40	0.62
Federal Tax (48%)	<u>1.84</u>	<u>2.88</u>
	<u>3.90</u>	<u>5.77</u>
Profit Per Barrel	<u>\$2.00</u>	<u>\$ 3.13</u>

Senator Huber's tax proposals have not yet been reduced to legislative form and therefore there are provisions that must be subject to some conjecture at the present time. Basically, as they relate to Prudhoe Bay production, they consist of three parts, an increase in the average severance tax from 8% to 13.5%, a clearer definition of the present 9.36% state income tax insofar as the oil industry is concerned (Huber feels that for one reason or another the full tax rate has not been paid by the oil companies on Cook Inlet production), and a so-called excess value or "windfall" income tax levied on unit profits above a certain level. Senator Huber's thinking has not yet been precisely defined as to the cut-off point between the 9.36% tax and the higher windfall tax, nor has the proposed windfall rate been defined. However, his current thinking on the latter item ranges from 25%-50%, levels that may well be unacceptable to business interests in the House. The proposed cut-off point seems to be based on profits derived from delivered California prices above \$7-\$9 per barrel. For example, if the cut-off price in California was \$8.00 per barrel and the oil companies' actual realization was \$12 per barrel, a state tax of, say, 37 1/2% would be applied to the \$4 per barrel difference.

Using the preceding rough assumptions, \$12 oil in California might be taxed by Alaska as follows:

	<u>Cut-Off Price</u>	Per Barrel	<u>"Excess" Price</u>	<u>Total</u>
California Price	\$8.00		\$4.00	\$12.00
Tanker Cost	<u>0.50</u>		-	<u>0.50</u>
Valdez Value	\$7.50		\$4.00	\$11.50
Pipeline Tariff	<u>2.60</u>		-	<u>2.60</u>
P. B. Wellhead Price	\$4.90		\$4.00	\$ 8.90
Operating Costs	\$0.45	\$ -	\$0.45	
Severance Tax (13.5%)	0.66	0.54	1.20	
Royalty (12.5%)	0.61	0.50	1.11	
State Tax (9.36%)	0.30	1.11	1.41	
Federal Tax (48%)	<u>1.38</u>	(37.5%) 0.89	<u>2.28</u>	
	<u>3.40</u>		<u>3.04</u>	<u>6.44</u>
Profit Per Barrel	\$1.50		\$0.96	\$ 2.46

The arithmetic of \$9 oil in California would be as follows:

	<u>Cut-Off Price</u>	Per Barrel	<u>"Excess" Price</u>	<u>Total</u>
California Price	\$8.00		\$1.00	\$9.00
Tanker Cost	<u>0.50</u>		-	<u>0.50</u>
Valdez Value	\$7.50		\$1.00	\$8.50
Pipeline Tariff	<u>2.60</u>		-	<u>2.60</u>
P. B. Wellhead Price	\$4.90		\$1.00	\$5.90
Operating Costs	\$0.45	\$ -	\$0.45	
Severance Tax (13.5%)	0.66	0.14	0.80	
Royalty (12.5%)	0.61	0.13	0.74	
State Tax (9.36%)	0.30	0.27	0.57	
Federal Tax (48%)	<u>1.38</u>	(37.5%) 0.22	<u>1.60</u>	
	<u>3.40</u>		<u>0.76</u>	<u>4.16</u>
Profit Per Barrel	\$1.50		\$0.24	\$1.74

Our present thinking is that the two preceding tables, which obviously are based on only one of many possible versions of Senator Huber's proposals to be modified by the legislature, represent worst case examples in terms of Alaskan taxation. We will outline our thinking on this subject later in this report.

The following table summarizes our per barrel net profit calculations:

	<u>\$9 Cal. Oil</u>	<u>\$12 Cal. Oil</u>
	----- Per Barrel -----	
Existing State Taxes	\$2.00	\$3.13
Possible New State Taxes	1.74	2.46

The preceding Prudhoe Bay net profit estimates translate into the following earnings projections for Arco and Sohio<sup>1</sup>:

	Est. 1978 EPS		Est. 1978 EPS		% Decrease	
	<u>Present State Taxes</u>		<u>Possible New Taxes</u>			
	<u>\$9 Oil</u>	<u>\$12 Oil</u>	<u>\$9 Oil</u>	<u>\$12 Oil</u>		
Arco	\$13.15	\$14.90	\$12.75	\$13.85	(3)	(8)
Sohio	11.00	15.20	9.80	12.60	(12)	(17)

As noted earlier, the question of increased Alaskan taxation clearly involves more complex investment issues than those outlined in the preceding mechanical earnings computations. Short term, the investor must weigh the market's reaction to either positive or negative oil industry developments during the soon-to-be-convened Alaskan legislative session. Longer term, if taxes are raised this session, he must consider the logic for and against further increases at some later date. Critical in the investor's appraisal is his judgment as to what level of profitability is being discounted in the marketplace at the present time.

In sifting the available evidence, it is difficult to measure the Alaskan legislature's longer-range appetite for tax revenues from the oil industry. The current mood of the Alaskan legislature is difficult to assess. There are strong currents of environmentalist opinion favoring a slower-paced development of the state's resources. On the other hand, there are elements that believe industry should be given attractive incentives in natural resource development to reduce unemployment and to provide a broad industry base. Several non-oil company government observers in Juneau believe that taxes will go up this session, but that the House (the source of financial legislation) will balk at legislation as radical as Senator Huber seems ready to introduce. The Senator himself acknowledges that since each of his three tax proposals must be introduced as a separate bill to stand on its individual merits, rather than as a single package, his chances of success are diminished.

Unfortunately, the lower-48 oil producing states' oil tax structures, which do not differ materially from Alaska's present tax levels, provide little in the way of historical guidance. In contrast to Alaska, local oil taxation policies in these states have been and continue to be, influenced by strongly-entrenched independent oil and gas political interests. Similarly, it is difficult to find legal precedents other than Federal intervention that would prevent

<sup>1</sup> For background on these earnings estimates, see Investment Recommendations on Arco and Sohio dated 5/19/75 and 3/24/75, respectively, and subsequent Follow-Up Reports.

the state from raising taxes well above current levels, unless the oil companies could claim that such taxes were confiscatory or discriminatory in nature.

While we do not consider our impression of Senator Huber via long-distance telephone as particularly definitive, we got the impression of a realistic, practical man with Alaska's best interest at heart. He made two observations that seem pertinent. First, when asked whether or not he believed that tax increases in the coming session would be a prelude to further hikes in the future, he replied that his proposals were the basis for a "stable" state taxation plan that would be fair for the petroleum and other extractive industries. Second, he indicated that he was extremely conscious of the Federal government's attitude toward Alaska's taxation policies, since each \$1.00 increase in state taxes diminished Federal revenues by \$.48. He noted that Federal grants would continue to be a significant although diminishing contributor to the state's budget<sup>2</sup>, and that Washington's attitudes toward state land use, Naval Petroleum Reserve 4, etc. were key factors in determining Alaska's long-term taxation policies.

In the above connection, it might be noted that the recently enacted Federal Energy Policy Act represented a compromise between those national legislators who felt that a high price is required (\$11.28 or more) in order to stimulate domestic energy production, and those who believed that inflation and other domestic political problems require a lower cost of energy to consumers. Since Alaskan wellhead prices will be substantially below the U.S. lower-48 new oil price of at least \$11.28, and since more future oil is expected to be found in Alaska than in other domestic areas (and at higher risk

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<sup>2</sup> It is interesting to analyze Alaska's state budget over the next several years. While the \$900 million received in Prudhoe Bay bonuses has been long since spent, the fiscal (June 30) 1976 budget calls for a balance of outlays and receipts (including \$212 million from the reserve tax) at \$620 million. A similar balance at \$700 million is projected for fiscal 1977, including the last reserve tax payment. For fiscal 1976 and 1977, a non-oil industry revenue base of \$400 million and \$410 million, respectively, is projected. While state outlays are certain to increase rapidly in subsequent years, we estimate that incremental state revenues in 1978 at 1.2 million B/D from Prudhoe Bay will approximate \$1.3 billion, based on \$12 oil in California and the existing Alaskan tax structure. Assuming all Senator Huber's tax proposals become law, the \$1.3 billion production revenue figure would rise to \$1.7 billion, thereby implying total state revenues of \$1.7 billion and \$2.1 billion, respectively, before taking into account repayment of the reserve tax from severance tax revenues.

and cost), it seems reasonable to question whether or not the Federal government will be anxious to see the State of Alaska reduce incentives significantly without, on the other hand, reducing the price to lower-48 consumers. It is this factor, aside from the question of fair play or other potential business interests in Alaska, which will ultimately limit the level of state taxation, and which distinguishes the Alaskan situation from that of a foreign country. It also is interesting to note that if Alaska were to pass a bill comparable to Senator Huber's proposed excess value tax, other states in the lower-48 which have additional revenue requirements or significant oil reserves, such as California, Texas, Oklahoma, Louisiana, etc., might be expected to develop tax measures constructed in such a way as to place a windfall tax on certain profit levels. Production under certain levels and for independents could receive specific benefits, as is the case with depletion and stripper output today. For example, Marathon's profitable Yates production theoretically could be subject to windfall tax proposals which would not necessarily have the same impact on the smaller producer. Thus, the Federal government ultimately has to protect the basic integrity of its energy policy and its revenue sources, and consequently at some point would limit any extreme Alaskan tax measures.

Accordingly, in the last analysis, we believe that the Federal government will represent the ultimate controlling factor insofar as Alaskan taxation policies are concerned. In this connection, it is interesting to note that based on our unit profitability table on page 3, Alaska's total tax take amounts to \$3.72 per barrel, some 63% above our estimated Federal revenue of only \$2.28 per barrel. As noted above, it seems illogical to us that Washington will permit Alaska to undermine Federal revenues from a major natural resource, particularly in view of the enormous budget surpluses projected for Alaska by the end of the decade. Thus, the issue, if indeed it must be raised, may involve the historical question of Federal vs. states rights, an area where we believe the Federal government will prevail.

Regarding the current investment merits of Arco and Sohio, we believe that a total investment rate of return analysis, including dividend yield, is a helpful tool in such a determination. In the table that follows, we list for each company a series of terminal (1978) multiple alternatives ranging from 9 to 13 times based on a \$2.50 Prudhoe Bay wellhead profit, a level we view as a reasonable expectation at the present time. At this level of profitability, we estimate that Arco will earn \$13.90 per share and Sohio \$12.75 per share in 1978.

Two-Year Compound Annual Return

<u>Assumed Multiple</u>	<u>9x</u>	<u>10x</u>	<u>11x</u>	<u>12x</u>	<u>13x</u>
<u>Arco (90--1/15/76 Close)</u>					
1978 Objective Price	\$125	\$139	\$153	\$167	\$181
Annual Return (%)	19.8	26.7	32.4	38.3	44.0
<u>Sohio (72--1/15/76 Close)</u>					
1978 Objective Price	\$115	\$128	\$140	\$153	\$166
Annual Return (%)	28.4	34.5	41.1	47.9	52.0

In developing a case for a premium multiple for the shares of both companies -- the S&P 425 currently is priced at 10.9x our \$10.00 estimate for 1976 profits and a group of domestic oils<sup>3</sup> at 8.6x projected results for the current year -- we once again stress the proprietary characteristics of both companies. In the case of Sohio, these include a pro-forma 1978 integration ratio of 150%, a reserve life index of over 20 years, cash flow over and above replacement requirements exceeding \$400 million in 1978, and above all, a superb management record as corporate fiduciary in implementing the right investment decisions at the right time.

Joseph S. Clark, Jr.  
212/558-3356

	<u>Current Price</u>	<u>Est. 1976 Earnings P/S</u>	<u>P/E Ratio</u>
Getty	\$173	\$14.25	12.1x
Marathon	43	5.80	7.4
Phillips	55	5.80	9.5
Shell	51	7.60	6.7
Standard-Indiana	43	5.90	<u>7.3</u>
Average			8.6x

Note: Wertheim & Co., Inc. and/or persons associated with it have a position in the common shares and/or options in certain of these companies.

## Wertheim

Joseph S. Clark, Jr.

January 27, 1976

ALASKAN TAX LEGISLATION (II)NOTES ON JANUARY 20TH TRIP TO JUNEAU, ALASKA

At the present time, while uncertainty remains the most pervasive influence, we believe that the odds marginally favor the passage by the Alaskan Legislature in some form of Senator Huber's controversial excess profits tax bill (see Wertheim & Co., Inc. Industry Commentary Alaskan Oil Taxation -- 1/16/76). Two of his remaining bills (the fourth relates to pipeline taxes), dealing with a severance tax increase from 8% to an average 13.5% on high volume production such as Prudhoe Bay and the rationalization of the existing 9.36% state income tax, could eventually pass without strong opposition, although it is always possible that in the two months or so that probably will be required to pass legislation of this importance, compromises will occur in all tax areas. If the excess profits tax bill is passed, it is expected that two key provisions of this particular bill, relating to the windfall tax rate and the so-called cut-off price level (above which the higher state tax is to be applied), will be reduced. In this event, the impact on oil company profits would be less than in the example noted as "worst case" in our earlier memorandum. (1) We expect sentiment to ebb and flow at any given point in time on the issue of what could be the worst case. For instance, last Friday's liberal democratic Anchorage Daily News carried an article regarding possible legislation in the House more radical than Senator Huber's.

Senator Huber's severance tax bill was introduced onto the floor of the Legislature last Friday, January 23, and his remaining bills, unless they have to be redrafted, will be introduced to the State Senate and House late this week. At that point, the first of three readings will begin, comments received from interested parties, and the legislation will begin to be shuttled back and forth between various relevant committees. (2)

- (1) We used a 37.5% excess profits tax and a cut-off price in California of \$8.00/bbl. Based on a \$12.00/bbl delivered price in California, this resulted in a Prudhoe Bay producing profit of \$2.46/bbl. At \$9.00/bbl delivered price, profits were reduced to \$1.74/bbl.
- (2) Appendix 1 lists the key committees and committee members in both the House and Senate. It will be noted that Senator Huber is prominent as Vice Chairman of the State Affairs Committee, is Chairman of the Special Committee on Tax and Revenue, and is a member of the Important Resources Committee.

Regarding the Anchorage Daily News article and oil legislation emanating directly from the House, Representative Steve Cowper (pronounced Cooper), who is Vice Chairman of a briefly convened House Finance Subcommittee on Tax and Revenue, is working on a bill roughly paralleling Senator Huber's. We have talked to Representative Cowper on the telephone. His legislation is lagging Senator Huber's from a timing (perhaps ten days to two weeks) and procedural standpoint. It also faces potential opposition from House committees before it reaches the floor. The House Finance Committee, chaired by Hugh Malone, is expected to recommend floor consideration, but the House Resources Committee, whose Chairman is Representative Neil Anderson (a native corporation legislator) will provide a more difficult test. The latter committee, which also is composed of conservative rural and business-oriented members, probably will hold extensive hearings, and an adverse recommendation for floor consideration is possible. We do not know the exact nature of Cowper's developing legislation but his economic research has been prepared by Michael Tanzer Economic Associates of New York City. We have not yet received a copy of the so-called Tanzer Report, which recently has been released in Juneau to all interested parties, but understand that it has a strong anti-oil industry bias in its analysis of oil company profitability in Alaska.

As noted earlier, passage of either Huber's or Cowper's oil legislation (or a combination of both) seems unlikely to occur for at least 60 days. Thus, resolution of the excess profits tax issue may not take place until early April. We will monitor developments between now and then intensively and expect to have an increasingly clear idea of the direction and likelihood of excess profits legislation as time passes.

The following notes are directed toward two general areas, background/sources and power structure analysis. In this connection and in appraising news from Juneau, it is important to distinguish between the various sources of information in terms of their particular bias. For instance, information emanating from Senator Huber's office may well represent the Senator's objectives rather than an unbiased appraisal of the facts. Similarly, information from local oil industry representatives may contain the reverse bias.

Individuals contacted during our recent trip to Alaska consisted of three basic groups. The first consisted of Senator Huber, his staff, and other members of the House and Senate. Of particular significance in the latter group was Senator Chancy Croft, who is President of the Senate and a key figure in the Legislature's power structure. The second contact area was with oil industry representatives in Juneau. The third was an experienced local businessman who has evaluated the Legislature for many years and is familiar with the state's political power base.

Our assessment of Senator John-Huber is that he is a tireless worker, a shrewd horse trader, and is getting a good deal of pleasure from his key role on this issue. Senator Huber, who is 51 years old and has worked his way up through the House to his present prominent position in the Senate, basically initiated the legislation last year that led to the reserve tax. He is viewed by some in Juneau as the power broker between the oil companies on one hand and Senator Chancy Croft and Representative Mike Bradner (the powerful Chairman of the House Ways and Means Committee) on the other hand. Croft and Bradner are both liberal Democrats and are believed to have higher political aspirations. While discussions were not held with Bradner, he is believed generally to reflect Croft's pro-Alaska, anti-oil industry bias. However, it should be recognized that if Croft or Bradner aspire to, say, the governorship or other higher political office, they should become increasingly sensitive to the political views of the Anchorage establishment -- the influential Republican Anchorage Times and the Anchorage financial community. This realpolitik could move Croft and Bradner into more conservative positions over the coming months.

Our conversation with Senator Croft indicated that he believes both the timber and fishing industries have exploited the State of Alaska in the past and he does not want this repeated by the oil industry. Thus, his public posture is that the oil companies should be taxed on such a basis as to produce a non-cyclical stream of substantial tax revenues, part of which can be set aside for future Alaskan generations when the oil runs out. He does not buy the argument that Alaska needs short-term revenues from lease bonuses, etc. and indicated that he feels positively inclined toward passage of all Huber's legislation. It was indicated that Bradner's public stance is roughly the same.

Our assessment of Huber's working staff on energy issues (consisting of two individuals, Ed Sterner, who does the basic economic research, and Frank Fleeks, a young lawyer who has researched the legal and constitutional background of Huber's proposed bills) is that they are, like Huber, extremely hard working and dedicated. They appear to be in their early or mid-20s. Their posture, generally speaking, is pro-Alaska and anti-oil company. We regard the general level of staff preparation, considering the staff's size and experience, as relatively high. It is our opinion, however, that the rationale for justifying a \$7-\$8/bbl cut-off price in California contains an important logical inconsistency. This delivered price level is considered to be that economic balancing point above which the oil companies earn an "excess" rate of return and below which the oil companies will be discouraged from investing in Alaska. The inconsistency obviously is that the \$7-\$8 figure is a delivered price before substantial transportation costs. Thus, to be logical, the bill should construe the \$7-\$8 cut-off price as representing a wellhead value, or conversely, if the cut-off price is to be a delivered price in California, transportation, etc. costs should be added to this level to es-

establish an \$11-\$12 cut-off price in California. We assume that the staff is aware of this inconsistency and our discussions with Senator Huber seemed to validate our conclusion. Our appraisal of Senator Huber's reaction was that this is an area, together with the excess profits rate, where significant compromise could occur. Other areas of compromise might involve the inclusion of an inflation factor and possibly a related 3% price incentive along the lines of the recently passed Federal Energy Act.

Our assessment of the oil companies' power base, in terms of voting factors, is that it will depend heavily on the native corporate representatives in the House and the Senate and the degree to which the Anchorage establishment can be mobilized to exercise some degree of restraint over the prevailing liberal sentiment in the Legislature. Regarding the former, the native legislators represent about 20% of the 20-member Senate and 40-member House. These percentages, however, tend to conceal the actual strength of native representatives who control additional votes well above their numerical position. As implied earlier, the native corporations are expected to oppose Senator Huber and Representative Cowper's legislation on the grounds that it will discourage oil company development of their 40 million acres of land and negatively impact their net profit interests outside of Prudhoe Bay negotiated with various oil companies.

In order to get some form of his windfall legislation through the Senate and House, Huber will have to put together a strong liberal coalition to offset the native votes and their influence on other legislators. He also will have to counter what will probably be increasing conservative pressures from Anchorage. On the other side of the ledger, the oil companies will have to implement their point of view with great care so that their efforts do not result in the opposite effect they intend to create. Moreover, they must make the difficult decision by the time the direction of the legislation is established, whether to oppose it on principle as a form of confiscation, or to negotiate out the best deal they can obtain.

As noted in our January 16 Industry Commentary, we believe that the Federal government will evince increasing interest in this legislation, both from the standpoint of potential oil revenue loss from Alaska, and, perhaps more significantly, from the far greater potential loss that would occur if an Alaskan precedent were used by California, Texas and other lower-48 states to place a windfall tax on certain profit levels. Equally important, the Federal government must become increasingly concerned over its potential loss of control over the economic incentives of its energy legislation.

In summary, we expect that the next few weeks will represent a period of legislative uncertainty and flux for the oil industry, during which time

the bad news may temporarily outweigh the good. As the legislative process progresses, however, we believe that reason will prevail as more conservative forces come into play, although an excess profits tax principle may well be established. We see no reason to change our conclusion expressed in our January 16 Industry Commentary that Arco and Sohio represent attractive long-term investments at current prices.

Joseph S. Clark, Jr.  
212/558-3356

Note: Wertheim & Co., Inc. and/or persons associated with it have a position in the common shares and/or options in Atlantic Richfield.

APPENDIX 1

SENATE

Chancy Croft, President

<u>Finance</u>	Ray (Chairman), Poland (Vice Chairman), Rader, Chance, Ferguson, Butrovich, Sackett.
<u>Tax &amp; Revenue</u> <sup>(3)</sup>	<u>Huber</u> (Chairman).
<u>Resources</u>	Poland (Chairman), Meland (Vice Chairman), <u>Croft</u> , <del>Huber</del> , Rader, Rodey, Butrovich, Orsini.
<u>Rules</u>	Rader (Chairman), Kerttula (Vice Chairman), Ray, <u>Croft</u> , Sackett.
<u>Commerce</u>	Kerttula (Chairman), Willis (Vice Chairman), Ziegler, Colletta, Bradley.
<u>Judiciary</u>	Ziegler (Chairman), Meland (Vice Chairman), Poland, Miller, Tillion.
<u>Community and Regional Affairs</u>	Rodey (Chairman), Willis (Vice Chairman), Hohman, Tillion, Orsini.
<u>State Affairs</u>	Meland (Chairman), <u>Huber</u> (Vice Chairman), Ferguson, Colletta, Miller.

(3) Special Committee, not a standing committee.

APPENDIX 1

HOUSE

Mike Bradner, Chairman, Ways and Means Committee

<u>Finance</u>	<u>Malone</u> (Chairman), Buchholdt (Vice Chairman), Itta, <u>Cowper</u> , Guy, Gruening, Duncan, Naughton, Haugen.
<u>Tax and Revenue</u> <sup>(4)</sup>	<u>Cowper</u> (Chairman).
<u>Rules</u>	Parker (Chairman), Cotten (Vice Chairman), Miller, Naughton, Specking.
<u>Judiciary</u>	Gardiner (Chairman), Bradley (Vice Chairman), Brown, Cotten, Parr, Eliason, Specking.
<u>Resources</u>	<u>Anderson</u> (Chairman), Smith (Vice Chairman), Osterback, Brown, Eliason, Hershberger, Rhode, Huntington, Swanson.
<u>State Affairs</u>	McKinnon (Chairman), Miller (Vice Chairman), Fischer, Wallis, H. Beime, M. Beime, Parker.
<u>Commerce</u>	Bradley (Chairman), Wallis (Vice Chairman), Freeman, Kelley, Rhode, Urion, Rudd, McKinnon, Fischer.
<u>Community and Regional Affairs</u>	Cotten (Chairman), Ostrosky (Vice Chairman), Freeman, Davis, Hershberger, Hackney, Ose, Rudd, Kelley.

(4) Finance Subcommittee.

Wertheim

Joseph S. Clark, Jr.

February 6, 1976

ALASKAN TAX LEGISLATION (III)THE TANZER REPORT

We continue to believe that the three key investment variables of the oil industry at the present time are (1) the world price of crude oil; (2) legislative developments in Washington; and (3) the progress and profitability of North Slope oil. The Alaskan Legislature's tax proposals represent the most important current development affecting the third key variable.

Moreover, as noted in our January 16 and January 27 Industry Commentaries, if the State of Alaska succeeds in establishing the precedent of excess profits taxation, an investor must raise the question as to the possibility of state taxation above certain levels in the lower-48 producing states. The issue, of course, transcends the oil industry and relates to all domestic extractive industries. Particularly vulnerable would be integrated companies in the forest products, non-ferrous metals, and coal industries where fabrication and/or marketing facilities downstream are subsidized by higher rate of return extractive operations upstream. To choose a random example, one wonders what the State of Washington's reaction to Weyerhaeuser's timbering profits (1) would be if Alaska passed an excess profits tax. As noted in our earlier Industry Commentaries, we believe that such an Alaskan precedent, if established, ultimately would result in a constitutional Federal vs. states rights conflict. We continue to believe that in such a confrontation the Federal government would prevail.

In view of the preceding comments, as well as the more direct implications for Arco, Sohio and Exxon, we expect to continue to monitor developments in Juneau closely.

The Tanzer Report is a highly-detailed study of potential oil company profitability from the Prudhoe Bay field, prepared for Representative Steve

(1) Weyerhaeuser owns most of its timbering land in this area (in contrast to state-owned land in the case of Prudhoe Bay), but the analogy still seems valid since the Alaskan oil rights were "sold" pursuant to leases.

Cowper,<sup>(2)</sup> Chairman of the Legislature's House Subcommittee on Revenue Sources, by Michael Tanzer Associates, a petroleum consulting firm in New York City. It seems unnecessary to dwell on the report's strong anti-oil company bias, its outdated investment figures for the Prudhoe Bay field, and its exclusion of the Alyeska Pipeline from the rate of return analysis. The full report, which is 195 pages long, is an extensive, scholarly, and sophisticated document, skillfully written to appeal to the individualistic aspirations of many Alaskan legislators, while at the same time advocating increased state involvement in the oil and gas industry. Its significance lies in its premise that profits above a certain return on investment within a discrete geographical area (i.e., the Prudhoe Bay field) should be subject to a state "windfall" tax. As such, the report parallels Senator Huber's staff work, which leans more heavily on the concept of an "energy equilibrium" excess profits price of \$7-\$8 per barrel delivered in California. While purportedly not to be used as a model for legislation, the Tanzer Report is bound to have an impact on the thinking of the Alaskan Legislature, but has not, as far as we have been able to determine, received wide publicity in the lower-48 states. The report may be summarized briefly as follows:<sup>(3)</sup>

Pre-tax wellhead profitability is calculated for Sohio/BP, Arco, and Exxon at three arbitrary delivered prices in California, \$10, \$13, and \$16 per barrel. Total transportation costs from Prudhoe Bay to Los Angeles are estimated at about \$4.00 per barrel over the life of the field: \$0.50 for tankers and \$3.50 for the pipeline tariff. Subtracting these costs from delivered prices, wellhead values of \$6.00, \$9.00 and \$12.00 per barrel, respectively, are derived. Deducting present Alaskan royalty and severance taxes of about 20% of wellhead values and operating costs of \$0.50 per barrel, company gross profits, before state and Federal income taxes, are computed to be \$4.30 per barrel, \$6.70, and \$9.70 per barrel, respectively.

Company capital investment in Prudhoe Bay by the end of 1976 is estimated at \$1.9 billion. By mid-1978, cumulative investment is projected to rise to \$2.5 billion,<sup>(4)</sup> increasing to \$3.1 billion through the year 1982. Post-1977 capital and operating costs are based in part on data provided by

- (2) See Wertheim & Co., Inc. Industry Commentary, Alaskan Tax Legislation (II), dated 1/27/76, for a detailed outline of key legislators and committees in the State Senate and House.
- (3) Appendices A and B provide further summary detail. Appendix A presents Tanzer's own summary and Representative Cowper's 1/20/76 covering letter to Senator Croft and Representative Bradner enclosing the complete report. Appendix B is Senator Huber's staff's appraisal of the report which basically endorses Tanzer's approach.
- (4) At the present time, cumulative capital investment for the three companies in Prudhoe Bay seems almost certain to exceed \$3.4 billion by the end of 1977.

the engineering firm H. J. Gruy Associates, and all capital costs are converted to a post-tax basis to reflect Federal tax deductions for intangible drilling costs, etc. prior to the discounted cash flow rate of return analysis.

Given the preceding assumptions, the following table summarizes the Tanzer Report's conclusions regarding industry profitability at the three assumed delivered price levels in California, expressed in terms of annual discounted cash flow rate of return. Three arbitrary assumptions with respect to state income taxation are used -- an "existing" effective state tax of 5% (Case A--our own designation), a state income tax of 50% over the life of the field (Case B), and a state income tax of 50% through the year 1985 increasing to 80% over the balance of the field's life (Case C):

Rate Of Return On Field Investment

<u>State Tax</u>	<u>\$10.00/Barrel</u>	<u>\$13.00/Barrel</u>	<u>\$16.00/Barrel</u>
	<u>(Delivered Price in California)</u>		
Case A	28%	35%	40%
Case B	19	25	30
Case C	18	24	29

It can be seen that Tanzer's calculations show that oil company rates of profitability, even under high state income tax assumptions, range from 18% to 29% annually.

Three major additional conclusions are reached in the report:

1. Case B or C levels of taxation will not cause the oil companies to abandon Prudhoe Bay investment. This is not so much because of enormous sunk costs, but rather because alternative high rate of return producing opportunities elsewhere in the world are not available. Another reason is that the preceding rates of return are well above historical earnings on total capital investment for Sohio/BP, Arco, and Exxon -- the "minimal acceptable profit rate" thesis.
2. Major state tax increases are fair because of precedents in Norway, the U. K., and elsewhere. Underlying this argument is the doctrine of changing circumstances, the fact that Prudhoe Bay is on state-owned land, and the concept that "the State and its people are the ultimate owner of the resources in the ground."
3. The State of Alaska should consider investing in Alaskan oil exploration and development, particularly in view of the fact that the "profit rates the oil companies seek are clearly far higher than the State's cost of capital."

The preceding summary of the Tanzer Report may well indicate a degree of naivete which is not present in the original document. A careful reading of the report as a whole suggests that just the opposite is the case. Its premise, however, that the State of Alaska has the right to what amounts to an equity interest in Prudhoe Bay, without having advanced risk capital, runs counter to the American tradition of free enterprise.

Joseph S. Clark, Jr.  
212/558-3356

APPENDIX A

Alaska State Legislature

WHILE IN JUNEAU  
POUCH V  
JUNEAU, ALASKA  
99811

REPRESENTATIVE  
**STEVE COWPER**  
110 NERLAND BUILDING  
FAIRBANKS, ALASKA 99701



House of Representatives

January 20, 1976

Senator Chancy Croft  
President of the Senate  
Alaska State Legislature

Representative Mike Bradner  
Speaker of the House  
Alaska State Legislature

Gentlemen:

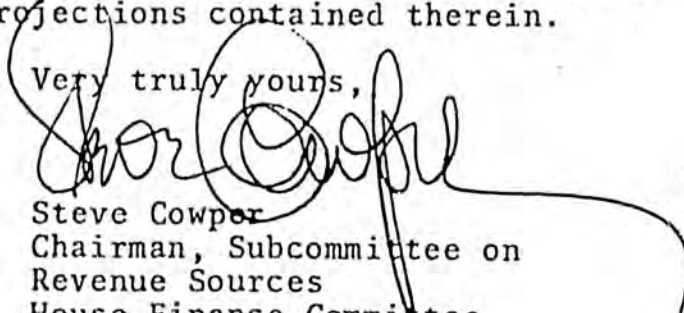
I am enclosing herewith a report entitled Alaska Prudhoe Bay Oil: Profitability and Taxation Potential, prepared by Tanzer Economic Associates, Inc., pursuant to a contract with the Legislative Affairs Agency.

The report is a survey of the profitability of oil production in the Sadlerochit formation by Sohio/BP, ARCO, and Exxon, which together own approximately 96% of the leases which are the subject of the report. The analysis is based in large part upon figures provided by the three companies involved, by the State Division of Oil and Gas, and by Gruy and Associates.

It should be clearly emphasized that the tax rates used in the models for the study are not indicative of legislative direction, but are figures arbitrarily chosen for the purpose of illustrating the effect of state taxation upon profitability. See, i.e., page 66 of the study. The rates will not provide a departure point for proposed legislation; in fact they were not meant to be used for that purpose.

A copy of the report is being sent to the major oil companies, along with a request that each company set forth its objections to the projections contained therein.

Very truly yours,

  
Steve Cowper  
Chairman, Subcommittee on  
Revenue Sources  
House Finance Committee

SC:jab

SUMMARY

The purpose of this Study was to analyze potential oil company profitability from Prudhoe Bay crude oil, as a guide to potential taxation of such profitability by the State of Alaska. The general approach was that estimates were made of the aggregate investment costs and potential profits for Sohio/BP, Arco and Exxon, together, who share an estimated 95% of Prudhoe Bay oil. All estimates were put on an annual after-tax basis for the 1964-95 period, in order to allow estimation of the companies' profit rates on a discounted cash flow (DCF) basis; this basis systematically takes into account the time value of money and is the compound interest profit calculation method used by the companies themselves. Calculations were then made of the effects of different State income tax rates on the companies' DCF profit rate and on the division of the Prudhoe Bay "oil pie" among the companies, the State and the Federal Government, respectively. In all cases an attempt was made to be conservative in estimating future company profitability.

Specifically, the Study first estimated per barrel wellhead values of Prudhoe Bay crude oil, by subtracting projected marine and pipeline transport charges from the delivered price in the Los Angeles area; throughout the

Study three possible Los Angeles prices were considered, with a medium price of \$13 per barrel and a low of \$10 and a high of \$16 (each held constant for the 1977-95 period). Total annual wellhead values were then estimated for the companies' 95% of the production from the Sadlerochit formation only, which was assumed to begin in 1977, peak at 1.7 million barrels per day in 1987, and drop at 15% per year thereafter (with the Study cutting off at 1995).

After subtracting from the wellhead values State royalty and severance taxes (estimated together at 20%) and current production costs, there were three gross profit series for the 1977-95 period (varying with price). Each of these series was assumed to be subjected to three possible effective State corporate income tax rates: 5% (as a rough measure of the existing tax structure), 50%, and 50% until 1985 and 80% thereafter. With an assumed Federal tax rate of 48%, calculations were then made of the nine possible after-tax profit series for the companies in the 1977-95 period. Each of these series was combined with the one estimated annual after-tax investment series for Prudhoe Bay. The result was nine possible company net cash flow series, each of which was subjected to DCF profitability analysis.

The Study's quantitative conclusions were as follows. First, under present tax conditions, the companies' DCF profit rates would be between 28% and 40% per year (compounded), with 35% per year being the profit rate under the

medium price assumption. Over the whole 1977-95 period, for a total investment of about \$3 billion, the companies would net between \$17 billion and \$36 billion, with \$26 billion being the medium price figure. Of a total Prudhoe Bay oil pie of between \$44 and \$93 billion (depending again on prices), the companies would get about 38%, the Federal Government 36%, and the State of Alaska only 26% (including severance and royalty).

Second, increasing the effective State corporate income tax rate from 5% to 50% would still leave the companies a DCF profit rate of between 19% and 30% per year, with 25% in the medium price case. While the companies' profits would fall by half, they would still net between \$9 and \$19 billion. The State, however, would increase its total oil revenues sharply; for example, for the medium price case, they would rise from \$18 billion to \$42 billion. On average the State's share of the oil pie would jump to 61%, while the companies' share fell to 20% and the Federal Government's to 19%.

Third, the Study showed that under DCF methods of profit calculation, at high profit rates for the companies, cash inflows in later years have relatively little present value to them. Thus, an increase in the State's corporate income tax rate from 50% in 1977-85 to 80% in 1986-95 would reduce the companies' DCF profit rates by only one percentage point. At the same time, the State's total oil revenues for

the whole 1977-95 period would increase by about 25%. Under the sequential 50%:80% tax rate the State's share of the oil pie would increase to 71% while the companies' would fall to 15% and the Federal Government's to 14%. This illustrates the general principle that company profits in later years can be heavily taxed without affecting their present exploration and development incentives.

The Study also analyzed and discussed a number of qualitative questions. As regards possible mechanisms for future State oil profit taxation, it was concluded that an income tax, a severance tax, and a value added tax, would have similar effects in practice, while a reserves tax would be harmful. On the question of the effect of increased State taxes on the companies' exploration and development incentives, it was concluded that the likely profit rates, even after the tax increases, were probably sufficiently high to be adequate. The question as to the "fairness" of increasing company taxes was also considered. While this is largely a "value judgment" question, it was noted that without increased State tax rates the companies will be the prime beneficiaries of the windfall profits which have arisen from the quadrupling of oil prices by OPEC since late 1973, despite the fact that the oil lands belong to the State. It was further shown that even non-OPEC Governments, such as in Norway and Great Britain, have moved to capture a larger part of these windfall profits by increased taxes on the oil

companies.

The Study concluded with some general observations about future State oil policy. Two related questions were considered: how should the State use its increased future oil revenues, and should it move beyond being a passive royalty and tax collector and take a more active role in the oil sector. The Study's view was that in order to prevent Alaska's increased State oil revenues from being simply dissipated in inflation and/or a short-lived boom, with most of the money ultimately flowing out of the State, the State would have to play a more active role to help coordinate long run economic development. Moreover, a logical place for the State to utilize its oil revenues would be in the oil sector itself.

Thus, for example, the State should consider possibilities for investing in oil exploration and development in Alaska, either through joint ventures with oil companies or by contracting directly with specialized drilling companies (or the State might invest in refineries, petrochemicals, etc.). This might be particularly appropriate since the profit rates the oil companies seek are clearly far higher than the State's cost of capital. It was maintained that in recent years there has been a wider dispersion of oil knowledge and technological capability, and that it might be useful for the State to examine the recent successful experience of Government oil companies in countries like Mexico and India.

Finally, the Study concluded that in order for the people of Alaska and their representatives to make informed decisions about future State oil policy, a great deal more knowledge was needed by them; even if the ultimate decision is to remain a passive tax collector, such knowledge would help the State to maximize its benefits from this role. Informed policy decisions are particularly crucial in the oil sector because this is a non-renewable resource, the benefits of which belong not only to present but also future generations.

ALASKA  
STATE LEGISLATURE

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APPENDIX B

MEMORANDUM

January 26, 1976

TO: Senate President Chancy Croft

FROM: Franklin D. Fleeks  
Tax Counsel, Committee on Taxation and Revenue

SUBJECT: Summary of the Tanzer Report and Comparison with  
Committee's Proposed Legislation

Senator Huber has directed that the attached staff report be prepared to familiarize you and the Committee members with the contents of the Tanzer report. This report was prepared under a contract with the Legislative Council Subcommittee on Taxation and Revenue, chaired by Senator John Huber. The supervision of the Tanzer contract was accomplished by vice chairman Representative Steve Cowper.

In addition, comparison was made with the proposed legislation drafted by this Committee. The report is submitted for information and comment.

AGO 531905

SUMMARY OF THE TANZER REPORT  
AND A COMPARISON OF ITS CONCLUSIONS WITH THE  
INTERIM SUBCOMMITTEE ON TAXATION AND REVENUE PROPOSED LEGISLATION

Prepared by:

Edwin Sterner  
Research Analyst

### Summary of the Tanzer Report

The Tanzer Economic Associates report, "Alaska's Prudhoe Bay Oil: Profitability and Taxation Potential," shows what has always been suspected. Prudhoe Bay will be a massively profitable venture which can supply the state with large revenues and still provide a favorable return on investments made. The Report's conclusions are strikingly similar to the conclusions upon which our proposed legislation is based.

Under the current state and federal tax structure, Prudhoe Bay will probably yield discounted cash flow (DCF) profitability rates of 28%, 35%, or 40% if oil sells on the west coast for \$10, \$13, or \$16 respectively (p. 51). (For a discussion of the DCF method of analysis, see III.A., pp. 32-36 of the report.) Such rates of return should be more than adequate incentives for exploration and development and could sustain much higher rates of taxation.

As an example, the profits of the field are taxed at a 50% state income tax rate. Assuming that the tax would actually be effective at that rate, DCF profitability rates for \$10, \$13, and \$16 oil drop to 19%, 25%, and 30% respectively (p. 60).

In a final case, the Report shows that the value of the investment would fall very little if a tax rate even higher than 50% were levied several years after the investment started yielding positive cash flows. In a simple case, one would probably still invest in a bank account that would have a net yield of 20% per year compounded for eight years, even if one knew that after eight years, the earnings would be taxed at 80%.

For the example used, the first eight years of Prudhoe Bay production are subject to the 50% income tax rate, and after eight years to an 80% income tax. This reduces the DCF profitability rates by only one percent to 18%, 24%, and 29% for the three prices.

In all cases, the rates of return should sustain exploration and development. The report concludes that if they are not sufficient, perhaps the state should consider financing at least the exploration phase of petroleum development.

Comparison of Tanzer Report Conclusions  
with the Interim Subcommittee's Proposed Legislation

The proposed tax legislation is quite similar to the Report's examples. The proposed legislation suggests a 50% income tax rate on most income from Prudhoe Bay. Due to the fact that the income tax has been ineffective in the past, a tax is proposed which works like a severance tax with deductions for capital and operating expenses incurred only in Alaska. This method was chosen because it "automatically" fine tunes to the costs of each field and avoids the need to adjust rates for each field to treat them basically the same.

There are differences, however. These are more in method than in principle. A flat 50% tax would tax oil profits at 50% even if prices should fall. Although a large fall in prices is unlikely, the law should be prepared to react to it (especially in view of the national temperament and the mood of Congress). The point of the law is to raise revenues, not be vindictive. From the costs of Prudhoe Bay and its transportation, it appears that should prices for Alaskan oil fall, or be forced to

-fall, below seven to eight dollars per barrel on the west coast, returns to investment would be at levels where only the "normal" rates of corporate taxation could be warranted. Thus, there is a "circuit breaker" which in effect causes net income due to a west coast price of seven to eight dollars to be taxed at the regular state corporate rate of 9.4% and net income due to a higher price at 50%.

The report also assumes that severance taxes will not be changed. The legislation proposes that the basic severance tax rates be increased by approximately 60% for Prudhoe Bay oil. This would cause the state's royalty and severance tax portion of the wellhead value to rise from the 20% figure used in the report (p.56) to 23-24%. This tends to offset the fact that the "circuit breaker" keeps the average rate of net tax below 50%.

Finally the report suggests the possibility of using a system of tax rates graduated over a period of time. The problem with this seems to be administrative, and if it can be worked out, might be most valuable to the state. The example used suggests that after a certain number of years, a field would be subject to higher tax rates. Indeed, every few years, or even every year, the rates could be higher. This could raise significant problems, if as the higher tax years approach major investments are required to maintain the field. For instance, in the year before the higher taxes are imposed on Prudhoe Bay in the example, 227 million dollars in new wells are required. Anticipating the next year's higher tax rates, the producer might choose to shift that investment to a "new" field elsewhere, which is not subject to the higher tax for several years. A proliferation of "new" fields and prematurely declining old fields might result. This possibility could be avoided by allowing

production in an "old" field which is due to new investment to be taxed at the lower rates. The problems in determining what oil is due to "old" or "new" investment are obvious.

Although it does not allow the wide variation in rates such as the 50/80% report example implies, accelerated depreciation does much the same thing. It lowers the effective tax rates early in the life of the field and raises the rates when the accelerated depreciation is exhausted. Its common use and familiarity lends it to this situation. Since such higher rates would be some years off, implementation would not be needed now. The experiences of Norway and any others who are attempting this type of taxation should be watched closely.

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JAN. 26, 1976

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PETROLEUM INDUSTRY: Thoughts on Alaska and the U.S. Oil Economy J. Fischer

The Alaskan legislature is soon to begin deliberating a package of tax proposals designed to sharply (300%+) increase the state's anticipated tax revenues from the Prudhoe Bay field. These revenues will be apart from the state's royalty interest (12½%) in oil and gas production. The proposals encompass a modification of the corporate income tax structure, an increase in the severance tax, and the introduction of a steep excess-profits tax. The excess-profits tax, apparently to be in the range of 41-50%, would apply to the difference between the market value of North Slope oil delivered to the West Coast and a deemed value beginning at \$7 a barrel (the 1974 base level, we infer) and escalating over time. (The 50%, which we have seen in the literature, may include the state income tax of 9.4%.) The impact of these tax changes on the prospective earnings of the North Slope operators is discussed in a separate Note. We are concerned here with the broader implications of the proposed excess-profits tax.

We note that the issue of "Alaskan participation" arose once before, in 1972, when Alaska sought complete control over the pipeline right-of-way and an undivided 20% interest in the pipeline, while proposing a steeply progressive tax on pipeline earnings and a minimum take at the well head from royalty and severance tax payments. Alaska was then concerned that the pipeline would emerge as the principal profit center. It is now clear that unless OPEC prices should crack (which we deem improbable), the wellhead will prove to be the principal profit center. (The increase in the West Coast price of "new crude", even as modified by the new energy legislation, will have more than compensated for the escalation of pipeline construction costs, as reflected in the TAPS tariff.)

The companies are in a poor bargaining position today, as compared with 1972. The pipeline was then a concept. Today, the principal costs for transportation are sunk or firmly committed. Development of production facilities is well underway. The price of North Slope crude, on the West Coast or in the Midwest, will be governed by FEA ceilings (or one determined by Congress) for the initial years of production, and probably longer. The incidence of an excess-profits tax cannot be shifted. Alaska will be taxing an economic rent, and taxing it severely.

Alaska is apparently prepared to prescribe a "just price" for North Slope crude on the West Coast. We presume that the tax committees of the legislature will eventually prescribe a just price for natural gas as well. We note that the concept of the just price is an anathema to economists, except for regulated utilities. We doubt very much that Alaska will be prepared to sell its royalty oil and gas at the just price that will be controlling for tax purposes.

The thrust of the excess-profits tax mechanism appears to be to permit the North Slope companies to recover their capital and operating costs (including severance

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tax) and to make \$1 a barrel, pre-tax, before the bite of state income, state excess-profits, and federal income taxes. Prespectively, a critical question will be the rate at which the base price will be permitted to escalate relative to the prescribed market escalation for new crude.

The \$7 base price runs counter to the intent of national economic policy. Let us assume that with plausible escalation the base price is now roughly in line with the February 1 national composite of \$7.66 a barrel. However, Congress has not prescribed a rollback in the benchmark price for new crude to \$7.66 a barrel; the rollback will be to \$11.28. In short, Congress would permit producers of new crude at difficult frontiers to earn a superior return. One may call this incentive pricing and/or a reward for risk-taking. Alaska would take a large chunk of this back.

Economic returns that could be applied for exploration and development in Alaska, off the West Coast and off the Atlantic Coast, or applied for investment in enhanced recovery techniques or in "synthetic" energy fuels will, instead, go to fund social services in Alaska. Alaska appears prepared to seek to maximize its take from the presently proved reserves on the North Slope. The state would appear to be disregarding the disincentive it is creating for probing for additional reserves, onshore or offshore, on state leases. It may well be irrational--from the standpoint of return on capital--for the companies to drill in the Beaufort Sea, or for ARCO to continue exploration west of Prudhoe Bay.

We presume to compare Alaska's perceptions to those of many of the OPEC nations. The oil and gas will be leaving Alaska and the economic benefits conferred by these hydrocarbons will be realized by the "importing states." In contrast, Texas, Louisiana, California and other producing states enjoyed a surge of economic development within their own borders on exploiting indigenous resources. Alaska will probably never enjoy the economic and social benefits attending major investments in refineries and petrochemical plants. (It will also be spared the social costs, such as pollution, attending these same investments.)

Alaska may also believe that, like Norway and the United Kingdom, it is entitled to tax away a substantial portion of a windfall gain that has resulted from OPEC's pricing power. However, the analogy cannot be pushed too far. Britain and Norway have both continued to exhibit a decent respect for maintaining investment incentive. Moreover, these are sovereign nations and their oil-taxing policy is integrated with national energy policies. In contrast, Alaska would appear to be flouting the goals of emergent U.S. energy policy.

Under Alaska's proposed tax package, the state's take per barrel would be larger than that of the Federal Government. This prospect is not likely to bring joy to Washington. Moreover, the proposed excess-profits tax would appear to be much more onerous than that proposed in Congress for the U.S. petroleum industry as an entirety. There appears to be no plowback provision--credits for a range of eligible investments. Moreover, the tax-writing authorities in Washington were prepared to accord special treatment for new crude.

The timing of the Alaskan proposals is most unfortunate. It comes when the companies are most concerned with completing financing arrangements for bringing North Slope oil to market and when the FPC has just voided the advance-payments program for much of the North Slope gas. We presume that the state is preoccupied with firming up its revenue expectations in order to facilitate borrowing for its internal needs.

We are especially concerned that other states exporting oil and gas--most notably Texas and Louisiana--may eventually seek to emulate Alaska. In retrospect, they have been very generous to consumers in their revenue claims. Perhaps fortunately, the increasingly important Federal domain is beyond their grasp. The severance tax is a powerful

weapon. Imaginative tax experts can find any number of techniques for taxing economic rents on both old and new production. All producers except marginal operators may then be in an unfortunate position. The nation would ultimately be the loser, for exploration effort would inevitably slacken.

Initially, then, the North Slope producers and Alaska are once again found in an adversary position. Considerations of national energy policy may before long find the Federal Government and Alaska in an adversary relationship also. Eventually, the conflicting claims can encompass other states as well. These conflicts would be bearish for the industry. One can study the unfortunate position of the Canadian petroleum industry as Canada's Provinces and its Federal Government clash over shares in revenues. Periodically, the principal actors recall that the producers should be assured "adequate" returns.

The North Slope operators may well rue the day that Alaska became a state, but that is a bygone. Because of the companies' weak bargaining position in Alaska, their principal recourse is likely to be found in the Federal courts. We do not pretend to be experts at constitutional law. We anticipate, however, that a constitutional issue may be raised about the taxing of an economic value that arises beyond the state border, in the stream of interstate commerce. The companies may also allege that by creating a disincentive for further exploration effort, the excess-profits tax creates an undue restraint upon normal trade among the states.

Congress and the Administration may choose to exert pressure on behalf of the companies also. As a developing state, Alaska is not immune to the lure of proffered federal largesse or indifferent to its denial (as constrained by law). The pressure is most likely to be exerted if requested by the FEA or other producing states; political realities militate against the operators being helped by Congress in response to their own appeal. Equity for oil companies is not an attractive issue.

POINT OF VIEW

Only two weeks ago investors were concerned over how North Slope oil would fare at the hands of the Congress in 1977 under the pricing constraint imposed by the new energy Act. Today, they are worried about Alaska. Unfortunately, it will take time for the Alaskan legislature to debate, modify and enact the new tax proposals, and it will take time for the operators to prepare their appeal for relief. There is no urgency; production will not begin until the latter part of 1977. Only owners of Atlantic Richfield (\$88), Standard of Ohio (\$68 1/4), Exxon (\$92 1/8) and BP (\$11 5/8) may have a sense of urgency--especially owners of ARCO and Sohio.

We profess to optimism about the ultimate outcome, perhaps naively, because we would like to believe that state and national policies will recognize the case for rewarding exploration effort at difficult frontiers. Otherwise, we are all in for trouble. If a giant discovery like the North Slope is not allowed a superior rate of return, there is no reason for private capital to undertake exploration risk or for investors to own oil equities except as engines for cash flow over a finite

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period of resource life. If the earnings prospects of the incremental producers are to be slashed, one might as well restrict one's investments to companies with a strong position in old reserves in the lower 48 states. If one is concerned that other states will emulate Alaska, perhaps the entire group should be avoided--certainly, the domestics. Perhaps only the internationals should be bought and held for superior yields and a total return expectation.

There is no denying that the past investment allure of the North Slope oils has been tarnished, probably irrevocably. We sincerely hope that Alaska will not look to British Columbia as a model for virtue or guidance. In that unhappy circumstance, the North Slope operators may yet ponder whether their shareholders might not be better served if their resource bases were to be nationalized.

MEMORANDUM  
FROM THE RESEARCH DEPARTMENT

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November 19, 1975

THE TRANS-ALASKA PIPELINE AND PRUDHOE BAY  
CRUDE OIL PRODUCTION  
ANALYSIS OF UNIT COSTS AND PROFIT POTENTIAL.

There is considerable investor interest in the cost of building and operating the Trans-Alaska Pipeline, the profit to be derived from the line, and the potential profitability from crude oil production in the Prudhoe Bay Field on the North Slope. In order to provide some perspective on these questions, we have compiled several tables that summarize the latest data on pipeline costs, as well as our estimates of the unit tariff that might be established for transporting crude oil through the pipeline. When combined with the selling prices in Los Angeles, these pipeline estimates should provide an indication of the wellhead value and profit potential for North Slope crude oil production (on the assumption that all oil is tankered to the Los Angeles market). We still expect the pipeline to be completed by late 1976 or the spring of 1977 and think that testing should be completed by the summer of 1977. Initial production should start in 1977, and we expect throughput to reach 1,200,000 b/d in the winter of 1977 - 1978. Profits to the operating companies could be limited in 1977 but should be substantial in 1978. Thus far, 320 miles of the total 800 mile pipeline has been installed. In some weeks, as much as 35 miles of pipe has been laid. Considering the road construction, ditching, vertical supports, and terminal facilities, about 50% of the total construction had been completed as of October 27, 1975.

UNIT PIPELINE COSTS AND SELLING PRICES

Unit pipeline costs will be importantly influenced by the level of production. Therefore, we have developed cost estimates based on three different production levels; 1,200,000 b/d, 1,500,000 b/d and 2,000,000 b/d. The cost figures used are the latest available official estimates prepared by Alyeska Pipeline, increased by a 5% contingency factor and the cost of additional pumping stations to expand throughput. The pipeline will be a common carrier and should return a good profit to the owners. The current ownership of the Trans Alaska Pipeline is shown on the following page.

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OWNERSHIP OF THE TRANS-ALASKA PIPELINE

Common Share Price <u>11/14/75</u>		<u>%</u>
72	Standard of Ohio	33.34%
93	Atlantic Richfield	21.00
88	Exxon	20.00
12	British Petroleum	15.84
46	Mobil	5.00
43	Union	1.66
52	Phillips	1.66
16	Amerada Hess	1.50
		<u>100.00%</u>

While production volumes and pipeline tariffs lend themselves to reasonably accurate estimates, the question of future crude oil selling prices is more uncertain and, of course, a most important variable. At this time, there is considerable controversy as to where crude oil prices will be in three or four years. Prices on the West Coast will reflect not only the level established by U.S. Government controls but foreign price trends as well. There is a minority viewpoint that foreign oil prices will decline substantially from present levels as a result of sluggish consumer demand and new production coming on from non-OPEC sources. To us, this thesis is hard to accept, and we would be surprised if foreign oil prices dropped sharply from current levels. Landed prices for foreign crude oil on the West Coast are generally in the range of \$13.00 - \$14.00/barrel exclusive of the present \$2.00/barrel supplementary import fee. Domestic crudes have been selling as high as \$13.50/barrel but may be rolled back to the area of \$11.28/barrel under proposed legislation. In order to cover a broad price range, we are including in our statistical model prices from \$8.00 to \$13.00/barrel and the estimated profit potential at each level. Our long range thinking is that future price levels in the Los Angeles Basin will be in the general area of \$11.00 to \$12.00/barrel, and we would key in on the potential profits indicated at these prices.

#### PRUDHOE BAY UNIT

It is generally estimated that the Prudhoe Bay Field has recoverable reserves of almost 10.0 billion barrels, which can be produced at a rate of 1,500,000 b/d. Ownership distribution of the Prudhoe Bay Unit (a unitized group of owners of the field) has been under study for almost five years, and a preliminary ownership breakdown should be available in the near future. To arrive at a meaningful judgement of the future earnings potential indicated for each of the major participants in the Unit, we have listed below those companies that have reported North Slope oil reserves and have related these figures to the estimated reserves for the entire field. Thus, we have arrived at the following working estimates of the ownership of production from the Prudhoe Bay Unit. The uncertain nature of the estimates deserves emphasis.

## ESTIMATED OWNERSHIP OF THE PRUDHOE BAY FIELD

	Gross Reserves (Billion Barrels)	%
Standard of Ohio	5.100	51.0
Atlantic Richfield	1.970	19.7
Exxon	1.970	19.7
Mobil	.325	3.3
Phillips	.290	2.9
Other *	.345	3.4
Total	10.000	100.0

\*Primarily Amerada Hess, Louisiana Land (23) and Getty (169).

## EARNINGS IMPACT FOR EACH PARTICIPANT

Each member of the Prudhoe Bay Unit will be responsible for the marketing of its gross share of the oil produced. We have made a series of per share earnings estimates for both oil production and ownership of the pipeline based on varying levels of production and selling prices. These estimates are reproduced in the final three tables of this report and should be regarded as a final summary of the numerous variables which have to be reconciled in this exercise.

## SUMMARY

Because of the rising costs of building the pipeline and developing the Prudhoe Bay Field and the changing tax structure for the industry, the initial per barrel cost for North Slope oil has risen sharply over the past few years. Since oil was first discovered on the North Slope, the depletion allowance has been stricken from the federal tax law and the State of Alaska has increased its severance tax to 8%. We would not rule out some further changes in the tax laws. To us, the initial profit potential is far from being a "bonanza" and, if some Washington proponents of a crude oil price rollback are successful, the viability of producing and transporting North Slope oil and gas could be threatened. The same could be said if foreign oil prices drop sharply and bring down the domestic price structure. The latter threat may well be present for some time. We are encouraged that recently proposed legislation makes some allowance for high cost domestic oil such as that from the North Slope.

Based on production of 1,500,000 b/d and a selling price of \$11.00/barrel, our calculations indicate an annual profit potential of \$600 million from the pipeline and \$1.2 billion from production, a total return of 18% on the estimated \$10 billion initial investment; not a terribly attractive return based on the numerous political and economic risks involved, and well below our earlier estimates. In view of the declining profit return and the potential price threat, one could wonder if the entire North Slope/Trans Alaska pipeline project is attractive in view of the risks involved and available alternative investments.

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The final long-term merits of the entire Alaskan project will be importantly influenced by the future returns to be realized from the sale of known natural gas reserves and, of course, additional oil and gas discoveries which should be made on the North Slope. Prospects for the latter appear to be particularly attractive.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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<u>Pipeline Costs:</u>	<u>\$ Millions</u>
Cost of Construction (\$6,375 x 105% *) .....	6,700
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,150</u>

<u>Annual Operating Costs:</u>	
Pipeline Amortization - \$8,150 x 92.5% ** ÷ 35 yrs.	215
Interest Costs at 10% x (85% of \$8,150 million) (a) ..	693
Operating Costs (Labor, fuel, maintenance, etc.) .....	70
Ad Valorem Tax (b) .....	160
Income Taxes (c) .....	431
Net Profit - 7% x \$8,150 million .....	<u>571</u>
Total Annual Costs .....	<u>2,140</u>

Pipeline Tariff Per Barrel (438,000,000 bbls./yr.) ... \$ 4.89  
 (Includes a pipeline profit of \$1.30)

- \* Allowance for contingency.
- \*\* Assumes 7.5% salvage value.
- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
- (b) 2% of the assessed value of exploration and production assets.
- (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	4.90	4.90	4.90	4.90	4.90	4.90
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>
Indicated Wellhead Value .....	2.60	3.60	4.60	5.60	6.60	7.60
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value) .....	.33	.45	.58	.70	.83	.95
Severance Tax (8% of Wellhead Value) .....	.21	.29	.37	.45	.53	.61
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	.25	.25	.25	.25	.25	.25
Total Operating Costs .....	<u>1.13</u>	<u>1.33</u>	<u>1.54</u>	<u>1.74</u>	<u>1.95</u>	<u>2.15</u>
Operating Profit .....	1.47	2.27	3.06	3.86	4.65	5.45
Taxes at 53% (b) .....	<u>.78</u>	<u>1.20</u>	<u>1.62</u>	<u>2.05</u>	<u>2.46</u>	<u>2.89</u>
Net Profit .....	<u>\$ .69</u>	<u>\$1.07</u>	<u>\$1.44</u>	<u>\$1.81</u>	<u>\$2.19</u>	<u>\$2.56</u>

- (a) 2% of the pipeline's assessed value.
- (b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

<u>Pipeline Costs:</u>	<u>\$ Millions</u>
Cost of Construction (\$6,700 + \$500) .....	7,200
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,650</u>

<u>Annual Operating Costs:</u>	
Pipeline Amortization - \$8,650 x 92.5% * ÷ 35 yrs.	229
Interest Costs @ 10% x (8,650 x 85%) (a) .....	735
Operating Costs (Labor, fuel, maintenance, etc.) ...	70
Ad Valorem Tax (b) .....	173
Income Taxes (c) .....	471
Net Profit (7% x \$8,650 million) .....	606
Total Annual Costs .....	<u>2,284</u>

Pipeline Tariff Per Barrel (547,500,000 bbls./yr.).. \$ 4.17  
 (includes a pipeline profit of \$1.11)

- \* Assumes 7.5% salvage value.
- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
  - (b) 2% of the assessed value of exploration and production assets.
  - (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	4.15	4.15	4.15	4.15	4.15	4.15
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>
Indicated Wellhead Value .....	3.35	4.35	5.35	6.35	7.35	8.35
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value)	.42	.54	.67	.79	.92	1.04
Severance Tax (8% of Wellhead Value)	.26	.35	.43	.51	.59	.67
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	.25	.25	.25	.25	.25	.25
Total Operating Costs .....	<u>1.27</u>	<u>1.48</u>	<u>1.69</u>	<u>1.89</u>	<u>2.10</u>	<u>2.30</u>
Operating Profit .....	2.08	2.87	3.66	4.46	5.25	6.05
Taxes at 53% (b) .....	<u>1.10</u>	<u>1.52</u>	<u>1.94</u>	<u>2.36</u>	<u>2.78</u>	<u>3.20</u>
Net Profit .....	\$ .98	\$ 1.35	\$ 1.72	\$ 2.10	\$ 2.47	\$ 2.85

- (a) 2% of the pipeline's assessed value.
- (b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

<u>Pipeline Costs:</u>	<u>\$ Millions</u>
Cost of Construction (\$7,200 + \$300) .....	7,500
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,950</u>

<u>Annual Operating Costs:</u>	
Pipeline Amortization - \$8,950 x 92.5% * ÷ 35 yrs.	237
Interest Costs @ 10% (\$8,950 x 85%) (a) .....	761
Operating Costs (Labor, fuel, maintenance, etc.) ....	70
Ad Valorem Tax (b) .....	179
Income Taxes (c) .....	494
Net Income (7% x \$8,950) .....	627
Total Annual Costs .....	<u>2,368</u>

Pipeline Tariff Per Barrel (730,000,000 bbls. per yr.) \$ 3.24  
 (Includes a pipeline profit of \$.86)

- \* Assumes 7.5% salvage value
- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
- (b) 2% of the assessed value of exploration and production equipment.
- (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	3.25	3.25	3.25	3.25	3.25	3.25
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>
Indicated Wellhead Value .....	4.25	5.25	6.25	7.25	8.25	9.25
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value)	.53	.66	.78	.91	1.03	1.16
Severance Tax (8% of Wellhead Value)	.34	.42	.50	.58	.66	.74
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	.25	.25	.25	.25	.25	.25
Total Operating Costs .....	<u>1.46</u>	<u>1.67</u>	<u>1.87</u>	<u>2.08</u>	<u>2.28</u>	<u>2.49</u>
Operating Profit .....	2.79	3.58	4.38	5.17	5.97	6.76
Taxes at 53% (b) .....	1.48	1.90	2.32	2.74	3.16	3.58
Net Profit .....	<u>\$1.31</u>	<u>\$1.68</u>	<u>\$2.06</u>	<u>\$2.43</u>	<u>\$2.81</u>	<u>\$3.18</u>

- (a) 2% of the pipeline's assessed value.
- (b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

	PER BARREL					
Selling Price .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....	.69	1.07	1.44	1.81	2.19	2.56
	*	*	*	*	*	*

Producing Profits	%	Annual Volume (Mil. Bbls.)	PER SHARE					
Standard of Ohio ..... (38,256,000 shares)	51.0	223.4	\$4.03	\$6.25	\$ 8.41	\$10.57	\$12.79	\$14.99
Atlantic Richfield ..... (57,834,000 shares)	19.7	86.3	1.03	1.60	2.15	2.70	3.27	3.82
Exxon ..... (225,324,000 shares)	19.7	86.3	.26	.41	.55	.69	.84	.98
Mobil ..... (102,289,000 shares)	3.3	14.5	.10	.15	.20	.26	.31	.36
Phillips ..... (76,113,000 shares)	2.9	12.7	.12	.18	.24	.30	.37	.43
Total Production .....	100.0	438.0						
			*	*	*	*	*	*

Pipeline Profits	%	Share of Profits (Mil.)	PER SHARE					
Standard of Ohio ..... \$190.0	33.34	\$190.0	\$4.98	\$4.98	\$ 4.98	\$ 4.98	\$ 4.98	\$ 4.98
Atlantic Richfield ..... 120.0	21.00	120.0	2.07	2.07	2.07	2.07	2.07	2.07
Exxon ..... 114.0	20.00	114.0	.51	.51	.51	.51	.51	.51
Mobil ..... 29.0	5.00	29.0	.28	.28	.28	.28	.28	.28
Phillips ..... 9.5	1.66	9.5	.12	.12	.12	.12	.12	.12
Total .....	100.00	571.0						
			*	*	*	*	*	*

Total Profits	PER SHARE AGO 531922					
Standard of Ohio .....	\$9.01	\$11.23	\$13.39	\$15.55	\$17.77	\$19.93
Atlantic Richfield .....	3.10	3.67	4.22	4.77	5.34	5.89
Exxon .....	.77	.92	1.06	1.20	1.35	1.49
Mobil .....	.38	.43	.48	.54	.59	.64
Phillips .....	.24	.30	.36	.42	.49	.55

			PER BARREL					
Selling Price .....			\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....			.98	1.35	1.72	2.10	2.47	2.84
			*	*	*	*	*	*
			PER SHARE					
Producing Profits	%	Annual Volume (Mil. Bbls.)						
Standard of Ohio*..... (38,256,000 shares)	51.0	279.2	\$6.59	\$9.09	\$11.58	\$14.14	\$16.63	\$19.12
Atlantic Richfield .....	19.7	107.9	1.83	2.52	3.21	3.92	4.61	5.30
Exxon .....	19.7	107.9	.47	.65	.82	1.01	1.18	1.36
Mobil .....	3.3	18.1	.17	.24	.30	.37	.44	.50
Phillips .....	2.9	15.9	.20	.28	.36	.44	.52	.59
Total Production .....	100.0	547.5	*	*	*	*	*	*
			PER SHARE					
Pipeline Profits	%	Share of Profits (Mil.)						
Standard of Ohio .....	33.34	\$202.0	\$5.28	\$5.28	\$5.28	\$5.28	\$5.28	\$5.28
Atlantic Richfield .....	21.00	127.3	2.20	2.20	2.20	2.20	2.20	2.20
Exxon .....	20.00	121.2	.54	.54	.54	.54	.54	.54
Mobil .....	5.00	30.3	.30	.30	.30	.30	.30	.30
Phillips .....	1.66	10.1	.13	.13	.13	.13	.13	.13
Total .....	100.0	606.0	*	*	*	*	*	*
			PER SHARE					
Standard of Ohio*.....			\$11.87	\$14.37	\$16.86	\$19.42	\$21.91	\$24.40
Atlantic Richfield .....			4.03	4.72	5.41	6.12	6.81	7.50
Exxon .....			1.01	1.19	1.36	1.55	1.72	1.90
Mobil .....			.47	.54	.60	.67	.74	.80
Phillips .....			.33	.41	.49	.57	.65	.72

\*Sohio has a 100% net profits interest in the first 600,000 b/d of its net production and a 25% net profits interest in production between 600,000 b/d - 1,050,000 b/d. Assuming Sohio has 51% of the output, 600,000 b/d would be reached at gross production of 1,344,500 b/d. Therefore, Sohio's net per barrel profit will be lower between 1,344,050 and 1,500,000 b/d. The per share earnings figures have been adjusted accordingly. **AGO 531923**

	PER BARREL					
Selling Price .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....	1.31	1.68	2.06	2.43	2.81	3.18
	*	*	*	*	*	*

Producing Profits	%	Annual Volume (Mil. Bbls.)	PER SHARE						
Standard of Ohio ..... (38,256,000 shares)									
Atlantic Richfield ..... (57,834,000 shares)									
Exxon ..... (225,324,000 shares)									
Mobil ..... (102,289,000 shares)									
Phillips ..... (76,113,000 shares)									
Total Production .....	100.0	730.0	*	*	*	*	*	*	*

Since the Prudhoe Bay Unit is estimated to produce only 1,500,000 b/d this chart cannot be completed.

Pipeline Profits	%	Share of Profits (Mil.)	PER SHARE					
Standard of Ohio .....	33.34	\$209.0	\$5.46	\$5.46	\$ 5.46	\$ 5.46	\$ 5.46	\$ 5.46
Atlantic Richfield .....	21.00	131.7	2.28	2.28	2.28	2.28	2.28	2.28
Exxon .....	20.00	125.4	.56	.56	.56	.56	.56	.56
Mobil .....	5.00	31.4	.31	.31	.31	.31	.31	.31
Phillips .....	1.66	10.4	.14	.14	.14	.14	.14	.14
Total .....	100.0	627.0	*	*	*	*	*	*

Total Profits	PER SHARE					
Standard of Ohio .....						
Atlantic Richfield .....						
Exxon .....						
Mobil .....						
Phillips .....						

[UNCERTAIN]

IN CONNECTION WITH ARBITRAGE ACTIVITIES L.F. ROTHSCHILD & CO. MAY HAVE EITHER LONG OR SHORT POSITIONS IN SOME OF THE ISSUES MENTIONED IN THIS MEMO AND MAY FROM TIME TO TIME BUY OR SELL SOME OF THE ISSUES MENTIONED.

MEMORANDUM  
FROM THE RESEARCH DEPARTMENT



Rosario S. Ilacqua  
Michael L. Gordon  
Warren M. Shimmerlik

A handwritten signature in cursive script, appearing to read 'John Huber', is written over the typed names.

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December 2, 1975

THE TRANS-ALASKA PIPELINE AND PRUDHOE BAY  
CRUDE OIL PRODUCTION  
ANALYSIS OF UNIT COSTS AND PROFIT POTENTIAL

*(Corrected version - replaces similar memo of November 19, 1975)*

There is considerable investor interest in the cost of building and operating the Trans-Alaska Pipeline, the profit to be derived from the line, and the potential profitability from crude oil production in the Prudhoe Bay Field on the North Slope. In order to provide some perspective on these questions, we have compiled several tables that summarize the latest data on pipeline costs, as well as our estimates of the unit tariff that might be established for transporting crude oil through the pipeline. When combined with the selling prices in Los Angeles, these pipeline estimates should provide an indication of the wellhead value and profit potential for North Slope crude oil production (on the assumption that all oil is tankered to the Los Angeles market). We still expect the pipeline to be completed by late 1976 or the spring of 1977 and think that testing should be completed by the summer of 1977. Initial production should start in 1977, and we expect throughput to reach 1,200,000 b/d in the winter of 1977 - 1978. Profits to the operating companies could be limited in 1977 but should be substantial in 1978. Thus far, 320 miles of the total 800 mile pipeline has been installed. In some weeks, as much as 35 miles of pipe has been laid. Considering the road construction, ditching, vertical supports, and terminal facilities, about 50% of the total construction had been completed as of October 27, 1975.

UNIT PIPELINE COSTS AND SELLING PRICES

Unit pipeline costs will be importantly influenced by the level of production. Therefore, we have developed cost estimates based on three different production levels; 1,200,000 b/d, 1,500,000 b/d and 2,000,000 b/d. The cost figures used are the latest available official estimates prepared by Alyeska Pipeline, increased by a 5% contingency factor and the cost of additional pumping stations to expand throughput. The pipeline will be a common carrier and should return a good profit to the owners. The current ownership of the Trans Alaska Pipeline is shown on the following page.

IN CONNECTION WITH ARBITRAGE ACTIVITIES L.F. ROTHSCCHILD & CO. MAY HAVE EITHER LONG OR SHORT POSITIONS IN SOME OF THE ISSUES MENTIONED IN THIS MEMO AND MAY FROM TIME TO TIME BUY OR SELL SOME OF THE ISSUES MENTIONED.

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AGO 531925 +

OWNERSHIP OF THE TRANS-ALASKA PIPELINE

Common Share Price <u>11/26/75</u>		<u>%</u>
70	Standard of Ohio	33.34%
91	Atlantic Richfield	21.00
86	Exxon	20.00
12	British Petroleum	15.84
46	Mobil	5.00
41	Union	1.66
53	Phillips	1.66
15	Amerada Hess	1.50
		<u>100.00%</u>

While production volumes and pipeline tariffs lend themselves to reasonably accurate estimates, the question of future crude oil selling prices is more uncertain and, of course, a most important variable. At this time, there is considerable controversy as to where crude oil prices will be in three or four years. Prices on the West Coast will reflect not only the level established by U.S. Government controls but foreign price trends as well. There is a minority viewpoint that foreign oil prices will decline substantially from present levels as a result of sluggish consumer demand and new production coming on from non-OPEC sources. To us, this thesis is hard to accept, and we would be surprised if foreign oil prices dropped sharply from current levels. Landed prices for foreign crude oil on the West Coast are generally in the range of \$13.00 - \$14.00/barrel exclusive of the present \$2.00/barrel supplementary import fee. Domestic crudes have been selling as high as \$13.50/barrel but may be rolled back to the area of \$11.28/barrel under proposed legislation. In order to cover a broad price range, we are including in our statistical model prices from \$8.00 to \$13.00/barrel and the estimated profit potential at each level. Our long range thinking is that future price levels in the Los Angeles Basin will be in the general area of \$11.00 to \$12.00/barrel, and we would key in on the potential profits indicated at these prices.

#### PRUDHOE BAY UNIT

It is generally estimated that the Prudhoe Bay Field has recoverable reserves of almost 10.0 billion barrels, which can be produced at a rate of 1,500,000 b/d. Ownership distribution of the Prudhoe Bay Unit (a unitized group of owners of the field) has been under study for almost five years, and a preliminary ownership breakdown should be available in the near future. To arrive at a meaningful judgement of the future earnings potential indicated for each of the major participants in the Unit, we have listed below those companies that have reported North Slope oil reserves and have related these figures to the estimated reserves for the entire field. Thus, we have arrived at the following working estimates of the ownership of production from the Prudhoe Bay Unit. The uncertain nature of the estimates deserves emphasis.

ESTIMATED OWNERSHIP OF THE PRUDHOE BAY FIELD

	<u>Gross Reserves (Billion Barrels)</u>	<u>%</u>
Standard of Ohio	5.100	51.0
Atlantic Richfield	1.970	19.7
Exxon	1.970	19.7
Mobil	.325	3.3
Phillips	.290	2.9
Other *	<u>.345</u>	<u>3.4</u>
Total	10.000	100.0

\*Primarily Amerada Hess, Louisiana Land (23) and Getty (169).

#### EARNINGS IMPACT FOR EACH PARTICIPANT

Each member of the Prudhoe Bay Unit will be responsible for the marketing of its gross share of the oil produced. We have made a series of per share earnings estimates for both oil production and ownership of the pipeline based on varying levels of production and selling prices. These estimates are reproduced in the final three tables of this report and should be regarded as a final summary of the numerous variables which have to be reconciled in this exercise.

#### SUMMARY

Because of the rising costs of building the pipeline and developing the Prudhoe Bay Field and the changing tax structure for the industry, the initial per barrel cost for North Slope oil has risen sharply over the past few years. Since oil was first discovered on the North Slope, the depletion allowance has been stricken from the federal tax law and the State of Alaska has increased its severance tax to 8%. We would not rule out some further changes in the tax laws. To us, the initial profit potential is far from being a "bonanza" and, if some Washington proponents of a crude oil price rollback are successful, the viability of producing and transporting North Slope oil and gas could be threatened. The same could be said if foreign oil prices drop sharply and bring down the domestic price structure. The latter threat may well be present for some time. We are encouraged that recently proposed legislation makes some allowance for high cost domestic oil such as that from the North Slope. *FED energy Bill*

Based on production of 1,500,000 b/d and a selling price of \$11.00/barrel, our calculations indicate an annual profit potential of \$600 million from the pipeline and \$1.2 billion from production, a total return of 18% on the estimated \$10 billion initial investment; not a terribly attractive return based on the numerous political and economic risks involved, and well below our earlier estimates.

The final long-term merits of the entire Alaskan project will be importantly influenced by the future returns to be realized from the sale of known natural gas reserves and, of course, additional oil and gas discoveries which should be made on the North Slope. Prospects for the latter appear to be particularly attractive.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

/bjg

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Pipeline Costs:

\$ Millions

Cost of Construction (\$6,375 x 105% *) .....	6,700
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,150</u>

Annual Operating Costs:

Pipeline Amortization - \$8,150 x 92.5% ** ÷ 35 yrs.	215
Interest Costs at 10% x (85% of \$8,150 million) (a) ..	693
Operating Costs (Labor, fuel, maintenance, etc.) .....	70
Ad Valorem Tax (b) .....	160
Income Taxes (c) .....	431
Net Profit - 7% x \$8,150 million .....	571
Total Annual Costs .....	<u>2,140</u>

*No Separation  
STATE or Federal*

Pipeline Tariff Per Barrel (438,000,000 bbls./yr.) .. \$ 4.39  
(Includes a pipeline profit of \$1.30)

- \* Allowance for contingency.
- \*\* Assumes 7.5% salvage value.
- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
- (b) 2% of the assessed value of exploration and production assets.
- (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	4.90	4.90	4.90	4.90	4.90	4.90
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>	<u>5.40</u>
Indicated Wellhead Value .....	2.60	3.60	4.60	5.60	6.60	7.60
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value) .....	.33	.45	.58	.70	.83	.95
Severance Tax (8% of Wellhead Value) .....	.21	.29	.37	.45	.53	.61
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	.25	.25	.25	.25	.25	.25
Total Operating Costs .....	<u>1.13</u>	<u>1.33</u>	<u>1.54</u>	<u>1.74</u>	<u>1.95</u>	<u>2.15</u>
Operating Profit .....	1.47	2.27	3.06	3.86	4.65	5.45
Taxes at 53% (b) .....	.78	1.20	1.62	2.05	2.46	2.89
Net Profit .....	<u>\$ .69</u>	<u>\$ 1.07</u>	<u>\$ 1.44</u>	<u>\$ 1.81</u>	<u>\$ 2.19</u>	<u>\$ 2.56</u>

- (a) 2% of the pipeline's assessed value.
- (b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

Pipeline Costs:

\$ Millions

Cost of Construction (\$6,700 + \$500) .....	7,200
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,650</u>

Annual Operating Costs:

Pipeline Amortization - \$8,650 x 92.5% * ÷ 35 yrs.	229
Interest Costs @ 10% x (8,650 x 85%) (a) .....	735
Operating Costs (Labor, fuel, maintenance, etc.) ...	70
Ad Valorem Tax (b) .....	173
Income Taxes (c) .....	471
Net Profit (7% x \$8,650 million) .....	606
Total Annual Costs .....	<u>2,284</u>

Pipeline Tariff Per Barrel (547,500,000 bbls./yr.).. \$ 4.17  
 (Includes a pipeline profit of \$1.11)

\* Assumes 7.5% salvage value.

- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
- (b) 2% of the assessed value of expliration and production assets.
- (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	4.15	4.15	4.15	4.15	4.15	4.15
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>	<u>4.65</u>
Indicated Wellhead Value .....	3.35	4.35	5.35	6.35	7.35	8.35
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value) .....	.42	.54	.67	.79	.92	1.04
Severance Tax (8% of Wellhead Value) .....	.26	.35	.43	.51	.59	.67
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	.25	.25	.25	.25	.25	.25
Total Operating Costs .....	<u>1.27</u>	<u>1.48</u>	<u>1.69</u>	<u>1.89</u>	<u>2.10</u>	<u>2.30</u>
Operating Profit .....	2.08	2.87	3.66	4.46	5.25	6.05
Taxes at 53% (b) .....	1.10	1.52	1.94	2.36	2.78	3.21
Net Profit .....	<u>\$ .98</u>	<u>\$ 1.35</u>	<u>\$ 1.72</u>	<u>\$ 2.10</u>	<u>\$ 2.47</u>	<u>\$ 2.84</u>

(a) 2% of the pipeline's assessed value.

(b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

<u>Pipeline Costs:</u>	<u>\$ Millions</u>
Cost of Construction (\$7,200 + \$300) .....	7,500
Capitalized Interest (1974 - 1977) .....	1,450
Total .....	<u>8,950</u>

<u>Annual Operating Costs:</u>	
Pipeline Amortization - \$8,950 x 92.5% * ÷ 35 yrs.	237
Interest Costs @ 10% (\$8,950 x 85%) (a).....	761
Operating Costs (Labor, fuel, maintenance, etc.) ....	70
Ad Valorem Tax (b) .....	179
Income Taxes (c) .....	494
Net Income (7% x \$8,950) .....	<u>627</u>
Total Annual Costs .....	<u>2,368</u>

Pipeline Tariff Per Barrel (730,000,000 bbls. per yr.) \$ 3.24  
 (Includes a pipeline profit of \$.86)

- \* Assumes 7.5% salvage value
- (a) With the commencement of production, substantial sums will be applied to the outstanding loans and interest payments should decline at a significant rate.
- (b) 2% of the assessed value of exploration and production equipment.
- (c) Effective 53% tax rate is composed of 48% federal tax and 9.36% state tax (deductible for computing federal taxes). We have also allowed for investment tax credits estimated at \$500 million and deductible at a rate of \$100 million/year for the first five years.

Per Barrel Profit on Gross Production:

Selling Price (Los Angeles) .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Pipeline Tariff .....	3.25	3.25	3.25	3.25	3.25	3.25
Tanker to L. A. ....	.50	.50	.50	.50	.50	.50
Total Transportation .....	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>	<u>3.75</u>
Indicated Wellhead Value .....	4.25	5.25	6.25	7.25	8.25	9.25
<u>Operating Costs</u>						
Royalty (12.5% of Wellhead Value) .....	.53	.66	.78	.91	1.03	1.16
Severance Tax (8% of Wellhead Value) .....	.34	.42	.50	.58	.66	.74
Ad Valorem Tax (a) .....	.09	.09	.09	.09	.09	.09
Production Costs .....	.25	.25	.25	.25	.25	.25
Amortization .....	<u>.25</u>	<u>.25</u>	<u>.25</u>	<u>.25</u>	<u>.25</u>	<u>.25</u>
Total Operating Costs .....	1.46	1.67	1.87	2.08	2.28	2.49
Operating Profit .....	2.79	3.58	4.38	5.17	5.97	6.76
Taxes at 53% (b) .....	<u>1.48</u>	<u>1.90</u>	<u>2.32</u>	<u>2.74</u>	<u>3.16</u>	<u>3.58</u>
Net Profit .....	<u>\$1.31</u>	<u>\$1.68</u>	<u>\$2.06</u>	<u>\$2.43</u>	<u>\$2.81</u>	<u>\$3.18</u>

- (a) 2% of the pipeline's assessed value.
- (b) Effective 53% rate is composed of 48% federal income tax plus 9.36% state tax (deductible for computing federal taxes).

GROSS PRODUCTION - 1,200,000 b/d (438,000,000 barrels/year)

	<u>PER BARREL</u>					
	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Selling Price .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....	.69	1.07	1.44	1.81	2.19	2.56
	*	*	*	*	*	*

<u>Producing Profits</u>	<u>%</u>	<u>Annual Volume (Mil. Bbls.)</u>	<u>PER SHARE</u>					
Standard of Ohio .....	51.0	223.4	\$2.64	\$4.10	\$5.51	\$6.93	\$8.38	\$9.80
(58,502,724 shares)								
Atlantic Richfield .....	19.7	86.3	1.03	1.60	2.15	2.70	3.27	3.82
(57,834,000 shares)								
Exxon .....	19.7	86.3	.26	.41	.55	.69	.84	.98
(225,324,000 shares)								
Mobil .....	3.3	14.5	.10	.15	.20	.26	.31	.36
(102,289,000 shares)								
Phillips .....	2.9	12.7	.12	.18	.24	.30	.37	.43
(76,113,000 shares)								
Total Production .....	100.0	438.0						
			*	*	*	*	*	*

<u>Pipeline Profits</u>	<u>%</u>	<u>Share of Profits (Mil.)</u>	<u>PER SHARE</u>					
Standard of Ohio .....	33.34	\$190.0	\$3.26	\$3.26	\$3.26	\$3.26	\$3.26	\$3.26
Atlantic Richfield .....	21.00	120.0	2.07	2.07	2.07	2.07	2.07	2.07
Exxon .....	20.00	114.0	.51	.51	.51	.51	.51	.51
Mobil .....	5.00	29.0	.28	.28	.28	.28	.28	.28
Phillips .....	1.66	9.5	.12	.12	.12	.12	.12	.12
Total .....	100.00	571.0						
			*	*	*	*	*	*

<u>Total Profits</u>	<u>PER SHARE</u>					
Standard of Ohio .....	\$5.90	\$7.36	\$8.77	\$10.19	\$11.64	\$13.06
Atlantic Richfield .....	3.10	3.67	4.22	4.77	5.34	5.89
Exxon .....	.77	.92	1.06	1.20	1.35	1.49
Mobil .....	.38	.43	.48	.54	.59	.64
Phillips .....	.24	.30	.36	.42	.49	.55

			PER BARREL					
			\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Selling Price .....			\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....			.98	1.35	1.72	2.10	2.47	2.84
			*	*	*	*	*	*
			PER SHARE					
<u>Producing Profits</u>	<u>%</u>	<u>Annual Volume (Mil. Bbls.)</u>						
Standard of Ohio*..... (60,928,724 shares)	51.0	279.2 (257.5)	\$4.15	\$5.72	\$ 7.29	\$ 8.90	\$10.46	\$12.03
Atlantic Richfield .....	19.7	107.9	1.83	2.52	3.21	3.92	4.61	5.30
Exxon .....	19.7	107.9	.47	.65	.82	1.01	1.18	1.36
Mobil .....	3.3	18.1	.17	.24	.30	.37	.44	.50
Phillips .....	2.9	15.9	.20	.28	.36	.44	.52	.59
Total Production .....	100.0	547.5						
			*	*	*	*	*	*
<u>Pipeline Profits</u>	<u>%</u>	<u>Share of Profits (Mil.)</u>	PER SHARE					
Standard of Ohio .....	33.34	\$202.0	\$3.32	\$3.32	\$ 3.32	\$ 3.32	\$ 3.32	\$ 3.32
Atlantic Richfield .....	21.00	127.3	2.20	2.20	2.20	2.20	2.20	2.20
Exxon .....	20.00	121.2	.54	.54	.54	.54	.54	.54
Mobil .....	5.00	30.3	.30	.30	.30	.30	.30	.30
Phillips .....	1.66	10.1	.13	.13	.13	.13	.13	.13
Total .....	100.0	606.0						
			*	*	*	*	*	*
<u>Total Profits</u>			PER SHARE					
Standard of Ohio*.....			\$7.47	\$9.04	\$10.61	\$12.22	\$13.78	\$15.35
Atlantic Richfield .....			4.03	4.72	5.41	6.12	6.81	7.50
Exxon .....			1.01	1.19	1.36	1.55	1.72	1.90
Mobil .....			.47	.54	.60	.67	.74	.80
Phillips .....			.33	.41	.49	.57	.65	.72

\*Refer to footnote on page 11 for explanation of Sohio's outstanding common shares and per barrel profit potential.

	PER BARREL					
Selling Price .....	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00	\$13.00
Unit Profit .....	1.31	1.68	2.06	2.43	2.81	3.18
	*	*	*	*	*	*

Producing Profits	%	Annual Volume (Mil. Bbls.)	PER SHARE						
Standard of Ohio .....									
(60,928,724 shares)									
Atlantic Richfield .....									
(57,834,000 shares)									
Exxon .....									
(225,324,000 shares)									
Mobil .....									
(102,289,000 shares)									
Phillips .....									
(76,113,000 shares)									
Total Production .....	100.0	730.0							
			*	*	*	*	*	*	*

Since the Prudhoe Bay Unit is estimated to produce only 1,500,000 b/d this chart cannot be completed.

Pipeline Profits	%	Share of Profits (Mil.)	PER SHARE					
Standard of Ohio .....	33.34	\$209.0	\$5.46	\$5.46	\$ 5.46	\$ 5.46	\$ 5.46	\$ 5.46
Atlantic Richfield .....	21.00	131.7	2.28	2.28	2.28	2.28	2.28	2.28
Exxon .....	20.00	125.4	.56	.56	.56	.56	.56	.56
Mobil .....	5.00	31.4	.31	.31	.31	.31	.31	.31
Phillips .....	1.66	10.4	.14	.14	.14	.14	.14	.14
Total .....	100.0	627.0						
			*	*	*	*	*	*

Total Profits

Standard of Ohio .....
Atlantic Richfield .....
Exxon .....
Mobil .....
Phillips .....

[UNCERTAIN]

STANDARD OIL OF OHIOFULLY DILUTED COMMON SHARES OUTSTANDING BASED ON  
PRODUCTION LEVELS AT PRUDHOE BAY

	Prudhoe Bay <u>PRODUCTION</u>		----- SOHIO COMMON SHARES -----		
	-- Barrels Per Day -- <u>Gross</u>	Sohio <u>Net #</u>	Presently <u>Outstanding</u>	Equivalent Shares Issued <u>to BP</u>	Fully Diluted <u>Total</u>
3/31/75	-0-	-0-	27,324,093	8,932,000	36,551,000**
10/2/75	-0-	-0-	29,468,724	8,932,000	38,613,000**
	448,000	200,000	29,468,724	13,806,000	43,274,724
	560,000	250,000	29,468,724	15,740,000	45,208,724
	672,000	300,000	29,468,724	17,866,000	47,334,724
	784,000	350,000	29,468,724	20,218,000	49,686,724
	896,000	400,000	29,468,724	22,830,000	52,298,724
	1,008,000	450,000	29,468,724	27,894,000	57,362,724
	1,120,000	500,000	29,468,724	29,034,000	58,502,724
	1,232,000	550,000	29,468,724	30,222,000	59,690,724
	1,345,000	600,000	29,468,724	31,460,000	60,928,724
	1,500,000	669,375	29,468,724	31,460,000	60,928,724

# 51% of Net Production

\*\*As reported in October 2, 1975 prospectus.

\*As Sohio's net production rises, the number of shares it will have to issue to BP increases and its net profits interest is adjusted. Sohio has a 100% net profits interest in the first 600,000 b/d of net production and a 25% net profits interest in production between 600,000 b/d and 1,050,000 b/d. After providing for the 12.5% state royalty, we estimate Sohio's 51% share of net production would reach 600,000 b/d at a gross production level of 1,344,500 b/d. Therefore, Sohio's per barrel profit on gross production between 1,344,500 b/d and 1,500,000 b/d would be about 25% of that on gross production at lower levels. The above table lists the additional common shares to be issued to BP as production rises. Also, the per share profit potential for Sohio has been adjusted to reflect both the increased number of shares to be outstanding as well as the reduced per barrel profit figure anticipated after gross production exceeds 1,344,500 b/d.

IN CONNECTION WITH ARBITRAGE ACTIVITIES L.F. ROTHSCHILD & CO. MAY HAVE EITHER LONG OR SHORT POSITIONS IN SOME OF THE ISSUES MENTIONED IN THIS MEMO AND MAY FROM TIME TO TIME BUY OR SELL SOME OF THE ISSUES MENTIONED.

AGG 531935

SCOMM

#13:10

*Note out 3/4/74*

BILL AND RESOLUTION REQUEST

Request for Bill (if needed)  
By Thomas  
Subject:

Recorded   
Draft 1 2 3 4 5 6 FINAL  
OK for final Thomas  
Deliver to \_\_\_\_\_  
Date delivered \_\_\_\_\_

Pensions--Return of funds

*retirement*

Drafter (Russ) ten  
Assigned by J  
Date in 2-26-74 Due on \_\_\_\_\_

Instructions to typist  
SPONSOR BLANK

Special Instructions

Thomas says he has heard that if a person pays into a pension fund in Alaska, then for some reason doesn't qualify, he can't get back the money he has paid in. If this is so, wants to make it so he can.

**OBJECT OF LEGISLATIVE ACTION**

Bill

\_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.

\_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

**SOURCES OF LAW AND FACT**

\_\_\_ Journals and Legislative Reporting Service for previous session bills.

\_\_\_ Check with agency concerned (with requestor's permission).

\_\_\_ Laws of other states.

\_\_\_ Bar Foundation Bill Reporting Service.

\_\_\_ Publication "Suggested State Legislation."

\_\_\_ Professional and industrial groups and services (with requestor's permission).

\_\_\_ Alaska Delegation newsletters.

\_\_\_ Other \_\_\_\_\_

**INTERPRETATION**

\_\_\_ AS annotations.

\_\_\_ Shepard's Citations.

\_\_\_ Alaska Attorney General Opinions.

\_\_\_ Legal Reference Works.

**LEGAL CHECK**

\_\_\_ Constitutional aspects considered.

\_\_\_ Conformity with one-subject rule.

\_\_\_ Law not local or special unless general will not suffice.

\_\_\_ Subject reflected in title.

\_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

**DRAFTING CHECK**

\_\_\_ Organize bill.

\_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;

\_\_\_ Style, grammar, and words.

\_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.

\_\_\_ Recheck AS citations and internal references.

**ADVICE AND CONSULTATION**

\_\_\_ Confer with appropriate staff members.

\_\_\_ Consult with legislator.

\_\_\_ Advise revisor of final numbering.

\_\_\_ Make recommended changes.

\_\_\_ Submit for final approval.

ALASKA  
STATE - LEGISLATURE

March 4, 1974

**MEMORANDUM**

Dear Senator Thomas:

In reference to your request for a bill that would provide that any pension funds paid in must be returned if later the person does not qualify, we checked with the Division of Retirement and they say this is already done. Not only must the pension funds be returned, but interest must be paid on those funds. If I can do anything more on this please contact me and we'll go from there.

Russ Mulder

LAA

AGO 531937

States  
Retirement - Admin.

Notes sent 3/4/74

BILL AND RESOLUTION REQUEST

Request for Info  
By Tillion  
Subject:

Recorded   
Draft 1 2 3 4 5 6 FINAL  
OK for final Tillion  
Deliver to \_\_\_\_\_  
Date delivered \_\_\_\_\_

Retirement Credits--Legislators

Drafter (Russ) Ken  
Assigned by J  
Date in 2-20-74 Due on \_\_\_\_\_

Instructions to typist

Special Instructions

Banfiled has a bill in canceling the \$4000 expense allowance and adding the \$4000 to their salaries. One of the reasons given is so that legislators receive credit for 13,000 not 9000. Clem thinks that under 39.35.680 (4) that \$4000 is already credited toward their retirement benefits. My first impression from reading it is no, see what you think and check with department. Allwances are not compensation I don't think in the ordinary sense of the word

OBJECT OF LEGISLATIVE ACTION

- Bill
- \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- \_\_\_ Check with revisor of statutes concerning section numbering.
- Resolution
- \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- \_\_\_ Journals and Legislative Reporting Service for previous session bills.
- \_\_\_ Check with agency concerned (with requestor's permission).
- \_\_\_ Laws of other states.
- \_\_\_ Bar Foundation Bill Reporting Service.
- \_\_\_ Publication "Suggested State Legislation."
- \_\_\_ Professional and industrial groups and services (with requestor's permission).
- \_\_\_ Alaska Delegation newsletters.
- \_\_\_ Other \_\_\_\_\_

INTERPRETATION

- \_\_\_ AS annotations.
- \_\_\_ Shepard's Citations.
- \_\_\_ Alaska Attorney General Opinions.
- \_\_\_ Legal Reference Works.

LEGAL CHECK

- \_\_\_ Constitutional aspects considered.
- \_\_\_ Conformity with one-subject rule.
- \_\_\_ Law not local or special unless general will not suffice.
- \_\_\_ Subject reflected in title.
- \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- \_\_\_ Organize bill.
- \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;
- \_\_\_ Style, grammar, and words.
- \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- \_\_\_ Confer with appropriate staff members.
- \_\_\_ Consult with legislator.
- \_\_\_ Advise revisor of final numbering.
- \_\_\_ Make recommended changes.
- \_\_\_ Submit for final approval.

ALASKA  
STATE LEGISLATURE

*MEMORANDUM*

March 4, 1974

Dear Clem:

In regard to information request relating to whether or not your legislative \$4,000 would be counted as or, added to, your service credit computations, the Division of ~~Rxx~~ retirement is 99% sure it would not. They will check further and if they find out differently they will let me know. I'll naturally contact you if I hear anything from them.

Russ Mulder

LAA

AGO 531939

note out 2/27/94

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Bevrie  
 Subject: State Teachers Retirement System; Major Medical Insurance  
 Drafter Russ  
 Assigned by R  
 Date in 2/15/74 Due on ASAP  
 Reg. taken by: Stu

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final Bevrie  
 Deliver to \_\_\_\_\_  
 Date delivered \_\_\_\_\_

Instructions to typist  
House H.F. 55

Special Instructions

OBJECT OF LEGISLATIVE ACTION

- Bill
- Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
  - Check with revisor of statutes concerning section numbering.
- Resolution
- Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- Journals and Legislative Reporting Service for previous session bills.
- Check with agency concerned (with requestor's permission).
- Laws of other states.
- Bar Foundation Bill Reporting Service.
- Publication "Suggested State Legislation."
- Professional and industrial groups and services (with requestor's permission).
- Alaska Delegation newsletters.
- Other \_\_\_\_\_

INTERPRETATION

- AS annotations.
- Shepard's Citations.
- Alaska Attorney General Opinions.
- Legal Reference Works.

LEGAL CHECK

- Constitutional aspects considered.
- Conformity with one-subject rule.
- Law not local or special unless general will not suffice.
- Subject reflected in title.
- Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- Organize bill.
- Provide effective date clause if effective date other than constitutional; reference to in title;
- Style, grammar, and words.
- Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- Confer with appropriate staff members.
- Consult with legislator.
- Advise revisor of final numbering.
- Make recommended changes.
- Submit for final approval.

## A Bill to provide for Major Medical Insurance for Retired Teachers

### Present Problem

Some School Districts provide part or all major medical insurance for their employees but upon retirement the group plan is no longer available

Retired teachers at age of 55 or 60 must shop for very expensive insurance to be covered until they are eligible for Medicare. And in some cases can not get insurance

### Solution

The State Major Medical Insurance (Blue Cross, Washington/Alaska) provides for retirees to continue coverage at the group rate by paying the group premium.

A Bill should be written to revise the state insurance to provide for:

1. An open enrollment period of 60 days in which any teacher retiring under the State Teachers Retirement may elect to be covered at the state group rate by payment of the premium.
2. An open enrollment period until January 1, 1975 in which any teacher now retired may enroll upon payment of the state group premium.

*Hold for sponsor action*

BILL AND RESOLUTION REQUEST

Request for Bill  
By Meehins  
Subject: Higher step increases for  
state troopers who have  
additional ed + for experience  
Drafter \_\_\_\_\_  
Assigned by Meehins  
Date in \_\_\_\_\_ Due on \_\_\_\_\_

Recorded   
Draft 1 2 3 4 5 6 FINAL  
OK for final \_\_\_\_\_  
Deliver to \_\_\_\_\_  
Date delivered \_\_\_\_\_  
Instructions to typist \_\_\_\_\_

Special Instructions AS 39.075.150 (4) seems to apply

OBJECT OF LEGISLATIVE ACTION

- Bill
- \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- \_\_\_ Check with revisor of statutes concerning section numbering.
- Resolution
- \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- \_\_\_ Journals and Legislative Reporting Service for previous session bills.
- \_\_\_ Check with agency concerned (with requestor's permission).
- \_\_\_ Laws of other states.
- \_\_\_ Bar Foundation Bill Reporting Service.
- \_\_\_ Publication "Suggested State Legislation."
- \_\_\_ Professional and industrial groups and services (with requestor's permission).
- \_\_\_ Alaska Delegation newsletters.
- \_\_\_ Other \_\_\_\_\_

INTERPRETATION

- \_\_\_ AS annotations.
- \_\_\_ Shepard's Citations.
- \_\_\_ Alaska Attorney General Opinions.
- \_\_\_ Legal Reference Works.

LEGAL CHECK

- \_\_\_ Constitutional aspects considered.
- \_\_\_ Conformity with one-subject rule.
- \_\_\_ Law not local or special unless general will not suffice.
- \_\_\_ Subject reflected in title.
- \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- \_\_\_ Organize bill.
- \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;
- \_\_\_ Style, grammar, and words.
- \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- \_\_\_ Confer with appropriate staff members.
- \_\_\_ Consult with legislator.
- \_\_\_ Advise revisor of final numbering.
- \_\_\_ Make recommended changes.
- \_\_\_ Submit for final approval.

\*Section 1, AS 44.46.030 is repealed.

\*Section 2, AS 44.46.040 is repealed.

\*Section 3, AS 44.46.050 is repealed.

\*Section 4, AS 46.03.020 is renumbered AS 46.03.080 and a new AS 46.03.020 reads:

AS 46.03.020 ENVIRONMENTAL CONSERVATION COMMISSION

a. There is created within the Department of Environmental Conservation, an Environmental Conservation Commission consisting of seven members appointed by the governor. In so far as practicable, these members shall be: a licensed physician knowledgeable in environmental health, a professional engineer experienced in the field of environmental engineering, an attorney knowledgeable in the field of environmental law, a representative of a local or regional environmental control agency, an industrial representative experienced in environmental protection, a representative of an environmental conservation organization, and one member chosen at large. The Commission shall select its own chairman from among its members.

b. The Commissioner of Environmental Conservation shall serve as a non-voting member of the Commission and shall act as Commission secretary.

c. No voting member of the Commission can be an officer or employee of a State Department or agency.

d. Of the members of the Commission first appointed by the Governor, two shall be appointed for a term of one year, two for a term of two years, and three for a term of three years. Initial terms begin on July 1, 1974. Thereafter, all appointments shall be made for terms of three years, beginning on July 1 of the year in which the appointment is made. Members of the Board shall serve at the pleasure of the governor. In case of a vacancy other than one arising by expiration of term, an appointment to fill the vacancy shall be made by the Governor for the remainder of the unexpired term.

\*Section 5, AS 46.03.030 is renumbered AS 46.03.090 and a new AS 46.03.030 reads:

AS 46.03.030 MEETINGS.

The Commission shall hold at least two regular meetings each year and additional meetings which the Chairman considers desirable, at a place and time fixed by the Chairman.

Further, special meetings shall be called by the Chairman upon the written request of three members. Four members shall constitute a quorum.

\*Section 6 AS 46.03.040 is renumbered 46.03.100 and a new AS 46.03.040 reads:

AS 46.03.040 EXPENSE AND PER DIEM OF COMMISSION MEMBERS

Each member of the Commission is entitled to travel expenses and per diem allowed by law for each day going to and from and for each day in actual attendance at Commission meetings and other meetings or conferences authorized by the Commission.

\*Section 7 AS 46.03.050 is renumbered 46.03.110 and a new AS 46.03.050 reads:

AS 46.03.050 COMMISSION PERSONNEL

The Commissioner of Environmental Conservation shall, with the approval of the Commission, employ an executive director who may be a member of the Commission and who shall be an experienced administrator. The Commission may employ engineers, examiners, hearing officers, experts, clerks, accountants and such other assistance as it considers necessary and shall set the compensation for them when compensation for these employees has not already been established by the State.

\*Section 8 AS 46.03.060 is renumbered 46.03.120 and a new AS 46.03.060 reads:

AS 46.03.060 ADMINISTRATIVE SUPERVISION.

The Commission is under the general administrative supervision of the Commissioner of Environmental Conservation.

\*Section 9, AS 46.03.070 is renumbered AS 46.03.130 and a new AS 46.03.070 reads:

AS 46.03.070 POWERS OF THE COMMISSION

In addition to the powers conferred on it by law, the Commission shall have the power to:

1. Adopt regulations necessary to effectuate the purposes of this chapter including by way of example and not limitation, regulations providing for:

A. Control, prevention and abatement of air, water, land or subsurface land pollution.

B. Safeguard standards for petroleum and natural gas pipeline construction, operation, modification, or alteration.

- C. Protection of public water supplies by setting standards for the construction, improvement and maintenance of public water supply systems.
- D. Collection and disposal of sewage and industrial waste.
- E. Collection and disposal of garbage, refuse and other discarded solid material from industrial, commercial, agricultural, and community activities or operations.
- F. Control of radiation sources to prohibit and prevent unnecessary radiation.
- G. Control of pesticides.
- H. Such other purposes as may be required for the implementation of the policy declared in Sec. 10 of this chapter.

2. Conduct investigations and hold hearings and compel the attendance of witnesses and the production of accounts, books and documents by the issuance of subpoenas.

3. Act as a hearing board for appeals submitted by persons affected by regulations or orders issued pursuant to this chapter.

\*Section 10. The original AS 46.03.080 is renumbered AS 46.03.140, and AS 46.03.080, originally 46.03.020, is amended to read:

AS 46.03.080 POWERS OF THE DEPARTMENT

The department shall have power to

- 1. enforce the provisions of this Chapter and all of the orders, regulations, and rules adopted by the Commission pursuant to this chapter;
- 2. enter into contracts necessary or convenient to carry out the functions, powers and duties of the Department;
- 3. review and appraise programs and activities of State Departments and agencies in light of the policies set out in Section 10 of this Chapter for the purpose of determining the extent to which the program and activities are contributing to the achievement of that policy and to make recommendations to the departments and agencies including but not limited to environmental guidelines;
- 4. consult and cooperate with
  - A. Officials and representatives of any non-profit corporation or organization in the State;

B. Persons, organizations and groups, public and private, using, served by, interested in or concerned with the environment of the State;

5. Appear and participate in proceedings before any State or Federal Regulatory agency involving or affecting the purposes of the Department;

6. Undertake studies, inquiries, surveys, or analyses it may consider essential to the accomplishment of the purposes of the department. These activities may be carried out by the personnel of the department or in cooperation with public or private agencies including educational, civic and research organizations, colleges, universities, institutes and foundations.

7. At reasonable times enter and inspect with the consent of the owner or occupier any property or premises, to investigate either actual or suspected sources of pollution or contamination, or to ascertain compliance or noncompliance with any regulation promulgated under this chapter. Information relating to secret processes or methods of manufacture discovered during investigation shall be confidential.

8. Advise and cooperate with municipal, regional, and other local agencies and officials in the State to carry out the purposes of this Chapter.

9. Act as the official agency of the State in all matters affecting the purposes of the Department under federal laws now or hereafter.

\*Section 11. The original AS 46.03.090 is renumbered AS 46.03.150 and AS 46.03.090 was originally AS 46.03.030.

\*Section 12. The original AS 46.03.100 is renumbered AS 46.03.160 and AS 46.03.100, originally AS 46.03.040, is amended to read:

AS 46.03.100 ALASKA ENVIRONMENTAL PLAN

b. The department shall submit the first plan to the commission for approval on or before January 1, 1975. The commission shall submit the original plan and periodic revisions of the plan to the governor. The plan is effective upon approval by the governor and shall serve thereafter as a guide to the public, state government, and political subdivisions of the State in the development of the environment and natural resources of the State.

\*Section 13. The original AS 46.03.110 is renumbered AS 46.03.170. AS 46.03.110 was originally AS 46.03.050.

\*Section 14. The original AS 46.03.120 is renumbered AS 46.03.180. AS 46.03.120, originally AS 46.03.060, is amended to read:

AS 46.03.120 WATER POLLUTION CONTROL PLAN.

The department shall with the approval of the commission develop comprehensive plans for water pollution control in the State and conduct investigations it considers advisable and necessary for the discharge of its duties.

\*Section 15. The original AS 46.03.130 is renumbered AS 46.03.190. AS 46.03.130, originally AS 46.03.070 is amended to read:

AS 46.03.130 POLLUTION STANDARDS

After public hearing, the commission [department] may adopt standards and make them public and determine what qualities and properties of water indicate a polluted condition actually or potentially deleterious, harmful, detrimental or injurious to the public health, safety or welfare, to terrestrial and aquatic life or their growth and propagation, or to the use of waters for domestic, commercial, industrial, agricultural, recreational, or other reasonable purposes.

\*Section 16. The original AS 46.03.140 is renumbered AS 46.03.200. AS 46.03.140, originally 46.03.080, is amended to read:

AS 46.03.140 QUALITY AND PURITY STANDARDS

After study and public hearing held upon due notice, the commission [department] may establish standards of quality and purity or group the designated waters of the state into classes as to minimum quality and purity, or both. The commission [department] shall classify waters in accordance with considerations of best usage in the interest of the public. The commission [department] may alter and modify classifications after hearing.

\*Section 17. The original AS 46.03.150 is renumbered AS 46.03.210. AS 46.03.150, originally AS 46.03.090, is amended to read:

AS 46.03.150 PLANS FOR POLLUTION DISPOSAL

**AGO 531947**

The commission [department] may require the submission of plans for sewage and industrial waste disposal or treatment or both for a publicly or privately owned or operated

industrial establishment, community, public or private property subdivision or development.

\*Section 18. The original AS 46.03.160 is renumbered AS 46.03.220. AS 46.03.160 was originally AS 46.03.100.

\*Section 19. The original AS 46.03.170 is renumbered AS 46.03.230. AS 46.03.170 was originally AS 46.03.110.

\*Section 20. The original AS 46.03.180 is renumbered AS 46.03.24. AS 46.03.180, originally AS 46.03.120, is amended to read:

AS 46.03.180 TERMINATION OR MODIFICATION OF WASTE DISPOSAL PERMIT.

c. A person subject to a permit termination or modification as described in a. and b. of this section, upon written request and in accordance with the rules of the commission, is entitled to a hearing before the commission on the termination or modification. Following the hearing the termination or modification may be affirmed, altered, or withdrawn.

\*Section 21. The original AS 46.03.190 is renumbered AS 46.03.250. AS 46.03.190, originally AS 46.03.130 is amended to read:

AS 46.03.190 COMPLIANCE ORDER

a. When, in the opinion of the department, a person is violating or is about to violate regulations and standards established under the provisions of secs. 120-160 [60-100] of this chapter or any other regulations concerning water pollution, the department shall notify the person of its determination and notice do not constitute an order under sec. 820 of this chapter.

d. Within 30 days of receipt, a person affected may make application for a hearing before the commission to review the compliance order. Failure to make application for hearing within 30 days of receipt of a compliance order constitutes a waiver of the recipients' right of review.

e. The commission [department] shall hold a hearing within 20 days of receipt of the application. After hearing the Commission [department] may rescind, modify or affirm a compliance order.

\*Section 22. The original AS 46.03.200 is renumbered AS 46.03.260. AS 46.03.200 was originally AS 46.03.140.

\*Section 23. The original AS 46.03.210 is renumbered AS 46.03.270. AS 46.03.210 was originally AS 46.03.150.

\*Section 24. The original AS 46.03.220 is renumbered AS 46.03.280. AS 46.03.220, originally AS 46.03.160, is amended to read:

AS 46.03.220 ADDITIONAL CONTAMINANT CONTROL MEASURES.

a. The department may require that notice be given to it before the undertaking of the construction, installation or establishment of particular types of classes of new air contaminant sources specified in its regulations. Within 15 days of its receipt of the notice, the department shall require, as a condition precedent to the undertaking, the submission of plans and other information it considers necessary in order to determine whether the proposed undertaking will be in accord with applicable regulations in force under secs. 200-210 [140-150] of this chapter.

b. Within 30 days of receipt of the plans and information for a proposed undertaking, the department shall either approve the undertaking and issue a permit, or if the department determines that the proposed undertaking will not meet the requirements of secs. 200-210 [140-150] of this chapter and applicable regulations, it shall issue a prohibition order against the undertaking.

c. A person subject to a prohibition order as described in b. of this section on written request, and in accordance with regulations of the commission [department], is entitled to a hearing before the Commission on the order. Following the hearing the order may be affirmed, modified or withdrawn.

\*Section 25. The original AS 46.03.230 is renumbered AS 46.03.290. AS 46.03.230, originally AS 46.03.170, is amended to read:

AS 46.03.230 VARIANCES

a. A person who owns or is in control of a plant, building, structure, establishment, process or equipment may apply to the commission [department] for a variance from applicable emission control regulations. The commission [department] may grant the variance, but only after public hearing following due notice, if it finds that

1. the emissions occurring or proposed to occur do not endanger human health or safety; and

2. compliance with the rules or regulations from which variance is sought would produce severe hardship without benefits to the public.

b. No variance may be granted under this section until the commission [department] has considered the relative interests of the applicant, other owners of property likely to be affected by the emissions and the general public.

c. A variance granted under a. of this section, shall be for periods and under conditions consistent with the reasons for it and within the following limitations:

1. if the variance is granted on the ground that there is no practicable means known or available for the adequate prevention, abatement or control of the air pollution involved, it shall be only until the necessary means for prevention, abatement, or control become known and available, subject to the taking of substitute or alternate measures that the department may prescribe;

2. if the variance is granted on the ground that compliance with the particular requirement from which variance is sought will necessitate the taking of measures which, because of their extent or cost, must be spread over a considerable period, it shall be for a period not to exceed the reasonable time which in the opinion of the commission [department] is necessary. A variance granted on this ground shall contain a timetable for taking action in an expeditious manner and shall be conditioned on adherence to the timetable and shall be for not more than five years;

3. if the variance is granted on the ground that it is justified to relieve or prevent hardship of a kind other than that provided in c.1. and 2. of this section, it shall be for not more than one year.

d. The commission [department] may upon application renew an existing variance on terms and conditions and for periods which would be appropriate on initial granting of a variance. If complaint is made to the commission [department] on account of the variance no renewal of it may be granted unless, after public hearing on the complaint following due notice, the commission [department] finds that renewal is justified. Application shall be made at least 60 days before the expiration of the variance. Immediately upon receipt of an application for renewal the commission [department] shall give public notice of it.

e. A variance or renewal is not a right of the applicant but shall be in the discretion of the commission [department].

f. No variance or renewal granted under this section may be construed to prevent or limit the application of the emergency orders of the commissioner issued under sec. 820 of this chapter.

\*Section 26. The original AS 46.03.240 is renumbered AS 46.03.300. AS 46.03.240 was originally AS 46.03.180.

\*Section 27. The original AS 46.03.250 is renumbered AS 46.03.310. AS 46.03.250, originally AS 46.03.190, is amended to read:

AS 46.03.250 MOTOR VEHICLE POLLUTION

a. As the state of knowledge and technology relating to the control of emissions from motor vehicles may permit or make appropriate, and in furtherance of the purpose of this chapter, the Commission [department] may provide by regulation for the control of these emissions. The regulations may prescribe requirements for the installation and use of equipment designed to reduce or eliminate emissions and for the proper maintenance of this equipment.

d. When the commission [department] has issued regulations requiring the maintenance of features or equipment in or on motor vehicles for the purpose of controlling emission from the vehicles, no motor vehicle may be issued a certificate of inspection and approval if required, unless the required features or equipment have been inspected in accordance with the standards, testing techniques and instructions furnished by the commission [department] and have been found to meet those standards.

\*Section 28. The original AS 46.03.260 is renumbered AS 46.03.320. AS 46.03.260, originally AS 46.03.200 is amended to read:

AS 46.03.260 LIMITATIONS

Secs. 200-300 [140-240] of this chapter do not

1. grant to the department jurisdiction or authority with respect to air contamination existing solely within commercial and industrial plants, works or shops:

2. affect the relations between employers and employees with respect to or arising out of a condition or air contamination or air pollution; and

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2. Subject to the applicability of a law or ordinance relating to sanitation, industrial health or safety.

\*Section 29. The original AS 46.03.270 is renumbered AS 46.03.330. AS 46.03.270, originally AS 46.03.210, is amended to read:

AS 46.03.270 LOCAL AIR POLLUTION CONTROL PROGRAMS

- a. municipality with a population in excess of 1,000 may, within five years from August 5, 1969, establish and administer within its jurisdiction an air pollution control program. Organized boroughs may establish an air pollution control program on an areawide basis, and the exercise of powers with respect to the program is not subject to the restrictions on acquiring additional areawide powers specified in AS 07.15.350. However, the weighted vote shall apply to the exercise of powers as provided in AS 07.20.070
- d. Local programs shall:

1. provide by ordinance for requirements compatible with those imposed by the provisions of secs. 200 and 230 [140 and 170] of this chapter and applicable regulations;
2. provide for the enforcement of the requirements imposed through appropriate administrative and judicial processes;
3. provide for a local administrative organization, staff, and other resources necessary to effectively carry out the purposes of the program; and
4. be approved by the commission[department] as being satisfactory to meet the requirements of secs. 200-230 [140-170] of this chapter and the applicable regulations.

d. If the commission [department] finds that the location, character, or extent of particular concentrations of population, air contaminant sources, the geographic, topographic or meteorological considerations or a combination of these factors make impracticable the maintenance of appropriate levels of air quality without an areawide air pollution control program, the commission [department] may determine the boundaries within which a program is necessary and direct that a program spanning those boundaries is the only acceptable alternative to direct state administration.

\*Section 30. The original AS 46.03.230 is renumbered AS 46.03.340. AS 46.03.230, originally 46.03.220, is amended to read:

a. If a municipality authorized to establish or participate in an air pollution control program under sec. 270 [210] a. or d. of this chapter fails to establish a program within the time specified, or if the commission [department] has reason to believe that an air pollution program in force under that section is inadequate to prevent and control air pollution in the jurisdiction to which the program applies, or that the program is being administered in a manner inconsistent with the requirements of this chapter the commission [department] shall, following 45 days notice, conduct a hearing on the matter.

b. If after the hearing, the commission [department] determines that any of the deficiencies enumerated in a. of this section exist, it shall require that necessary corrective action be taken within a reasonable period of time, not to exceed 90 days.

c. If the municipality or the district set up under sec. 270 [210] a. or d. of this chapter fails to take the necessary corrective action within the time specified the department shall administer in the municipality or district all of the regulatory provisions of this chapter. The department's air pollution control program shall then supersede municipal air pollution ordinances, regulations, and requirements in the affected jurisdiction.

d. If the commission [department] finds that the control of a particular class of air contaminant source, because of its complexity or magnitude is beyond the reasonable capability of the local air pollution control authorities or may be more efficiently and economically performed at the state level, it may assume and retain jurisdiction over that class of air contaminant source. Classifications under this subsection may be either on the basis of the nature of sources involved or on the basis of their relationship to the size of the communities in which they are located.

e. A municipality in which the department administers the air pollution control program under this section may with the approval of the commission [department] establish or resume a municipal program which meets the requirements of sec. 270 [210] a. or d.

f. The provisions of secs 270-280 [210-220] do not nullify a local air pollution program in operation on August 5, 1969, if the program meets the requirements of sec. 270 [210] a. or d. of this chapter within two years from that date.

a. A local government unit with an air pollution program meeting the requirements of this chapter and the regulations issued under it may apply to the state for state aid equal to a maximum of 75% of the locally funded annual operating cost of the program. For a joint or areawide program established under sec 270 [210] d. of this chapter application may be made for state aid equal to a maximum of 75% of the locally funded operating cost. In the case of a joint or areawide program the state aid may be based on the cost of the entire program or, if the department finds that one or more elements of separately administered programs are being carried on jointly in a way that materially increases the efficiency of the program, it may aid the element carried on under the inter-local agreement at the rate applied to joint and areawide programs generally.

b. Municipalities of the state and interlocal air pollution control agencies established under secs. 200-300 [140-240] of this chapter may apply for, receive, administer and expend federal aid for the control of air pollution or the development and administration of programs related to that control, if the application is first submitted to and approved by the department. The department shall approve an application if it is consistent with secs. 200-300 [140-240] of this chapter and other applicable requirements of law.

\*Section 32. The original AS 46.03.300 is renumbered AS 46.03.360. AS 46.03.300, originally AS 46.03.240, is amended to read:

AS 46.03.300 CONSTRUCTION AND IMPLEMENTATION OF SEC. 290 [230]

a. Sec. 290 [230] of this chapter may not be construed so as to create a debt of the state.

b. The air pollution control support account is established. Funds to carry out the provisions for state aid under sec. 290 [230] of this chapter, such funds as are available shall be distributed pro rata among eligible local governments or air pollution control districts.

c. Money in the air pollution control support account which, at the end of the fiscal year for which the money is appropriated, exceeds the amount required for the allocations authorized in secs 200-300 [140-240] of this chapter reverts to the general fund.

\*Section 34. The original AS 46.03.320 is renumbered AS 46.03.380. AS 46.03.320, originally AS 46.03.260 is amended to read:

AS 46.03.320 USE OF ATOMIC RADIATION

Sources of radiation shall be shielded, transported, handled, used and kept to prevent users and persons within effective range from being exposed to unnecessary radiation in conformity with the commission's [department's] regulations.

\*Section 35. The original AS 46.03.330 is renumbered AS 46.03.390. AS 46.03.330, originally AS 46.03.270 is amended to read:

AS 46.03.330 ELECTRONIC PRODUCT RADIATION

All electronic products capable or likely to be capable of emitting radiation shall be shielded, handled, used, and kept to prevent users and persons within the range of radiation from dangerous concentration of radiation in conformity with the Commission's [department's] regulations.

\*Section 36. AS 46.03.340, originally AS 46.03.280, is amended to read:

AS 46.03.340 NOTIFICATION OF VIOLATION AND ORDER OF ABATEMENT

a. When the department finds, after inspection and examination of a source of radiation as constructed, operated or maintained that there has been a violation of a provision of this chapter, it shall notify the person causing, allowing or permitting the violation, of the nature of the violation and order the person to cease and abate the violation.

b. A person subject to an order or notification as prescribed in a. of this section, upon written request in accordance with the rules of the commission, is entitled to hearing before the commission on the order. Following the hearing the order may be affirmed, modified or withdrawn.

\*Section 37. AS 46.03.350, originally AS 46.03.290, is amended to read:

AS 46.03.350 AUTHORITY OF DEPARTMENT IN CASES OF EMERGENCY

When the department finds that an emergency exists requiring immediate action to protect the public health or welfare from radiation it may issue an order reciting the

order is effective immediately. A person to whom an order is directed shall comply with it immediately but on application to the commission [department] shall be given a hearing under the Administrative Procedure Act (AS44.62). Thereafter, the commission [department] may affirm, revoke or modify the order.

\*Section 38. AS 46.03.360, originally AS 46.03.300, is amended to read:

AS 46.03.360 EXCEPTIONS

Secs. 320-330 [260-270] of this chapter do not limit the intentional exposure of patients to radiation for the purpose of diagnosis or therapy, or medical research, as authorized by law.

\*Section 39. AS 46.03.370, originally AS 46.03.310, is amended to read:

AS 46.03.370 CONFLICTING LAWS

Secs. 310-360 [250-300] of this chapter shall not be construed as repealing any laws of the state relating to radiation sources, exposures, radiation protection, and professional licensure, but shall be held and construed as auxiliary and supplementary to those laws except to the extent that the same are in conflict with secs. 310-360 [250-300] of this chapter. Ordinances or regulations of any governing body of a municipality which are consistent with secs. 310-360 [250-300] of this chapter shall not be superseded by secs. 310-360 [250-300] of this chapter.

\*Section 40. AS 46.03.380, originally AS 46.03.320, is amended to read:

AS 46.03.380 AUTHORITY

a. The commission [department] is authorized to

1. regulate the transportation, testing, inspection, packaging, labeling, handling and advertising of pesticides and broadcast chemicals offered for sale, or placed in commerce for use in the state;

2. regulate and supervise the distribution, application or use of pesticides and broadcast chemicals offered for sale, or placed in commerce for use in the state;

3. regulate or prohibit the use of pesticides and broadcast chemicals.

b. The commission [department] may provide by regulation for the licensing of persons engaged in the custom, commercial or contract spraying or application of pesticides and

and broadcast chemicals including the requirement of a surety bond and liability insurance for the licensee.

\*Section 41. AS 46.03.390, originally AS 46.03.330, is amended to read:

AS 46.03.390 PUBLIC PESTICIDE PROGRAMS

a. No officer, agent or employee of the state, or of a borough or city of any class, may direct, carry out, or participate in the spraying or application of a pesticide or broadcast chemical in any program or project involving funds, materials or equipment of the state, borough or city, except in accordance with regulations promulgated by the commission [department] under sec. 380 [320] of this chapter.

b. Before a public project that would affect lands owned separately by two or more persons is initiated, the person directing the program shall give public notice of the program in the manner required by regulations of the commission [department]. The commission [department] shall conduct a public hearing on the proposed program if a hearing is requested by the governing body of the affected borough or city, or by a petition signed by at least 50 residents. The requirement for public notice or public hearing may be waived if the commissioner determines that a public emergency exists.

\*Section 42. AS 46.03.740 is amended to read:

AS 46.03.740 OIL POLLUTION

No person may discharge, cause to be discharged, or permit the discharge of petroleum, acid, coal or oil tar, lampblack, aniline, asphalt, bitumen, or a residuary product of petroleum, into, or upon the waters or land of the state except in quantities, and at times and locations or under circumstances and conditions as the commission [department] may by regulation permit or where permitted under art. IV of the International Convention for the Prevention of Pollution of the Sea by Oil, 1954, as amended.

\*Section 43. AS 46.03.820 is amended to read:

AS 46.03.820 EMERGENCY POWERS

b. Upon receipt of an order of the commission [department] made under a. of this section, the person affected shall have the right to be heard and to present proof to the commission [department] that the condition or activity does not constitute an actual or potential source of irreversible or irreparable damage to the natural resources or

environment of the state, or that the order may constitute a substantial private hardship.

c. In the commissioner's discretion or upon application made by the recipient of an order within 15 days of receipt of the order, the department shall schedule a hearing before the commission at the earliest possible time. The hearing shall be scheduled within five days of the receipt of the earliest possible time. The hearing shall be scheduled within five days of the receipt of the application. The submission of an application or the scheduling of a hearing shall not stay the operation of the department's order made under a. of this section.

d. After a hearing the commission [department] may affirm, modify or set aside the order. An order affirmed, modified or set aside after hearing is subject to judicial review as provided in AS 44.62.560. The order is not stayed pending judicial review unless the commission [commissioner] so directs. If an order is not immediately complied with, the attorney general, upon request of the commissioner, shall seek enforcement of the order.

e. The commission [department] may adopt additional regulations prescribing the procedure to be followed in the issuance of emergency orders.

\*Section 44. AS 46.03.900 is amended to read:

AS 46.03.900 DEFINITIONS

1. "air contaminant"
2. "air pollutant"
3. "atomic radiation"
4. "broadcast chemicals"
5. "Commission" means the Environmental Conservation Commission of the Department of Environmental Conservation.
6. [5.] "commission"
7. [6.] "department"
8. [7.] "electronic department"
9. [8.] "electronic product radiation"
10. [9.] "industrial waste"

11. [10.] "motor vehicle"
12. [11.] "municipality"
13. [12.] "other wastes"
14. [13.] "person"
15. [14.] "pesticide"
16. [15.] "pollution"
17. [16.] "radiation"
18. [17.] "radiation source"
19. [18.] "sewage"
20. [19.] "sewer system"
21. [20.] "standard"
22. [21.] "treatment works"
23. [22.] "waters"

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for C & R A  
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Committee  
3/1/74 (reopening)

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BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 505

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to assisting municipalities; and  
7 providing for an effective date."

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

9 \* Section 1. DECLARATION OF PURPOSE. It is the intention of the  
10 legislature to financially assist municipalities in meeting certain  
11 extraordinary operating expenditures <sup>caused by accelerated population growth</sup> ~~directly attributable to the~~  
12 ~~impact of construction of the trans-Alaska pipeline~~ and which are  
13 beyond the capability of the impacted municipalities to reasonably  
14 meet. It is the further intention of the legislature that the state  
15 respond promptly to the impact needs of municipalities.

16 \* Sec. 2. ELIGIBILITY STANDARDS. (a) Grants to carry out the  
17 purposes of this Act may be made to a municipality demonstrating

18 (1) an annual population growth rate in excess of ~~2.9~~  
19 2.9 Percent of the base population measured  
20 growth rate for the period April 1, 1970, through  
July 1, 1973;

21 (2) extraordinary municipal operating expenditures beyond  
22 its capability to reasonably meet from growth in receipts from present  
23 municipal revenue sources; and

24 ~~(3) that both (1) and (2) of this subsection can be~~  
25 ~~directly attributed to the impact of construction of the trans-~~  
26 ~~Alaska pipeline.~~

27 (3) The base population for measuring the annual population  
28 growth rate for purposes of this section is the population of the  
29 municipality on the first day of the quarter in which the effective

1 date of this Act falls.

2 # Sec. 3. ESSENTIAL MUNICIPAL SERVICES. Grants made under this  
3 Act may be expended only for operating expenditures for

- 4 (1) police protection;  
5 (2) fire protection;  
6 (3) solid waste collection and disposal;  
7 (4) water supply and sewage disposal systems;  
8 (5) health care services;  
9 (6) land use and environmental planning and regulation; and  
10 (7) other essential municipal services specified in the

11 application.

12 # Sec. 4. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
13 eligible for a grant amount under this Act equal to its <sup>annual</sup> population  
14 growth by June 30, 1975 in excess of the 2.9 PERCENT ~~average annual~~  
15 growth rate standard established under sec. 2 of this Act multiplied  
16 by its per capita general fund expenditures, excluding expenditures  
17 for education, capital outlay and debt service, for the last  
18 complete fiscal year preceding the effective date of this Act.

19 (b) A municipality incorporated after the effective date of this  
20 Act is eligible for a grant amount under this Act equal to its <sup>annual</sup>  
21 population growth by June 30, 1975 in excess of the 2.9 percent ~~average annual~~  
22 population growth rate standard established under sec. 2 of this  
23 Act multiplied by its per capita general fund expenditures, excluding  
24 expenditures for education, capital outlay and debt service, for its  
25 fiscal year budget.

26 (c) Total grants under this Act to a municipality with a  
27 population of 10,000 persons or more on the first day of the quarter  
28 in which the effective date of this Act falls may not exceed \$250  
29 per capita of the population growth in excess of the average annual

1 population growth rate standard established under sec. 2 of this Act.  
2 Total grants under this Act to a municipality with a population  
3 under 10,000 persons on the first day of the quarter in which the  
4 effective date of this Act falls may not exceed \$400 per capita of  
5 the population growth in excess of the average annual population  
6 growth rate standard established under sec. 2 of this Act.

7 (d) The base population for measuring the per capita general  
8 fund expenditures for purposes of this section is the population  
9 of the municipality on the first day of the quarter in which the  
10 effective date of this Act falls.

11 (e) Grants may be made quarterly based upon quarterly population  
12 estimates with final adjustment to be made on June 30, 1975. Final  
13 grant payments shall be withheld until after final adjustments of  
14 amounts are made on June 30, 1975.

15 Sec. 5. PREPAYMENTS. (a) A municipality may receive, as a pre-  
16 payment, up to 50 per cent of the amount it will be entitled to  
17 under this Act upon certification by the Department of Community and  
18 Regional Affairs that the municipality will more likely than not meet  
19 the eligibility standards set forth in sec. 2 of this Act.

20 (b) Total prepayments to municipalities made under this section  
21 may not exceed \$5,000,000.

22 Sec. 6. APPLICATION. (a) Grants under this Act may be made only  
23 upon application by a municipality to the Department of Community  
24 and Regional Affairs. Each grant application shall state the  
25 essential municipal services for which the grant will be expended.  
26 A prepayment grant application may be submitted at any time after  
27 the effective date of this Act.

28 (b) No grant may be expended for purposes other than those  
29 specified in the application.

1 # Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit  
2 a financial report covering the expenditure of any grant already  
3 received under this Act to the Department of Community and Regional  
4 Affairs before another grant may be received under this Act.

5 (b) A municipality receiving grants under this Act shall

6 (1) maintain a separate account for the grants received  
7 under this Act;

8 (2) provide for an annual independent audit of the separate  
9 account for the grants received under this Act; and

10 (3) submit a copy of the independent audit report to the  
11 Department of Community and Regional Affairs.

12 # Sec. 8. APPROVAL. Grants under this Act shall be made by the De-  
13 partment of Community and Regional Affairs at the direction of the  
14 governor subject to approval of the Legislative Budget and Audit  
15 Committee.

16 # Sec. 9. POPULATION. A municipality shall submit estimated population  
17 and population growth figures to the Department of Community and  
18 Regional Affairs. These population and population growth figures are  
19 subject to review and approval by the Department of Community and  
20 Regional Affairs. The decisions of the Department of Community and  
21 Regional Affairs are final as to

22 (1) population growth figures for the purpose of estab-  
23 lishing eligibility under sec. 2 of this Act;

24 (2) population figures for computing grant amounts under  
25 sec. 4 of this Act; and

26 (3) population figures for computing prepayment amounts  
27 under sec. 5 of this Act.

28 # Sec. 10. DEFINITIONS. For purposes of this Act

29 (1) "population" means non-military population;

1 (2) "municipality" means a home rule municipality or a  
2 general law municipal corporation and political subdivision, which  
3 is a first or second class borough or city incorporated under the  
4 laws of the state;

5 (3) "operating expenditures" means personal services, con-  
6 tractual services, travel, commodities and up to \$20,000 per item of  
7 equipment except that it does not include any of these items if part  
8 of a capital improvement expenditure;

9 (4) "quarter" means a period beginning January 1, April 1,  
10 July 1 and October 1 of a calendar year.

11 \* Sec. 11. REGULATIONS. The Department of Community and Regional  
12 Affairs may adopt regulations necessary to carry out the purpose of  
13 this Act.

14 \* Sec. 12. EFFECTIVE DATE. This Act takes effect on the day after  
15 its passage and approval or on the day it becomes law without approval.  
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BY THE RULES COMMITTEE  
BY REQUEST OF THE  
SPECIAL PETROLEUM  
IMPACT COMMITTEE

1 IN THE SENATE

2 SENATE BILL NO. 382

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Pipeline Impact Agency; and  
7 providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. PIPELINE IMPACT AGENCY.

11 Sec. 44.19.581. PURPOSE. The legislature finds that construction  
12 of the trans-Alaska pipeline, from its commencement to completion over  
13 a period of approximately three years, will impose severe to mild  
14 strains on local and state governmental services and facilities. While  
15 the pipeline construction indubitably will, in the long run, mean  
16 immense growth and development to the communities and areas along the  
17 pipeline route, and to those areas coming under direct pipeline con-  
18 struction influence, the legislature further finds that localities most  
19 affected will be unable to cope with the probable impact on facilities  
20 and services brought about by the anticipated overwhelming and sudden  
21 increases in numbers of citizens to be served. The legislature finds,  
22 also, that communities while likely to be impacted are willing and  
23 ready via local taxation to do all possible themselves to meet impact  
24 requirements, even to the full limits of local taxation tolerance,  
25 nevertheless, recognizing the state will be the prime beneficiary of  
26 pipeline construction via realization of enormous oil development  
27 revenues for the total state, the legislature finds that local impact  
28 financial burdens logically should be borne by the state as its invest-  
29 ment in those future revenues. It is, therefore, the intent of the

1 legislature, in this measure, to provide a means of quickly and deci-  
2 sively determining specific impact problems and, additionally, for  
3 moving quickly and decisively to provide funds, facilities, personnel  
4 or other means for quick solutions. Finally, the legislature intends  
5 via this legislation to meet local and state pipeline construction impact  
6 problems as quickly and efficiently as possible in manners similar to  
7 the handling of disaster impact problems. The legislature finds, too,  
8 that revenue-sharing formulas on per capita or percentage per capita  
9 increase basis are less desirable, less effective, and more costly than  
10 the case-by-case approach intended in the legislation. Under the  
11 formula approach, provision would have to be made for all probable as  
12 well as all possible impact contingencies, some of which may never  
13 develop.

14 Sec. 44.19.583. PIPELINE IMPACT AGENCY. There is created in the  
15 office of the governor the Pipeline Impact Agency.

16 Sec. 44.19.585. DIRECTOR. The Pipeline Impact Agency is adminis-  
17 tered by a director of pipeline impact. The director is appointed by  
18 the governor and serves at the pleasure of the governor. The appoint-  
19 ment of the director is subject to confirmation by a majority of the  
20 members of the legislature in joint session.

21 Sec. 44.19.587. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
22 CONSTRUCTION. The Pipeline Impact Agency shall administer a state  
23 program to provide assistance to municipalities which are adversely  
24 affected, economically and socially, by pipeline construction.

25 Sec. 44.19.589. POWERS AND DUTIES. (a) The director shall  
26 (1) advise and assist the governor in developing planning  
27 assumptions and a broad preparedness plan with respect to the economic  
28 and social impact that will accompany pipeline construction;  
29 (2) advise and assist the governor in developing policies,

1 programs and control systems designed to alleviate the economic and  
2 social impact resulting from pipeline construction; and

3 (3) advise and assist the governor with respect to resolving  
4 issues related to pipeline construction impact preparedness responsi-  
5 bilities of state agencies which arise concerning two or more of those  
6 agencies.

7 (b) The director, with the approval of the Special Legislative  
8 Pipeline Impact Review Committee (as provided for in secs. 595 - 605  
9 of this chapter), may

10 (1) make loans and grants and purchase evidences of indebted-  
11 ness with funds from the pipeline impact fund to municipalities economi-  
12 cally or socially adversely affected by pipeline construction;

13 (2) guarantee municipal bonds when a municipality needs to  
14 undertake a capital improvement program on an accelerated basis; and

15 (3) pay (for not more than three years) from the pipeline  
16 impact fund a portion of the debt service or interest or both incurred  
17 by a municipality for undertaking capital improvements made necessary  
18 by pipeline construction.

19 { (c) Grants under (b)(1) of this section shall be made on <sup>an</sup> ~~the~~  
20 *case-by-case basis as demonstrated by need*  
21 ~~basis of percentage increase in population and not on the basis of~~  
22 ~~per capita increase in population.~~ Applications for grants shall be  
23 made in a form prescribed by the director. A grant shall be allotted  
24 according to an agreement made between the director on behalf of the  
25 state and the municipality receiving the grant. The agreement may  
26 include any provision agreed upon by the parties and shall include in  
27 substance the following provisions:

28 (1) a schedule of grant disbursements, if, as determined  
29 by the director, a grant is to be disbursed other than in one sum;

(2) agreement by the municipality to

1 (A) proceed with and complete the proposed project  
2 or program expeditiously;

3 (B) not discontinue operation or dispose of all or  
4 part of the project or program for which it receives a grant with-  
5 out the approval of the director;

6 (C) apply for, and make reasonable efforts to secure,  
7 federal assistance which may be available for the project or  
8 program, subject to any conditions the agency may require in  
9 order to maximize the amounts of that assistance received or to  
10 be received for all projects or programs in the state;

11 (3) agreement by the municipality that, if federal assistance  
12 for a project or program becomes available to the municipality which  
13 was not included in the calculation of the amount of a grant authorized  
14 and disbursed under this section, the value of the federal assistance  
15 shall be ascertained and subtracted from the total value of the project  
16 or program and the balance shall be proportionately divided between  
17 the state and municipality;

18 (4) provision for alteration or modification of an approved  
19 project or program and for remedies in case of failure to perform the  
20 agreement between the parties or noncompliance with regulations promul-  
21 gated by the director under this section.

22 (d) If funds appropriated by the legislature to provide loans and  
23 grants and purchase evidences of indebtedness under this section are  
24 not adequate to satisfy amounts required by approved grant applications,  
25 funds shall be allocated on the basis of priority established by the  
26 director by regulations promulgated to carry out the provisions of this  
27 section.

28 (e) The director shall provide a quarterly report to the legisla-  
29 ture with respect to grants made under this section.

1 (f) The director shall determine the terms and conditions for  
2 making a loan and purchasing an evidence of indebtedness under this  
3 section.

4 → Sec. 44.19.591. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND  
5 LOANS. When the federal government or an agency or officer of the  
6 federal government offers to the state, or through the state to a  
7 municipality, services, equipment, supplies, materials, or funds by  
8 way of gift, grant, or loan, for the purpose of alleviating the social  
9 or economic impact resulting from pipeline construction, the state  
10 acting through the director, or the municipality acting through its  
11 executive officer or governing body, may accept the offer subject to  
12 the terms of the offer and the rules and regulations of the agency  
13 making the offer.

14 Sec. 44.19.593. PIPELINE IMPACT FUND. There is the pipeline  
15 impact fund created for the purpose of carrying out the provisions of  
16 sec. 587(b) of this chapter. The fund consists of all money made  
17 available by appropriations of the state legislature, and from other  
18 appropriated funds, all contributions from whatever source, and income  
19 and interest derived from the investment of money.

20 Sec. 44.19.595. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW COM-  
21 MITTEE. There is established the Special Legislative Pipeline Impact  
22 Review Committee composed of three members of the senate appointed by  
23 the president of the senate and three members of the house of represen-  
24 tatives appointed by the speaker of the house. The committee shall  
25 select its own chairman.

26 Sec. 44.19.597. TERM OF MEMBERSHIP. The committee shall be  
27 organized within 15 days after the organization of each legislature.  
28 Members serve for the duration of the legislature during which they  
29 are appointed. If they are reelected or their term of office extends

1 into the next succeeding legislature, they continue to serve until  
2 reappointed or the appointment of their successor.

3 Sec. 44.19.599. VACANCIES. When a vacancy occurs in the member-  
4 ship of the committee, the presiding officer of the house incurring  
5 the vacancy shall choose a successor. If the office of the president  
6 of the senate or speaker of the house of representatives becomes  
7 vacant and a vacancy from the affected house occurs among the member-  
8 ship of the committee, the remaining committee members from the house  
9 incurring the vacancy shall appoint a new member.

10 Sec. 44.19.601. MEETINGS. (a) The committee may meet during  
11 sessions of the legislature and during the interim between sessions at  
12 such times and places in the state as the chairman may determine.  
13 Members may receive, for the minimum time required to get to and from  
14 meetings and for the period while attending meetings, the same travel  
15 and per diem allowances provided by law for members of the legislature  
16 when attending sessions, except that members of the committee receive  
17 no per diem during legislative sessions other than the per diem allow-  
18 ance paid to other members of the legislature.

19 (b) The members of the committee can validly conduct a meeting  
20 and vote by communicating simultaneously with each other by means of  
21 conference telephones or similar communications equipment.

22 (c) A majority of the members of the committee constitute a  
23 quorum for the purpose of carrying out its duties under sec. 603 of  
24 this chapter.

25 Sec. 44.19.603. DUTIES OF COMMITTEE. The committee shall review  
26 and approve or disapprove, in whole or in part, the decisions made  
27 by the Pipeline Impact Agency, ~~under sec. 589(b) of this chapter.~~  
28 <sup>3</sup> ~~and sec. 589(b) of this chapter.~~

29 Sec. 44.19.605. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The  
division of legislative finance shall cooperate with the committee and

*How can this  
be  
paraphrased*

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shall furnish technical assistance and personnel, if available, upon request.

\* Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 505

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to assisting municipalities; and  
7 providing for an effective date."

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

9 \* Section 1. DECLARATION OF PURPOSE. It is the intention of the legis-  
10 lature to financially assist municipalities in meeting certain extra-  
11 ordinary operating expenditures directly attributable to the impact of  
12 construction of the trans-Alaska pipeline and which are beyond the capa-  
13 bility of the impacted municipalities to reasonably meet.

14 \* Sec. 2. ELGIBILITY STANDARDS. (a) Grants to carry out the purposes  
15 of this Act may be made to a municipality demonstrating

16 (1) an annual population growth rate in excess of four per cent;

17 (2) extraordinary municipal operating expenditures beyond its  
18 capability to reasonably meet; and

19 (3) that both (1) and (2) of this subsection can be directly  
20 attributed to the impact of construction of the trans-Alaska pipeline.

21 (b) The base population for measuring the annual population growth  
22 rate for purposes of this section is the population of the municipality on  
23 the first day of the quarter of the calendar year during which the con-  
24 struction commencement date of the trans-Alaska pipeline occurs.

25 \* Sec. 3. ESSENTIAL MUNICIPAL SERVICES. Grants made under this Act may  
26 be expended only for operating expenditures for the following essential  
27 municipal services:

28 (1) police protection;

29 (2) fire protection;

- 1 (3) solid waste collection and disposal;
- 2 (4) water supply and sewage disposal systems;
- 3 (5) health care services; and
- 4 (6) land use and environmental planning and regulation.

5 \* Sec. 4. GRANT COMPUTATION AND PAYMENT. (a) A municipality is  
6 eligible for a grant amount under this Act equal to its population growth  
7 by June 30, 1975 in excess of the four per cent annual population growth  
8 rate standard established under sec. 2 of this Act multiplied by its per  
9 capita general fund expenditures, excluding expenditures for education,  
10 capital outlay and debt service, for the last complete fiscal year preceding  
11 the effective date of this Act.

12 (b) Total grants under this Act to a municipality with, as of the  
13 construction commencement date of the trans-Alaska pipeline, a population of  
14 10,000 persons or more may not exceed \$250 per capita of the population  
15 growth in excess of the four per cent annual population growth rate standard  
16 established under sec. 2 of this Act. Total grants under this Act to a  
17 municipality with, as of the construction commencement date of the trans-  
18 Alaska pipeline, a population under 10,000 persons may not exceed \$400 per  
19 capita of the population growth in excess of the four per cent annual  
20 population growth rate standard established under sec. 2 of this Act.

21 (c) The base population for measuring per capita general fund expendi-  
22 tures for purposes of this section is the population of the municipality on  
23 the first day of the quarter of the calendar year during which the con-  
24 struction commencement date of the trans-Alaska pipeline occurs.

25 (d) Grants may be made quarterly based upon quarterly population  
26 estimates with final adjustment to be made on June 30, 1975. Final grant  
27 payments shall be withheld until after final adjustments of amounts are made  
28 on June 30, 1975.

29 \* Sec. 5. PREPAYMENTS. (a) A municipality may receive, as a prepayment,

1 up to 50 per cent of the amount it will be entitled to under this Act upon  
2 certification by the Department of Community and Regional Affairs that the  
3 municipality will more likely than not meet the eligibility standards set  
4 forth in sec. 2 of this Act.

5 (b) Total prepayments to municipalities made under this section may  
6 not exceed \$5,000,000.

7 \* Sec. 6. APPLICATION. (a) Grants under this Act may be made only upon  
8 application by a municipality to the Department of Community and Regional  
9 Affairs. Each grant application shall state the essential municipal services  
10 for which the grant will be expended. A prepayment grant application may be  
11 submitted at any time after the effective date of this Act.

12 (b) No grant may be expended for purposes other than those specified  
13 in the application.

14 \* Sec. 7. ACCOUNTABILITY FOR GRANTS. (a) A municipality shall submit a  
15 financial report covering the expenditure of any grant already received under  
16 this Act to the Department of Community and Regional Affairs before another  
17 grant may be received under this Act.

18 (b) A municipality receiving grants under this Act shall

19 (1) maintain a separate account for the grants received under  
20 this Act;

21 (2) provide for an annual independent audit of the separate  
22 account for the grants received under this Act; and

23 (3) submit a copy of the independent audit report to the Depart-  
24 ment of Community and Regional Affairs.

25 \* Sec. 8. APPROVAL. Grants under this Act shall be made by the Depart-  
26 ment of Community and Regional Affairs at the direction of the governor  
27 subject to approval of the Legislative Budget and Audit Committee.

28 \* Sec. 9. POPULATION. A municipality shall submit estimated population  
29 and population growth figures to the Department of Community and Regional

1 Affairs. These population and population growth figures are subject to  
2 review and approval by the Department of Community and Regional Affairs.  
3 The decisions of the Department of Community and Regional Affairs are final  
4 as to

5 (1) population growth figures for the purpose of establishing  
6 eligibility under sec. 2 of this Act;

7 (2) population figures for computing grant amounts under sec. 4  
8 of this Act; or

9 (3) population figures for computing prepayment amounts under  
10 sec. 5 of this Act.

11 \* Sec. 10. DEFINITIONS. For purposes of this Act

12 (1) "construction commencement date" means the date the  
13 following occur:

14 (A) there has been issued to the owner or his agent  
15 right-of-way permits, leases, and title and other rights in lands,  
16 and other approvals, permits, licenses and certificates, by federal,  
17 state and local agencies that a reasonable and prudent person would  
18 consider adequate to commence construction of the facilities in  
19 the expectation that all other approvals, permits, licenses and  
20 certificates necessary for the completion of facilities will be  
21 obtained;

22 (B) all approvals, permits, licenses and certificates  
23 are in full force and effect, unrevoked and without any modification,  
24 which might jeopardize the completion or continued construction of  
25 the facilities; and

26 (C) no order, judgment, decree, determination or  
27 award of a federal, state or local court or administrative or regu-  
28 latory agency enjoining, either temporarily or permanently, the con-  
29 struction or the continuation of construction of the facilities is

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in effect;

(2) "municipality" means a general law municipal corporation and political subdivision, which is a first or second class borough or city incorporated under the laws of the state;

(3) "operating expenditures" means personal services, contractual services, travel, commodities and up to \$20,000 per item of equipment except that it does not include any of these items if part of a capital improvement expenditure;

(4) "quarter of a calendar year" means a period beginning January 1, April 1, July 1, and October 1 of a calendar year.

\* Sec. 11. REGULATIONS. The Department of Community and Regional Affairs may adopt regulations necessary to carry out the purpose of this Act.

\* Sec. 12. EFFECTIVE DATE. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

*Hold 2/4/74*

BILL AND RESOLUTION REQUEST

Request for Information  
By Sen. Croft  
Subject:  
campaign Disclosure -- responsi-  
bility of Newspapers  
Drafter Russ  
Assigned by Russ  
Date in 1/30/74 Due on ASAP

Recorded   
Draft 1 2 3 4 5 6 FINAL  
OK for final \_\_\_\_\_  
Deliver to \_\_\_\_\_  
Date delivered \_\_\_\_\_  
Instructions to typist

Special Instructions

*Either a U.S. Supreme Court decision on a  
Fed. statute or just a Fed. Supreme Ct. decision  
.. re newspapers granting space (or something?)  
-- Done & sent to sponsor on 2/4/74*

OBJECT OF LEGISLATIVE ACTION

Bill  
\_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
\_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
\_\_\_ Check with agency concerned (with requestor's permission).  
\_\_\_ Laws of other states.  
\_\_\_ Bar Foundation Bill Reporting Service.  
\_\_\_ Publication "Suggested State Legislation."  
\_\_\_ Professional and industrial groups and services (with requestor's permission).  
\_\_\_ Alaska Delegation newsletters.  
\_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
\_\_\_ Shepard's Citations.  
\_\_\_ Alaska Attorney General Opinions.  
\_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
\_\_\_ Conformity with one-subject rule.  
\_\_\_ Law not local or special unless general will not suffice.  
\_\_\_ Subject reflected in title.  
\_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

\_\_\_ Organize bill.  
\_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
\_\_\_ Style, grammar, and words.  
\_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
\_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
\_\_\_ Consult with legislator.  
\_\_\_ Advise revisor of final numbering.  
\_\_\_ Make recommended changes.  
\_\_\_ Submit for final approval.

liance upon *T.I.M.E., Inc. v. U.S.*, 359 U.S. 464 (1959) in which the United States Supreme Court held that the Motor Carrier Act did not provide shippers with a statutory right to collect reparations from carriers for recovery of allegedly unreasonable past rates. In particular, defendants rely upon the following statements:

The very provisions of Part I, and their counterparts in Part III, which give a right to action to shippers against carriers for damages incurred by carrier violations of the Act and provide the mechanics for the enforcement of that right are conspicuously absent in the Motor Carrier Act. Thus, whereas § 8 of Part I provides that "any common carrier subject to the provisions of this chapter [who] shall do . . . any act . . . in this chapter . . . declared to be unlawful . . . shall be liable to the person or persons injured thereby for the full amount of the damages sustained. . . ." Part II has no comparable provision. Again, whereas § 9 of Part I gives an injured shipper the right to sue in the ICC or in the federal district court, Part II contains no comparable provision. In addition, §§ 13(1) and 16 of Part I give a shipper claiming reparation the right to proceed in the commission and to enforce his reparation award in the courts, and Part II contains no comparable provisions. 359 U.S. at 470-471.

Defendants' reliance is misplaced. The *T.I.M.E.* decision is clearly distinguishable since it involved the shippers' right to reparations not their right to enforce a valid refund order. As stated by Judge Will in the court below, "in no sense did the *T.I.M.E.* decision consider the issue of whether, when the commission does a valid refund order under Part II, the shippers for whose benefit the order was issued can proceed under Section 16(2) of Part I." Admittedly, there is a dearth of legislative history and/or cases to which the court might look for assistance in interpreting § 305(g). Nevertheless, the plain language of the statute provides ample basis for the district court's conclusion that the statute incorporates § 16(2) of Part I: "Any final order made under [Part II] shall be subject to the same right of relief in court by any party in interest as is now provided in respect to orders of the commission made under [Part I]." 49 U.S.C. § 305(g). [End Text]—Grant, J.

—CA 7; Aluminum Co. of America v. Admiral Merchants Motor Freight, Inc., 7/12/73.

## Newspapers and Magazines

### FREEDOM OF PRESS—

Florida "right to reply" statute, which requires newspapers to publish, without charge, replies of political candidates whom they criticize during election campaigns, does not violate First Amendment freedom of press.

The election of government leaders by qualified electors is a fundamental precept upon which our nation's government is based. While there is a recognized right to publish without prior governmental restraint, there is also a correlative responsibility that the public be fully informed. The public's need to be fully informed is most critical during election campaigns. The statute now being challenged was enacted not to punish, coerce, or censor the press, but rather to maintain conditions conducive to free and fair elections. Unless a candidate who has been criticized by a newspaper is given an equivalent opportunity to respond, not only the candidate, but the people, would suffer.

The press must not lose sight of the fact that the First Amendment guarantee is "not for the benefit of the press so much as for the benefit of us all." *Time, Inc. v. Hill*, 385 U.S. 374.

[Text] The statute here under consideration is designed to add to the flow of information and ideas and does not constitute an incursion upon First Amendment rights or a prior restraint, since no specified newspaper content is excluded. There is nothing prohibited but rather it requires, in the interest of full and fair discussion, additional information.

The right of the public to know all sides of a controversy and from such information to be able to make an enlightened choice is being jeopardized by the growing concentration of the ownership of the mass media into fewer and fewer hands, resulting ultimately in a form of private censorship. Through consolidation, syndication, acquisition of radio and television stations and the demise of vast numbers of newspapers, competition is rapidly vanishing and news corporations are acquiring monopolistic influence over huge areas of the country. \* \* \*

Freedom of expression was retained by the people through the First Amendment for all the people and not merely for a select few. The First Amendment did not create a privileged class which through a monopoly of instruments of the newspaper industry would be able to deny to the people the freedom of expression which the First Amendment guarantees. \* \* \*

In conclusion, we do not find that the operation of the statute would interfere with freedom of the press as guaranteed by the Florida Constitution and the Constitution of the United States. Indeed it strengthens the concept in that it presents both views leaving the reader the freedom to reach his own conclusion. This decision will encourage rather than impede the wide open and robust dissemination of ideas and counterthought which the concept of free press both fosters and protects and which is essential to intelligent self government. \* \* \*

A half free press would be deceptive to the public. [This] statute, in the interest of all the people, provides that candidates for public office under certain prescribed circumstances shall have a right of reply, a right of expression. It does not deny to the owner of the instruments of the newspaper industry any right of expression. The statute assures, and does not abridge, the right of expression which the First Amendment guarantees. The statute supports the freedom of the press in its true meaning—that is, the right of the reader to the whole story, rather than half of it—and without which the reader would be "blacked out" as to the other side of the controversy. [End Text]—Per Curiam.

Concurrence: The court is fully cognizant of the U.S. Supreme Court's decision in *Columbia Broadcasting System, Inc. v. Democratic National Committee*, 41 LW 4688 (1973), which holds that neither the Federal Communications Act nor the First Amendment requires broadcasters to accept paid editorial advertisements. That decision, however, is directed solely to the peculiar and limited nature of the broadcasting industry, and is not applicable to the situation presented in the case before this court—Roberts, J.

Dissent: Since the First Amendment prohibits the government from limiting the right to publish news and comment editorial, it also prevents the government from compelling a publisher to print another person's statement against the publisher's will.

[Text] Free people can make proper decisions for their own self-government only when they are adequately informed by a free press. To the extent that government limits or adds to that which a publisher must distribute, freedom of speech and freedom of the press are thereby diminished.

Almost everyone whose name has been carried frequently in the news media has been offended, at one time or another, by stories or comments with which he disagrees. This is part

of the price one pays for success and notoriety. If there exists a problem in this state of affairs, the muzzling of a free press is not the solution to such problems. [End Text]—Boyd, J.

—Fla SupCt; *Tornillo v. Miami Herald Publishing Co.*, 7/18/73.

Proposed Massachusetts bill that requires newspapers publishing paid political advertisements concerning one candidate for public office to publish paid political advertisements concerning any other candidate for same public office would violate First Amendment freedom of press.

The issue is whether, if a newspaper or other publication has published a paid political advertisement, it is a violation of freedom of the press to compel that newspaper or other publication to publish paid political advertisements espousing a contrary view.

The First Amendment does not shield the press from reasonable regulation; the press clearly has no special immunity from civil or criminal laws that relate to its business aspects. However, the Supreme Court has traditionally been unwilling to uphold state regulation of the expression of political views.

The constitutionality of a governmental mandate to publish specific items has been considered and upheld in connection with the "fairness doctrine" as applied to radio and television stations by the Federal Communications Commission. Moreover, where public health considerations were strong and the subject involved only marginal free speech concepts, the governmental requirement that broadcasters carrying commercial cigarette advertising devote broadcast time to presenting the case against cigarette smoking has withstood constitutional challenge. However, in a more analogous situation, the Supreme Court has recently held that persons wishing to broadcast paid editorial comments had no constitutional right to insist that the broadcasters permit them to buy time to express their views. *Columbia Broadcasting System, Inc. v. Democratic National Committee*, 41 LW 4688 (1973).

Communication by printed word presents different considerations from those applicable to the broadcast media. The distinction between newspapers and broadcasters led at least four of the justices in *Columbia Broadcasting System, Inc.* to recognize that obligations that may be constitutionally permissible as to broadcasters could not be imposed on newspapers. The court is aware of no

circumstances in which it has been held that the First Amendment right of free speech gives a private individual the right to require the publication of editorial advertising.

Of course, the fundamental purpose of the First Amendment—the dissemination of information—must be considered. Although the apparent purpose of the proposed bill is to insure that when paid advertisements on one side of a political issue have been published the contrary view may be published, the bill's enactment may actually produce the chilling effect of discouraging newspapers from accepting any political advertisements. Thus, the bill may in effect discourage distribution of information for the benefit of the public.

First Amendment freedoms may be constitutionally abridged to further important or substantial governmental interests "if the incidental restriction on alleged First Amendment freedoms is no greater than is essential to the furtherance of that interest." *U.S. v. O'Brien*, 391 U.S. 367. However, there is a substantial burden on the government to show justification for its attempted regulation. The state legislature has furnished no legislative findings or other indication of any substantial and overriding governmental interest in requiring newspapers to publish all responsive, paid political advertisements.

The proposed bill may be directed at the "monopolistic" status of certain news publications. However, requiring the publication of all responsive political advertisement goes beyond what is essential to the furtherance of any state interest in assuring a right of access to newspapers. In fact, no set of circumstances may exist that would support a legislative mandate that a newspaper must publish a political advertisement. The views expressed by the Supreme Court in *Pittsburg Press v. Pittsburg Human Relations Commission*, 41 LW 5055 (1973), which upheld a city ordinance forbidding newspapers from carrying "help-wanted" advertisements in sex-designated columns, create substantial doubt that a law such as the one presented here would pass constitutional muster.—Per Curiam.

—Mass SupJudCt; *Opinion of the Justices*, 7/13/73.

#### Registration and Regulation of Brokers and Dealers

By Ezra Weiss

\$17.50

BNA BOOKS

1231 25th St., N.W., Washington, D.C. 20037

## Oil and Gas

### FILLING STATIONS—

Provision of lease and dealer agreement giving oil company right to terminate New Jersey gas station dealership on ten days notice is void as against public policy.

On April 14, 1972, the Shell Oil Company notified one of its dealers that it was terminating the lease and dealer agreements between them under the agreements' termination clause. The dealer filed suit for an injunction to prevent termination and asked for a reformation of the contract between the parties. In turn, Shell filed a summary dispossess complaint for possession of the service station premises.

It is clear that Shell had no legal right to terminate its relationship with the dealer except for good cause, i.e., the failure of the dealer to substantially comply with his obligations under the agreements. Shell's argument that its lease agreement should be viewed separately from the dealer agreement in that its legal rights as a landlord under the lease are absolute is pure sophistry. In fact, the lease and dealer agreement constitute an integrated business relationship that cannot be viewed apart from the other.

After examining the relationship between the parties, it is apparent that a service station dealer, who has built up a substantial business on the strength of his service, can ill afford to risk confrontation with the oil company and, in fact, just signs on the dotted line at renewal time. It is clear that, under such circumstances, the principle of freedom to contract is non-existent and the result is the imposition of unilateral terms. When the public has a valid interest in such contractual arrangements, as they certainly do in such a sensitive area as retail outlets for petroleum products, courts are not reluctant to declare void as against public policy grossly unfair contractual provisions.

The dealer is essentially a franchisee of the other oil company and it is the dealer-franchisee who has everything to lose should his relationship with the oil company go sour. Even if the dealer had another location to go to, the going business and trade he built up would remain with the old station. Therefore, in view of the unequal bargaining positions of the parties, and the fact that the dealer substantially complied with the provisions of the dealer agreement, it is ordered that Shell may not terminate the dealer's lease and dealership.—Sullivan, J.

—NJ SupCt; *Marinello v. Shell Oil Co.*, 7/11/73.

ation of no-strike clause or was  
ed activity falling outside of  
provisions of collective bar-  
contract? (3) Was it error for  
strict court to exclude testi-  
union's business representative  
ds that it was irrelevant to  
efore court?

for certiorari filed 11/16/73,  
thur Combs, of Houston, Tex.,  
en L. Swanson.

89. Engineers Local 450 v. Pence  
on Corp.

ghts—Dues Increase—Question-  
voting procedures—Summary

below (CA 7, 84 LRRM 2476):  
of record of union convention  
s, at which members' dues  
eased, to show that majority-  
ement of Section 101(a)(3)(B)  
m-Griffin Act was satisfied,  
eversal of federal district court  
granted union's motion for  
judgment in union members'  
Section 102 of Act challeng-  
s allegedly autocratic and un-  
procedures in obtaining that

s presented: (1) Is vote taken  
ed dues increase at national  
vention by show of hands fol-  
standing count and declared  
ng officer to constitute two-  
ority in favor of increase,  
challenged by delegate, whose  
r recorded vote is put to vote  
ion and defeated in accord-  
convention rules, valid under  
a)(3)(B)(i) of Landrum-Grif-  
ainst claims of few dissenting  
ot specifically pleaded in com-  
supported by only three af-  
pressing belief that increase  
adopted by majority vote of  
(2) Under circumstances, are  
vils sufficient to create issue  
e count under statute and  
on union burden of proving to  
urt that statutory require-  
majority vote has been met?  
for certiorari filed 11/16/73,  
Gore, Chicago, Ill., James L.  
r., Washington, D.C., and Wil-  
lon, Rosemont, Ill.

2. Railway, Airline and Steam-  
v. Rola.

—Union's right to discipline  
union members who cross  
rike picket line.

below (CA DC 42 LW 2045, 83  
):

that disciplined supervisor-  
or crossing picket lines and  
rank-and-file struck work  
ful economic strikes did not  
fair labor practice under Sec-  
(B) of Taft Act, 29 U.S.C.  
B).

presented: Does union violate  
(1)(B) of Taft Act by dis-  
pervisor-members for cross-  
line and performing rank-and-  
uring economic strike against

for certiorari filed 11/16/73,  
H. Bork, Solicitor General,  
ash, General Counsel, John S.  
uty General Counsel, Patrick  
olate General Counsel, Nor-  
ne, Deputy Associate General  
nd William H. DuRoss, III,  
ney.

5. NLRB v. Electrical Workers.

ermination—Lockout.

Ruling below (CA 6, 84 LRRM 2300):

Employer did not violate Taft Act  
when, following expiration of its col-  
lective bargaining agreement with union,  
it locked out unit employees and  
used its non-unit employees and super-  
visors as temporary replacements to per-  
form work of unit employees for dura-  
tion of lockout.

Question presented: Did employer vio-  
late Section 8(a)(1) or (3) of Taft Act  
by locking out its employees and by  
then continuing production operations,  
which those locked out employees nor-  
mally performed, by using worker re-  
placements from outside bargaining unit.

Petition for certiorari filed 11/21/73,  
by David Previant, Alan M. Levy, John  
S. Williamson, Jr., Goldberg, Previant &  
Uelmen, all of Milwaukee, Wis., and Hof-  
fa, Chodak and Robiner, all Detroit,  
Mich.

No. 73-807. Teamsters Local 283 v. Ol-  
tawa Silica Co.

### Motor Vehicles

73-773

Negligence — Contributory negligence —  
New trial—Seventh Amendment.

Ruling below (DC CtApp, 8/15/73):

Appeal from District of Columbia trial  
court order setting aside jury verdict for  
automobile negligence suit plaintiff and  
granting new trial on ground that plain-  
tiff was contributorily negligent as mat-  
ter of law and that verdict was against  
weight of evidence, is dismissed without  
opinion.

Questions presented: (1) Was trial  
court's ruling that plaintiff was guilty  
of contributory negligence as matter of  
law plainly erroneous and usurpation of  
function of jury, in violation of Seventh  
Amendment? (2) Did trial court, in set-  
ting aside jury verdict for plaintiff and  
granting new trial, consider evidence in  
light most favorable to defendant rather  
than to plaintiff, as required?

Petition for certiorari filed 11/14/73,  
by Rotraud M. Perry, Washington, D.C.

No. 73-773. McNeill v. Fisher.

### Municipal Corporations

73-706

Annexations — Due process.

Ruling below (Miss SupCt, 260 So2d  
837):

Consolidation of proceeding to incor-  
porate area into new municipality with  
annexation proceedings by city to expand  
its limits by annexing identical area to  
city was not prejudicial error, even  
though petition to incorporate show'd  
have been heard uncluttered by annex-  
ation proceeding; court was not manifest-  
ly wrong in finding that evidence in  
support of petition to incorporate was in-  
sufficient to satisfy statutory require-  
ments.

Question presented: (1) Was consolida-  
tion of incorporation proceedings with  
annexation proceedings consistent with  
Due Process Clause? (2) Does Section  
3374-10 of Mississippi Code, 1942, which  
does not require vote or consent of any  
qualified elector or inhabitant of annexed  
territory, violate Equal Protection Clause?

Petition for certiorari filed 10/30/73, by  
John Arthur Eaves and Eaves & Eaves,  
all of Jackson, Miss.

No. 73-706. Peusch v. City of Jackson,  
Miss.

73-725

Annexations — Due process — Annex-  
ation of territory included in established  
community school districts.

Ruling below (Ind SupCt, 299 NE 2d  
829):

Territory annexed by City of Elkhart,  
Indiana, became an integral part of, and  
within boundaries of, Elkhart Community  
Schools for all school purposes, tax pur-  
poses and otherwise, even though some of  
territory previously had been included in  
community school corporation already in  
existence.

Questions presented: (1) May Indiana  
Supreme Court decide declaratory judg-  
ment action on its merits, on theory not  
offered or argued by parties and on  
which hearing has not been held and no  
evidence presented, and thereby foreclose  
right of established community school  
corporation, and its residents, voters and  
taxpayers, to hearing on merits guar-  
anteed by Due Process Clause? (2) Did  
action of Indiana Supreme Court in de-  
priving community school corporation and  
its taxpayers of revenues from areas  
annexed by city, without notice and hear-  
ing and without proration of previously  
incurred liabilities as required by Indiana  
law, deprive school corporation and its  
taxpayers of their property without due  
process of law?

Petition for certiorari filed 11/2/73, by  
Marshall F. Kizer of Plymouth, Ind.,  
John J. Dillon and Virginia Dill Mc  
Carthy of Indianapolis, Ind.

No. 73-725. Concord Community Schools  
v. School City of Elkhart.

### Newspapers and Magazines

73-797

Freedom of press — Newspaper criticism  
of political candidate — State require-  
ment that newspaper published that  
candidate's reply free of charge — Valid-  
ity under First Amendment.

Ruling below (Fla SupCt, 42 LW 2073):

Florida "right to reply" statute, which  
requires newspapers to publish, without  
charge, replies of political candidates  
whom they criticize during election cam-  
paigns, does not violate First Amendment  
freedom of press.

Question presented: Does Section 104,  
38, Florida Statutes, abridge freedom of  
press and due process, in violation of First  
and Fourteenth Amendments, by com-  
pelling newspaper to provide free space,  
under criminal sanctions, to candidate in  
any state election to reply to any publica-  
tion in newspaper which "assails [his]  
personal character," or charges him  
with "malfeasance" or "misfeasance" in  
office, or "otherwise attacks his official  
record"?

Appeal filed 11/19/73, by Daniel P.S.  
Paul, James W. Beasley, Jr. and Paul  
& Thomson, all of Miami, Fla., Richard  
M. Schmidt, Martin J. Gaynes, Jan D.  
Volner, and Cohn & Marks, all of Wash-  
ington, D.C.

No. 73-797. The Miami Herald Publish-  
ing Co. v. Tornillo.

### Oil and Gas

73-729

State regulation — Conservation — Inter-  
state commerce—Federal preemption.

Ruling below (USDC WOkla., 6/26/73):

Chief purpose of Oklahoma Corpora-  
tion Commission "conservation" orders  
was to establish statewide minimum  
prices of natural gas at wellhead; orders  
do in fact establish minimum price at  
which gas may be sold in interstate com-  
merce, constitute undue burden on in-  
terstate commerce within purview of  
Commerce Clause, and conflict with juris-  
diction of Federal Power Commission un-  
der Natural Gas Act, 15 U.S.C. §§ 717-  
717a; state has no authority, either di-  
rectly or indirectly, to fix price at which

January 29, 1974

The Honorable Robert L. Smith  
Commissioner  
Department of Labor  
Box 1149  
Juneau, Alaska 99801

Dear Commissioner Smith:

I am really sold on the merits of the legislation your department and I have under consideration. It matters not to me whether we go the route set forth in the proposed legislation I have already sent you, or whether we take the approach you apparently advocate--that is, by scheduling additional injuries which are not now compensable.

I would be tickled to death if you, John and/or Earl could come over to talk with Russ Mulder of the Legislative Affairs Agency and me at 1:30 on Wednesday, February 6th, in Committee Room #4.

If that's a good time for a meeting, would you please bring along a half a dozen copies of your work product?

Regards,

Robert H. Ziegler, Sr.

RHZ/pks

cc - John Cook  
Earl Turner  
Russ Mulder

AGO 531982 +

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

SENATE PETROLEUM IMPACT

COMMITTEE

AGO 531983 + F

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Draft # 3

2-2  
Regina Miller

1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

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16 growth and development to the communities and areas along the pipeline  
17 route, and to those areas coming under direct pipeline construction  
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22 that while likely impacted communities are willing and ready via local  
23 taxation to do all possible themselves to meet impact requirements,  
24 even to the full limits of local taxation tolerance, nevertheless,  
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26 struction via realization of enormous oil development revenues for the  
27 total state, the legislature finds that local impact financial burdens  
28 logically should be borne by the state as its investment in those  
29 future revenues. It is, therefore, the intent of the legislature, in

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2 specific impact problems and, likewise, for moving quickly and decisively  
3 to provide funds, facilities, personnel or other means for quick solu-  
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8 formulas on per capita or percentage per capita increase basis are less  
9 desirable, less effective, and more costly than the case-by-case  
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11 provision would have to be made for all probable as well as all possible  
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15 Sec. 44.19.585. DIRECTOR. The Pipeline Impact Agency is adminis-  
16 tered by a director of pipeline impact. The director is appointed by  
17 the governor and serves at the pleasure of the governor.

18 Sec. 44.19.587. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
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20 program to provide assistance to municipalities which are adversely  
21 affected, economically and socially, by pipeline construction.

22 Sec. 44.19.589. POWERS AND DUTIES. (a) The director shall

23 (1) advise and assist the governor in developing planning  
24 assumptions and a broad preparedness plan with respect to the economic  
25 and social impact that will accompany pipeline construction;

26 (2) advise and assist the governor in developing policies,  
27 programs and control systems designed to alleviate the economic and  
28 social impact resulting from pipeline construction; and

29 (3) advise and assist the governor with respect to resolving

1 issues related to pipeline construction impact preparedness responsi-  
2 bilities of state agencies which arise concerning two or more of those  
3 agencies.

4 (b) The director, with the consent of the Special Legislative  
5 Pipeline Impact Review Committee (as provided for in secs. 595 - 605  
6 of this chapter); may

7 (1) make loans and grants and purchase evidences of indebted-  
8 ness with funds from the pipeline impact fund to municipalities economi-  
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10 (2) guarantee municipal bonds when a municipality needs to  
11 undertake a capital improvement program on an accelerated basis; and

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13 impact fund a portion of the debt service or interest or both incurred  
14 by a municipality for undertaking capital improvements made necessary  
15 by pipeline construction.

16 (c) Grants under (b)(1) of this section shall be made on the  
17 basis of percentage increase in population and not on the basis of  
18 per capita increase in population. Applications for grants shall be  
19 made in a form prescribed by the director. A grant shall be allotted  
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25 by the director, a grant is to be disbursed other than in one sum;

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27 (A) proceed with and complete the proposed project  
28 or program expeditiously;

29 (B) not discontinue operation or dispose of all

1 or part of the project or program for which it receives a grant  
2 without the approval of the director;

3 (C) apply for, and make reasonable efforts to secure,  
4 federal assistance which may be available for the project or  
5 program, subject to any conditions the agency may require in  
6 order to maximize the amounts of that assistance received or to  
7 be received for all projects or programs in the state;

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12 shall be ascertained and subtracted from the total value of the project  
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14 the state and municipality;

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16 project or program and for remedies in case of failure to perform the  
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18 gated by the director under this section.

19 (d) If funds appropriated by the legislature to provide loans and  
20 grants and purchase evidences of indebtedness under this section are  
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23 director by regulations promulgated to carry out the provisions of this  
24 section.

25 (e) The director shall provide an annual report to the legislature  
26 with respect to grants made under this section.

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5 way of gift, grant, or loan, for the purpose of alleviating the social  
6 or economic impact resulting from pipeline construction, the state  
7 acting through the director, or the municipality acting through its  
8 executive officer or governing body, may accept the offer subject to  
9 the terms of the offer and the rules and regulations of the agency  
10 making the offer.

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13 sec. 587(b) of this chapter. The fund consists of all money made  
14 available by appropriations of the state legislature, and from other  
15 appropriated funds, all contributions from whatever source, and income  
16 and interest derived from the investment of money.

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18 MITTEE. There is established the Special Legislative Pipeline Impact  
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27 reappointed or the appointment of their successor.

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2 of the senate or speaker of the house of representatives becomes  
3 vacant and a vacancy from the affected house occurs among the member-  
4 ship of the committee, the remaining committee members from the house  
5 incurring the vacancy shall appoint a new member.

6 Sec. 44.19.601. MEETINGS. (a) The committee may meet during  
7 sessions of the legislature and during the interim between sessions at  
8 such times and places in the state as the chairman may determine.  
9 Members may receive, for the minimum time required to get to and from  
10 meetings and for the period while attending meetings, the same travel  
11 and per diem allowances provided by law for members of the legislature  
12 when attending sessions, except that members of the committee receive  
13 no per diem during legislative sessions other than the per diem allow-  
14 ance paid to other members of the legislature.

15 (b) The members of the committee can validly conduct a meeting  
16 and vote by communicating simultaneously with each other by means of  
17 conference telephones or similar communications equipment.

18 (c) A majority of the members of the committee constitute a  
19 quorum for the purpose of carrying out its duties under sec. 603 of  
20 this chapter.

21 Sec. 44.19.603. DUTIES OF COMMITTEE. The committee shall review  
22 and approve or disapprove, in whole or in part, the decisions made  
23 by the Pipeline Impact Agency under sec. 589(b) of this chapter.

24 Sec. 44.19.605. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The  
25 division of legislative finance shall cooperate with the committee  
26 and shall furnish technical assistance and personnel, if available,  
27 upon request.

28 \* Sec. 2. This Act takes effect on the day after its passage and approval  
29

2-2  
Ratignis Muller

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4 ship of the committee, the remaining committee members from the house  
5 incurring the vacancy shall appoint a new member.

6 Sec. 44.19.601. MEETINGS. (a) The committee may meet during  
7 sessions of the legislature and during the interim between sessions at  
8 such times and places in the state as the chairman may determine.  
9 Members may receive, for the minimum time required to get to and from  
10 meetings and for the period while attending meetings, the same travel  
11 and per diem allowances provided by law for members of the legislature  
12 when attending sessions, except that members of the committee receive  
13 no per diem during legislative sessions other than the per diem allow-  
14 ance paid to other members of the legislature.

15 (b) The members of the committee can validly conduct a meeting  
16 and vote by communicating simultaneously with each other by means of  
17 conference telephones or similar communications equipment.

18 (c) A majority of the members of the committee constitute a  
19 quorum for the purpose of carrying out its duties under sec. 603 of  
20 this chapter.

21 Sec. 44.19.603. DUTIES OF COMMITTEE. The committee shall review  
22 and approve or disapprove, in whole or in part, the decisions made  
23 by the Pipeline Impact Agency under sec. 589(b) of this chapter.

24 Sec. 44.19.605. DIVISION OF LEGISLATIVE FINANCE ASSISTANCE. The  
25 division of legislative finance shall cooperate with the committee  
26 and shall furnish technical assistance and personnel, if available,  
27 upon request.

28 \* Sec. 2. This Act takes effect on the day after its passage and approval  
29

1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the pipeline  
7 impact fund; and providing for an effective date."

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

9 \* Section 1. The sum of \$25,000,000 is appropriated from the general  
10 fund to the pipeline impact fund for the purpose of carrying out the provi-  
11 sions of AS 44.19.581 - 44.19.605.

12 \* Sec. 2. The unexpended and unobligated portion of this appropriation  
13 lapses into the general fund June 30, 1975.

14 \* Sec. 3. This Act takes effect on the effective date of an Act entitled  
15 "An Act creating the Pipeline Impact Agency; and providing for an effective  
16 date."

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1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Pipeline Impact Agency; and  
7 providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. PIPELINE IMPACT AGENCY.

11 Sec. 44.19.581. PIPELINE IMPACT AGENCY. There is in the office  
12 of the governor the Pipeline Impact Agency.

13 Sec. 44.19.583. DIRECTOR. The Pipeline Impact Agency is admini-  
14 stered by a director of pipeline impact. The director is appointed by  
15 the governor and serves at the pleasure of the governor.

16 Sec. 44.19.585. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
17 CONSTRUCTION. The Pipeline Impact Agency shall administer a state  
18 program to provide assistance to municipalities which are adversely  
19 affected, economically and socially, by pipeline construction.

20 Sec. 44.19.587. POWERS AND DUTIES. (a) The director shall:

21 (1) advise and assist the governor in developing planning  
22 assumptions and a broad preparedness plan with respect to the economic  
23 and social impact that will accompany pipeline construction;

24 (2) advise and assist the governor in developing policies,  
25 programs and control systems designed to alleviate the economic and  
26 social impact resulting from pipeline construction; and

27 (3) advise and assist the governor with respect to resolving  
28 issues, related to pipeline construction impact preparedness responsi-  
29 bilities of state agencies, which arise concerning two or more of those

1 agencies.

2 (b) The director, with the consent of a joint finance committee  
3 while the legislature is in session and with the consent of the Legis-  
4 lative Budget and Audit Committee while the legislature is not in  
5 session, may:

6 (1) make loans and grants and purchase evidences of  
7 indebtedness with funds from the Pipeline Impact Fund to municipalities  
8 economically or socially adversely affected by pipeline construction;

9 (2) guarantee municipal bonds when a municipality needs to  
10 undertake a capital improvement program on an accelerated basis; and

11 (3) pay (for not more than three years) from the Pipeline  
12 Impact Fund a portion of the debt service or interest or both incurred  
13 by a municipality for undertaking capital improvements made necessary  
14 by pipeline construction.

15 (c) Grants under (b)(1) of this section shall be made on the  
16 basis of percentage increase in population and not on the basis of  
17 per capita increase in population. Applications for grants shall be  
18 made in a form prescribed by the director. A grant shall be allotted  
19 according to an agreement made between the director on behalf of the  
20 state and the municipality receiving the grant. The agreement may  
21 include any provision agreed upon by the parties and shall include in  
22 substance the following provisions:

23 (1) a schedule of grant disbursements, if, as determined  
24 by the director, a grant is to be disbursed other than in one sum;

25 (2) agreement by the municipality to

26 (A) proceed with and complete the proposed project  
27 or program expeditiously;

28 part of the project or program for which it receives a grant

1 without the approval of the director;

2 (C) apply for, and make reasonable efforts to secure,  
3 federal assistance which may be available for the project or  
4 program, subject to any conditions the director may require in  
5 order to maximize the amounts of that assistance received or to  
6 be received for all projects or programs in the state;

7 (3) agreement by the municipality that, if federal assistance  
8 for a project or program becomes available to the municipality which was  
9 not included in the calculation of the amount of a grant authorized  
10 and disbursed under this section, the value of the federal assistance  
11 shall be ascertained and subtracted from the total value of the pro-  
12 ject or program and the balance shall be proportionately divided  
13 between the state and municipality;

14 (4) provision for alteration or modification of an approved  
15 project or program and for remedies in case of failure to perform the  
16 agreement between the parties or noncompliance with regulations  
17 promulgated by the director under this section.

18 (d) If funds appropriated by the legislature to provide loans  
19 and grants and purchase evidences of indebtedness under this section  
20 are not adequate to satisfy amounts required by approved grant applica-  
21 tions, funds shall be allocated on the basis of priority established  
22 by the director by regulations promulgated to carry out the provisions  
23 of this section.

24 (e) The director shall provide an annual report to the legisla-  
25 ture with respect to grants made under this section.

26 (f) The director shall determine the terms and conditions for  
27 making a loan and purchasing an evidence of indebtedness under this  
28 section.

29 Sec. 44.19.589. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND

1 LOANS. When the federal government or an agency or officer of the  
2 federal government offers to the state, or through the state to a  
3 municipality, services, equipment, supplies, materials, or funds by  
4 way of gift, grant, or loan, for the purpose of alleviating the social  
5 or economic impact resulting from pipeline construction, the state  
6 acting through the director, or the municipality acting through its  
7 executive officer or governing body, may accept the offer subject to  
8 the terms of the offer and the rules and regulations of the agency  
9 making the offer.

10 Sec. 44.19.591. PIPELINE IMPACT FUND. There is the pipeline  
11 impact fund created for the purpose of carrying out the provisions of  
12 sec. 587(b) of this chapter. The fund consists of all money made  
13 available by appropriations of the state legislature, and from other  
14 appropriated funds, all contributions from whatever source, and income  
15 and interest derived from the investment of money.

16 \* Sec. 2. This Act takes effect \_\_\_\_\_, 1974.  
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1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the State Administrative Pipeline  
7 Impact Commission; and providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION

11 Sec. 44.19.581. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION.

12 There is in the office of the governor the State Administrative Pipe-  
13 line Impact Commission.

14 Sec. 44.19.583. COMPOSITION. The commission is composed of the  
15 commissioners of administration, revenue, community and regional  
16 affairs and commerce. The commissioner of administration is the chair-  
17 man of the commission.

18 Sec. 44.19.585. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
19 CONSTRUCTION. The State Administration Pipeline Impact Commission  
20 shall administer a state program to provide assistance to municipalities  
21 which are adversely affected, economically and socially, by pipeline  
22 construction.

23 Sec. 44.19.587. POWERS AND DUTIES. (a) The commission shall:

24 (1) advise and assist the governor in developing planning  
25 assumptions and a broad preparedness plan with respect to the economic  
26 and social impact that will accompany pipeline construction;

27 (2) advise and assist the governor in developing policies,  
28 programs and control systems designed to alleviate the economic and  
29 social impact resulting from pipeline construction; and

1 (3) advise and assist the governor with respect to resolving  
2 issues, related to pipeline construction impact preparedness responsi-  
3 bilities of state agencies, which arise concerning two or more of those  
4 agencies.

5 (b) The commission, with the consent of the Special Legislative  
6 Pipeline Impact Review Committee (as provided for in secs. 593 and 595  
7 of this chapter), may:

8 (1) make loans and grants and purchase evidences of indebt-  
9 edness with funds from the Pipeline Impact Fund to municipalities  
10 economically or socially adversely affected by pipeline construction;

11 (2) guarantee municipal bonds when a municipality needs to  
12 undertake a capital improvement program on an accelerated basis; and

13 (3) pay (for not more than three years) from the Pipeline  
14 Impact Fund a portion of the debt service or interest or both incurred  
15 by a municipality for undertaking capital improvements made necessary  
16 by pipeline construction.

17 (c) Grants under (b)(1) of this section shall be made on the  
18 basis of percentage increase in population and not on the basis of  
19 per capita increase in population. Applications for grants shall be  
20 made in a form prescribed by the commission. A grant shall be allotted  
21 according to an agreement made between the commission on behalf of the  
22 state and the municipality receiving the grant. The agreement may  
23 include any provision agreed upon by the parties and shall include in  
24 substance the following provisions:

25 (1) a schedule of grant disbursements, if, as determined  
26 by the commission, a grant is to be disbursed other than in one sum;

27 (2) agreement by the municipality to

28 (A) proceed with and complete the proposed project or  
29 program expeditiously;

1 (B) not discontinue operation or dispose of all or  
2 part of the project or program for which it receives a grant  
3 without the approval of the director;

4 (C) apply for, and make reasonable efforts to secure,  
5 federal assistance which may be available for the project or  
6 program, subject to any conditions the commission may require in  
7 order to maximize the amounts of that assistance received or to  
8 be received for all projects or programs in the state;

9 (3) agreement by the municipality that, if federal assis-  
10 tance for a project or program becomes available to the municipality  
11 which was not included in the calculation of the amount of a grant  
12 authorized and disbursed under this section, the value of the federal  
13 assistance shall be ascertained and subtracted from the total value  
14 of the project or program and the balance shall be proportionately  
15 divided between the state and municipality;

16 (4) provision for alteration or modification of an approved  
17 project or program and for remedies in case of failure to perform  
18 the agreement between the parties or noncompliance with regulations  
19 promulgated by the commission under this section.

20 (d) If funds appropriated by the legislature to provide loans  
21 and grants and purchase evidences of indebtedness under this section  
22 are not adequate to satisfy amounts required by approved grant appli-  
23 cations, funds shall be allocated on the basis of priority established  
24 by the commission by regulations promulgated to carry out the pro-  
25 visions of this section.

26 (e) The commission shall provide an annual report to the legis-  
27 lature with respect to grants made under this section.

28 (f) The commission shall determine the terms and conditions for  
29 making a loan and purchasing an evidence of indebtedness under this

section.

Sec. 44.19.589. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND LOANS. When the federal government or an agency or officer of the federal government offers to the state, or through the state to a municipality, services, equipment, supplies, materials, or funds by way of gift, grant, or loan, for the purpose of alleviating the social or economic impact resulting from pipeline construction, the state acting through the commission, or the municipality acting through its executive officer or governing body, may accept the offer subject to the terms of the offer and the rules and regulations of the agency making the offer.

Sec. 44.19.591. PIPELINE IMPACT FUND. There is the pipeline impact fund created for the purpose of carrying out the provisions of sec. 587 (b) of this chapter. The fund consists of all money made available by appropriations of the state legislature, and from other appropriated funds, all contributions from whatever source, and income and interest derived from the investment of money.

Sec. 44.19.593. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW COMMITTEE. There is established the Special Legislative Pipeline Impact Review Committee composed of two members of the senate appointed by the president of the senate and two members of the house of representatives appointed by the speaker of the house.

Sec. 44.19.595. DUTIES OF COMMITTEE. (a) The committee shall review and approve or disapprove the decisions made by the State Administrative Pipeline Impact Commission under sec. 587(b) of this chapter.

\* Sec. 2. This Act takes effect July 1, 1974.

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January 29, 1974

The legislature finds that construction of the Trans-Alaska Pipeline, from its commencement to completion over a period of approximately three years, will impose severe to mild strains on local and state governmental services and facilities. While the pipeline construction doubtless will, in the long run, mean immense growth and development to the communities and areas along the pipeline route, and to those areas coming under direct pipeline construction influence, the legislature further finds that localities most affected will be unable to cope with the probable impact on facilities and services brought about by expected overwhelming and sudden increases in numbers of citizens to be served. The legislature finds, also, that while likely impacted communities are willing and ready via local taxation to do all possible themselves to meet impact requirements, even to the full limits of local taxation tolerance, nevertheless, recognizing the state will be the prime beneficiary of pipeline construction via realization of enormous oil development revenues for the total state, the legislature finds that local impact financial burdens logically should be borne by the state as its investment in those future revenues.

It is, therefore, the intent of the legislature, in this measure, to provide a means of quickly and decisively determining specific impact problems and, likewise, for moving quickly and decisively to provide funds, facilities, personnel or other means for quick solution. Finally, the legislature intends via this legislation to meet local and state pipeline construction impact problems as quickly and efficiently as possible in manners similar to the handling of

disaster impact problems. The legislature finds, too, that revenue sharing formula on per capita or percentage per capita increase basis are less desirable, less effective, and more costly than the case by case approach intended in the legislation. Under the formula approach, provision would have to be made for all probable as well as all possible impact contingencies - some of which may never develop.

REM:hg

Original Sponsor:  
Rules Committee  
By Request of the Governor

Offered: 3/15/63  
Referred: Rules

1 IN THE SENATE BY STATE AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 164

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRD LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Centennial;  
7 creating a Centennial Commission and pre-  
8 scribing its duties; granting powers and  
9 duties to the Department of Economic Devel-  
10 opment and Planning; and providing for an  
11 effective date."

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

13 \* Section 1. CREATION OF CENTENNIAL COMMISSION. There is  
14 created in the Department of Economic Development and Planning the  
15 Alaska State Centennial Commission.

16 \* Sec. 2. COMPOSITION AND TERM OF OFFICE. The commission shall  
17 consist of 16 members to be appointed by the governor within 30  
18 days after the effective date of this Act. Members of the commis-  
19 sion serve during its existence unless removed by the governor for  
20 good cause. A vacancy shall be filled by appointment by the gover-  
21 nor.

22 \* Sec. 3. COMPENSATION AND PER DIEM. Members of the commis-  
23 sion shall serve without compensation but they shall receive the  
24 same travel pay and per diem as state officials and employees.

25 \* Sec. 4. EXECUTIVE COMMITTEE. The commission shall meet  
26 within 60 days after the effective date of this Act and, upon the  
27 call of the governor, shall select an executive committee of five  
28 of the members of the commission. The executive committtee shall  
29 be composed of one member from each judicial district and one

1 member at large and shall serve at the pleasure of the commission.  
2 Members of the executive committee are entitled to reimbursement  
3 for actual and reasonable expenses incurred in the discharge of  
4 their duties.

5 \* Sec. 5. CHAIRMAN. The executive committee shall select a  
6 chairman from the membership of the committee and he shall also  
7 be the chairman of the commission.

8 \* Sec. 6. QUORUM. A majority of the commission constitutes  
9 a quorum for the transaction of business of the commission and a  
10 majority of the executive committee constitutes a quorum for the  
11 transaction of business of the executive committee.

12 \* Sec. 7. EXECUTIVE DIRECTOR. The commissioner of economic  
13 development and planning may appoint an executive director of the  
14 commission, prescribe his duties, and fix his compensation. If an  
15 executive director is employed, he shall be in the partially ex-  
16 empt service, under AS 39.25.120.

17 \* Sec. 8. DUTIES OF COMMISSION. The commission shall

18 (1) advise the governor and the Department of Economic  
19 Development and Planning on all activities leading up to and  
20 relating to the 1967 Alaska Centennial;

21 (2) cooperate with the Department of Economic Development  
22 and Planning in seeking the assistance and cooperation of the  
23 United States government, political subdivisions, communities,  
24 foreign governments, and all historical, pioneer, and patriotic  
25 bodies and societies participating in celebrations and exhibits  
26 leading up to and relating to the 1967 Alaska Centennial.

27 \* Sec. 9. DUTIES OF EXECUTIVE COMMITTEE. The executive com-  
28 mittee shall carry out any duty assigned to it by the commission  
29 and see that the purposes of this Act are carried out.

1       \* Sec. 10. DUTIES AND POWERS OF THE DEPARTMENT OF ECONOMIC  
2 DEVELOPMENT AND PLANNING. (a) The Department of Economic Devel-  
3 opment and Planning shall, after consultation with the commission  
4 and the concurrence of the governor,

5               (1) plan and administer all official state activities  
6 leading up to and relating to the 1967 Alaska Centennial;

7               (2) make an annual report of its activities, including  
8 an accounting of the funds received and expended or committed to  
9 the governor, on December 31 of each year.

10              (b) The Department of Economic Development and Planning  
11 shall, after consultation with the commission and the concurrence  
12 of the governor, have the power to

13               (1) receive and dispose of gifts and donations and do  
14 all things consistent with law to insure the success of the cen-  
15 tennial celebration;

16               (2) engage in joint projects with or make grants to any  
17 city or any organization to accomplish the purpose of this Act.

18       \* Sec. 11. TERMINATION OF CENTENNIAL COMMISSION. All powers  
19 granted by this Act shall terminate on June 30, 1968, or when the  
20 duties established by this Act are accomplished, whichever occurs  
21 first. A final report and accounting shall be made to the governor  
22 by the commission before its termination.

23       \* Sec. 12. This Act takes effect on the day after its passage  
24 and approval or on the day it becomes law without such approval.  
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Introduced: 3/8/63  
Referred: State Affairs

1 IN THE SENATE

RULES COMMITTEE  
BY REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 164

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRD LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Centennial;  
7 creating a Centennial Commission and pres-  
8 cribing its duties; granting powers and  
9 duties to the Department of Economic  
10 Development and Planning; and providing  
11 for an effective date."

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

13 \* Section 1. CREATION OF CENTENNIAL COMMISSION. (a) There  
14 is created a commission to be known as the Alaska State Centennial  
15 Commission. The commission shall consist of 16 members to be  
16 appointed by the governor. The appointments are to be made within  
17 30 days after the effective date of this Act.

18 (b) A vacancy in the commission shall not affect its powers  
19 and shall be filled by the governor.

20 (c) Members of the commission shall serve as long as the  
21 commission is in existence unless sooner removed by the governor  
22 for good cause.

23 (d) Members of the commission shall serve without compensation  
24 except that their travel and per diem shall be paid according to the  
25 schedule prescribed by state law for state officials and employees.

26 \* Sec. 2. DUTIES OF COMMISSION. The commission shall:

27 (1) advise the governor and the Department of Economic  
28 Development and Planning on all activities leading up to and  
29 relating to the 1967 Alaska Centennial;

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1           (2) cooperate with the Department of Economic Develop-  
2 ment and Planning in seeking the assistance and cooperation of the  
3 United States government, political subdivisions, communities,  
4 foreign governments and all historical, pioneer and patriotic  
5 bodies and societies participating in such celebrations and  
6 exhibits.

7           \* Sec. 3. DUTIES AND POWERS OF THE DEPARTMENT OF ECONOMIC  
8 DEVELOPMENT AND PLANNING. (a) The Department of Economic  
9 Development and Planning shall have the duty to

10           (1) plan and administer all official state activities  
11 leading up to and relating to the 1967 Alaska Centennial;

12           (2) make an annual report of its activities including  
13 an account of the funds received and expended or committed to  
14 the governor on December 31 of each year.

15           (b) The Department of Economic Development and Planning  
16 shall have the power to

17           (1) receive and dispose of gifts and donations and do  
18 all things consistent with law to insure the success of the cen-  
19 tennial celebration;

20           (2) engage in joint projects with, or make grants to,  
21 any city or any organization if the object of this Act can be  
22 thereby accomplished.

23           \* Sec. 4. EXECUTIVE COMMITTEE. (a) There is created an exe-  
24 cutive committee of five members. The members of the executive  
25 committee shall be members of the commission. The commission  
26 shall appoint one member from each judicial district and one  
27 member at large without regard to his place of residence.

28           (b) Members shall serve at the pleasure of the commission.

29           (c) Members shall serve without compensation except that

1 actual and reasonable expenses incurred in the discharge of their  
2 duties shall be reimbursed.

3 (d) The executive committee shall be responsible for carry-  
4 ing out any duty assigned to it by the commission and for seeing  
5 that the purposes of this Act are carried out.

6 \* Sec. 5. EXECUTIVE DIRECTOR. The commissioner of the Depart-  
7 ment of Economic Development and Planning may appoint an executive  
8 director, prescribe his duties and fix his compensation. If an  
9 executive director is employed, he shall be in partially exempt  
10 service under AS 39.25.120.

11 \* Sec. 6. TERMINATION OF CENTENNIAL COMMISSION. All powers  
12 granted by this Act shall terminate on June 30, 1968, or when  
13 the duties established by this Act are accomplished, whichever  
14 occurs first. A final report and accounting shall be made to  
15 the governor by the commission before its termination.

16 \* Sec. 7. This Act takes effect on the day after its passage  
17 and approval or on the day it becomes law without such approval.  
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BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
OIL AND GAS -- Make available to communities along pipeline  
  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Instructions to typist

Special Instructions Make state royalty oil and gas available to communities along the pipeline, if such will lower fuel costs for power or other uses

OBJECT OF LEGISLATIVE ACTION

Bill

- \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

- \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- \_\_\_ Journals and Legislative Reporting Service for previous session bills.
- \_\_\_ Check with agency concerned (with requestor's permission).
- \_\_\_ Laws of other states.
- \_\_\_ Bar Foundation Bill Reporting Service.
- \_\_\_ Publication "Suggested State Legislation."
- \_\_\_ Professional and industrial groups and services (with requestor's permission).
- \_\_\_ Alaska Delegation newsletters.
- \_\_\_ Other \_\_\_\_\_

INTERPRETATION

- \_\_\_ AS annotations.
- \_\_\_ Shepard's Citations.
- \_\_\_ Alaska Attorney General Opinions.
- \_\_\_ Legal Reference Works.

LEGAL CHECK

- \_\_\_ Constitutional aspects considered.
- \_\_\_ Conformity with one-subject rule.
- \_\_\_ Law not local or special unless general will not suffice.
- \_\_\_ Subject reflected in title.
- \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- \_\_\_ Organize bill.
- \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;
- \_\_\_ Style, grammar, and words.
- \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- \_\_\_ Confer with appropriate staff members.
- \_\_\_ Consult with legislator.
- \_\_\_ Advise revisor of final numbering.
- \_\_\_ Make recommended changes.
- \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
MUNICIPAL ASSISTANCE -- Loan program  
for utilities  
 ↗  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 \_\_\_\_\_  
 Instructions to typist

Special Instructions See attached

OBJECT OF LEGISLATIVE ACTION

Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

\_\_\_ Organize bill.  
 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

Recommendation No. 8

In those cases where funds are urgently needed by a municipal utility and the earnings potential is such that the required debt coverage cannot be maintained, the State should set up a loan program, at reasonable interest rate, to cover the period until bonds can either be sold or utility rates increased to improve the earnings. If the State already has a grant program for facilities or utilities (water), grants under this program should be considered for impact aid.

**AGO 532015**

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
 APPRO -- To Dept. of F/G to protect  
 fish and game along pipeline  
 route  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instructions

OBJECT OF LEGISLATIVE ACTION

Bill

- \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

- \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- \_\_\_ Journals and Legislative Reporting Service for previous session bills.
- \_\_\_ Check with agency concerned (with requestor's permission).
- \_\_\_ Laws of other states.
- \_\_\_ Bar Foundation Bill Reporting Service.
- \_\_\_ Publication "Suggested State Legislation."
- \_\_\_ Professional and industrial groups and services (with requestor's permission).
- \_\_\_ Alaska Delegation newsletters.
- \_\_\_ Other \_\_\_\_\_

INTERPRETATION

- \_\_\_ AS annotations.
- \_\_\_ Shepard's Citations.
- \_\_\_ Alaska Attorney General Opinions.
- \_\_\_ Legal Reference Works.

LEGAL CHECK

- \_\_\_ Constitutional aspects considered.
- \_\_\_ Conformity with one-subject rule.
- \_\_\_ Law not local or special unless general will not suffice.
- \_\_\_ Subject reflected in title.
- \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- \_\_\_ Organize bill.
- \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;
- \_\_\_ Style, grammar, and words.
- \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- \_\_\_ Confer with appropriate staff members.
- \_\_\_ Consult with legislator.
- \_\_\_ Advise revisor of final numbering.
- \_\_\_ Make recommended changes.
- \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
LOANS -- State to make for housing  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instructions State needs a stronger program to ~~x~~ make loans, or purchase mortgages for housing, to be used if normal financing sources are not available.

OBJECT OF LEGISLATIVE ACTION

Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

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 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
 Municipal assistance -- grant pro-  
 gram ~~XXXXXX~~ when  
 G.O. bonds can't be sold

Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

*local gov.*

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instructions In those cases where debt limitation on G.O. bonds makes it impossible to sell bonds for a capital improvement necessary to meet the impact needs, the State should consider a grant program, if the need is very ~~xx~~ urgent

OBJECT OF LEGISLATIVE ACTION

Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

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 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
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 \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
 Municipal assistance -- state to pay  
 portion of debt service or in-  
 terest  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

*Local Gov.*

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special instructions

In the cases where capital improvements will be needed now to meet the pipeline impact, but under normal conditions wouldn't be needed for over five years, the state should set up a program to pay a portion of the debt service, or interest, for a period of time, not over three years.

OBJECT OF LEGISLATIVE ACTION

Bill

- Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- Check with revisor of statutes concerning section numbering.

Resolution

- Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- Journals and Legislative Reporting Service for previous session bills.
- Check with agency concerned (with requestor's permission).
- Laws of other states.
- Bar Foundation Bill Reporting Service.
- Publication "Suggested State Legislation."
- Professional and industrial groups and services (with requestor's permission).
- Alaska Delegation newsletters.
- Other \_\_\_\_\_

INTERPRETATION

- AS annotations.
- Shepard's Citations.
- Alaska Attorney General Opinions.
- Legal Reference Works.

LEGAL CHECK

- Constitutional aspects considered.
- Conformity with one-subject rule.
- Law not local or special unless general will not suffice.
- Subject reflected in title.
- Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- Organize bill.
- Provide effective date clause if effective date other than constitutional; reference to in title;
- Style, grammar, and words.
- Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- Confer with appropriate staff members.
- Consult with legislator.
- Advise revisor of final numbering.
- Make recommended changes.
- Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
Municipal assistance -- state loan  
*Local gov.* or bond guarantee program  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 \_\_\_\_\_  
 Instructions to typist

Special Instructions Aid for capital improvement programs undertaken on an accelerated basis by the community, and which under normal growth conditions would be needed by 1976, should be in the form of a state loan or bond guarantee program.

OBJECT OF LEGISLATIVE ACTION

Bill

- \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
- \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

- \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- \_\_\_ Journals and Legislative Reporting Service for previous session bills.
- \_\_\_ Check with agency concerned (with requestor's permission).
- \_\_\_ Laws of other states.
- \_\_\_ Bar Foundation Bill Reporting Service.
- \_\_\_ Publication "Suggested State Legislation."
- \_\_\_ Professional and industrial groups and services (with requestor's permission).
- \_\_\_ Alaska Delegation newsletters.
- \_\_\_ Other \_\_\_\_\_

INTERPRETATION

- \_\_\_ AS annotations.
- \_\_\_ Shepard's Citations.
- \_\_\_ Alaska Attorney General Opinions.
- \_\_\_ Legal Reference Works.

LEGAL CHECK

- \_\_\_ Constitutional aspects considered.
- \_\_\_ Conformity with one-subject rule.
- \_\_\_ Law not local or special unless general will not suffice.
- \_\_\_ Subject reflected in title.
- \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- \_\_\_ Organize bill.
- \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;
- \_\_\_ Style, grammar, and words.
- \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- \_\_\_ Confer with appropriate staff members.
- \_\_\_ Consult with legislator.
- \_\_\_ Advise revisor of final numbering.
- \_\_\_ Make recommended changes.
- \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co  
 Subject:  
 Revenue Sharing -- grants to be re-  
 requested by formal application  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

*Local gov.*

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instruction -  
 also include "with supporting evidence of need"

OBJECT OF LEGISLATIVE ACTION

Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.

Resolution

\_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

\_\_\_ Organize bill.  
 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senate Petroleum Impact Co.  
 Subject:  
Revenue Sharing -- on basis of per-  
*Local gov.* centage increase  
 Drafter Russ  
 Assigned by Russ  
 Date in 12/17/73 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Hettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instructions

OBJECT OF LEGISLATIVE ACTION

- Bill
- Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.
  - Check with revisor of statutes concerning section numbering.
- Resolution
- Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

- Journals and Legislative Reporting Service for previous session bills.
- Check with agency concerned (with requestor's permission).
- Laws of other states.
- Bar Foundation Bill Reporting Service.
- Publication "Suggested State Legislation."
- Professional and industrial groups and services (with requestor's permission).
- Alaska Delegation newsletters.
- Other \_\_\_\_\_

INTERPRETATION

- AS annotations.
- Shepard's Citations.
- Alaska Attorney General Opinions.
- Legal Reference Works.

LEGAL CHECK

- Constitutional aspects considered.
- Conformity with one-subject rule.
- Law not local or special unless general will not suffice.
- Subject reflected in title.
- Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

- Organize bill.
- Provide effective date clause if effective date other than constitutional; reference to in title;
- Style, grammar, and words.
- Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.
- Recheck AS citations and interal references.

ADVICE AND CONSULTATION

- Confer with appropriate staff members.
- Consult with legislator.
- Advise revisor of final numbering.
- Make recommended changes.
- Submit for final approval.

---

need 26,20,150 authority  
to accept loans &  
grants

need } 44,19,177 - Natural  
disaster loans

---

41,30,040

---

47,43,090  
110

AGO 532023 +

Pipeline Impact - 12/17/73

- 1.) First 20 pages is really the guts of the report.
- 2.) Anchorage is the only city that really responded.
- 3.) No state department really responded.
- 4.) Report: main point of starting is p. 20 (recommendations).
  - Restriction on w/s money? (now none). (Bob) - Marsh - shouldn't make money accountable because there is no money. Rose & Bob think there should be a contract. Andy doesn't think so. Rose & Bob & George. George S. - remember operations & maintenance (see III) is different from capital improvement (single contract only).
    - Board should be more explicit (see Vol. 1 as an exception).
    - Frances Home Vol. 1 pre-game is what thought of (approved by Lawrence Marsh).
  - Go then recommendations:
    - # 1 - (Bob) - should be on 70 of income etc.
    - # 17 - which point are you want to support? (Ruth) - look at Vol. 1 & El Paso to see what they are going to do before making public statement.

+ OK - what should committee do?  
(York)

- agreed that 70% R/S is the answer.

+ Rethig - money can't do everything;  
- state should provide many  
services (police), because  
state is getting direct bene-  
fit from oil & gas. George S.  
won't maintain court help.

Who should get money - state or  
local gov't? (Should think  
local gov't should); state  
provides a lot of services  
- separate and pay part of  
help. Back believing that  
5% increase in family in-  
crease (figure suggested by  
Walt. Brown) - all revenue;  
more like 20%.

Why not use Fed's approach for  
handling flood & earthquake  
(went out of business 10  
years)? Colorado state agency  
to handle such programs. Can  
5 life times. This is instead  
of R/S program. Maybe with  
insurance not, but for audit,  
committee. Where to build  
with an office go? Office  
of Insurance

Official  
Copy  
Approved

~~Subject~~

Impact

Draft of a bill!  
do  
for sure

~~Signature & Agency in the Gov. -~~

- approval of B/A when not in session
- By joint finance committee during session
- 4 year duration
- appropriation will be decided later

Recommendations & bills:

- # 15 resolution
- # 17 " (maybe)



drafted with all recommendations

do!

~~1973~~

1974

1975

1976

1977

~~1974~~

July 1, 1975

1976

1977

1978

*J. Kelly*

1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the State Administrative Pipeline  
7 Impact Commission; and providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION

11 Sec. 44.19.581. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION.

12 There is in the office of the governor the State Administrative Pipe-  
13 line Impact Commission.

14 Sec. 44.19.583. COMPOSITION. The commission is composed of the  
15 commissioners of administration, revenue, community and regional  
16 affairs and commerce. The commissioner of administration is the chair-  
17 man of the commission.

18 Sec. 44.19.585. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
19 CONSTRUCTION. The State Administration Pipeline Impact Commission  
20 shall administer a state program to provide assistance to municipalities  
21 which are adversely affected, economically and socially, by pipeline  
22 construction.

23 Sec. 44.19.587. POWERS AND DUTIES. (a) The commission shall:

24 (1) advise and assist the governor in developing planning  
25 assumptions and a broad preparedness plan with respect to the economic  
26 and social impact that will accompany pipeline construction;

27 (2) advise and assist the governor in developing policies,  
28 programs and control systems designed to alleviate the economic and  
29 social impact resulting from pipeline construction; and

1 (3) advise and assist the governor with respect to resolving  
2 issues, related to pipeline construction impact preparedness responsi-  
3 bilities of state agencies, which arise concerning two or more of these  
4 agencies.

5 (b) The commission, with the consent of the Special Legislative  
6 Pipeline Impact Review Committee (as provided for in secs. 593 and 595  
7 of this chapter), may:

8 (1) make loans and grants and purchase evidences of indebt-  
9 edness with funds from the Pipeline Impact Fund to municipalities  
10 economically or socially adversely affected by pipeline construction;

11 (2) guarantee municipal bonds when a municipality needs to  
12 undertake a capital improvement program on an accelerated basis; and

13 (3) pay (for not more than three years) from the Pipeline  
14 Impact Fund a portion of the debt service or interest or both incurred  
15 by a municipality for undertaking capital improvements made necessary  
16 by pipeline construction.

17 (c) Grants under (b)(1) of this section shall be made on the  
18 basis of percentage increase in population and not on the basis of  
19 per capita increase in population. Applications for grants shall be  
20 made in a form prescribed by the commission. A grant shall be allotted  
21 according to an agreement made between the commission on behalf of the  
22 state and the municipality receiving the grant. The agreement may  
23 include any provision agreed upon by the parties and shall include in  
24 substance the following provisions:

25 (1) a schedule of grant disbursements, if, as determined  
26 by the commission, a grant is to be disbursed other than in one sum;

27 (2) agreement by the municipality to

28 (A) proceed with and complete the proposed project or  
29 program expeditiously;

1 (B) not discontinue operation or dispose of all or  
2 part of the project or program for which it receives a grant  
3 without the approval of the director;

4 (C) apply for, and make reasonable efforts to secure,  
5 federal assistance which may be available for the project or  
6 program, subject to any conditions the commission may require in  
7 order to maximize the amounts of that assistance received or to  
8 be received for all projects or programs in the state;

9 (3) agreement by the municipality that, if federal assis-  
10 tance for a project or program becomes available to the municipality  
11 which was not included in the calculation of the amount of a grant  
12 authorized and disbursed under this section, the value of the federal  
13 assistance shall be ascertained and subtracted from the total value  
14 of the project or program and the balance shall be proportionately  
15 divided between the state and municipality;

16 (4) provision for alteration or modification of an approved  
17 project or program and for remedies in case of failure to perform  
18 the agreement between the parties or noncompliance with regulations  
19 promulgated by the commission under this section.

20 (d) If funds appropriated by the legislature to provide loans  
21 and grants and purchase evidences of indebtedness under this section  
22 are not adequate to satisfy amounts required by approved grant appli-  
23 cations, funds shall be allocated on the basis of priority established  
24 by the commission by regulations promulgated to carry out the pro-  
25 visions of this section.

26 (e) The commission shall provide an annual report to the legis-  
27 lature with respect to grants made under this section.

28 (f) The commission shall determine the terms and conditions for  
29 making a loan and purchasing an evidence of indebtedness under this

1 section.

2 Sec. 44.19.589. AUTHORITY TO ACCEPT SERVICE, GIFTS, GRANTS, AND  
3 LOANS. When the federal government or an agency or officer of the  
4 federal government offers to the state, or through the state to a  
5 municipality, services, equipment, supplies, materials, or funds by  
6 way of gift, grant, or loan, for the purpose of alleviating the social  
7 or economic impact resulting from pipeline construction, the state  
8 acting through the commission, or the municipality acting through its  
9 executive officer or governing body, may accept the offer subject to  
10 the terms of the offer and the rules and regulations of the agency  
11 making the offer.

12 Sec. 44.19.591. PIPELINE IMPACT FUND. There is the pipeline  
13 impact fund created for the purpose of carrying out the provisions of  
14 sec. 587 (b) of this chapter. The fund consists of all money made  
15 available by appropriations of the state legislature, and from other  
16 appropriated funds, all contributions from whatever source, and income  
17 and interest derived from the investment of money.

18 Sec. 44.19.593. SPECIAL LEGISLATIVE PIPELINE IMPACT REVIEW  
19 COMMITTEE. There is established the Special Legislative Pipeline  
20 Impact Review Committee composed of two members of the senate appointed  
21 by the president of the senate and two members of the house of repre-  
22 sentatives appointed by the speaker of the house.

23 Sec. 44.19.595. DUTIES OF COMMITTEE. (a) The committee shall  
24 review and approve or disapprove the decisions made by the State  
25 Administrative Pipeline Impact Commission under sec. 587(b) of this  
26 chapter.

27 \* Sec. 2. This Act takes effect July 1, 1974.  
28  
29

D  
R  
A  
F  
T

January 29, 1974

The legislature finds that construction of the Trans-Alaska Pipeline, from its commencement to completion over a period of approximately three years, will impose severe to mild strains on local and state governmental services and facilities. While the pipeline construction doubtless will, in the long run, mean immense growth and development to the communities and areas along the pipeline route, and to those areas coming under direct pipeline construction influence, the legislature further finds that localities most affected will be unable to cope with the probable impact on facilities and services brought about by expected overwhelming and sudden increases in numbers of citizens to be served. The legislature finds, also, that while likely impacted communities are willing and ready via local taxation to do all possible themselves to meet impact requirements, even to the full limits of local taxation tolerance, nevertheless, recognizing the state will be the prime beneficiary of pipeline construction via realization of enormous oil development revenues for the total state, the legislature finds that local impact financial burdens logically should be borne by the state as its investment in those future revenues.

It is, therefore, the intent of the legislature, in this measure, to provide a means of quickly and decisively determining specific impact problems and, likewise, for moving quickly and decisively to provide funds, facilities, personnel or other means for quick solution. Finally, the legislature intends via this legislation to meet local and state pipeline construction impact problems as quickly and efficiently as possible in manners similar to the handling of

disaster impact problems. The legislature finds, too, that revenue sharing formula on per capita or percentage per capita increase basis are less desirable, less effective, and more costly than the case by case approach intended in the legislation. Under the formula approach, provision would have to be made for all probable as well as all possible impact contingencies - some of which may never develop.

REM:hg

J. Kelly

1 IN THE SENATE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the State Administrative Pipeline  
7 Impact Commission; and providing for an effective date."

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

9 \* Section 1. AS 44.19 is amended by adding new sections to read:

10 ARTICLE 8. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION

11 Sec. 44.19.581. STATE ADMINISTRATIVE PIPELINE IMPACT COMMISSION.

12 There is in the office of the governor the State Administrative Pipe-  
13 line Impact Commission.

14 Sec. 44.19.583. COMPOSITION. The commission is composed of the  
15 commissioners of administration, revenue, community and regional  
16 affairs and commerce. The commissioner of administration is the chair-  
17 man of the commission.

18 Sec. 44.19.585. PROGRAM TO ASSIST MUNICIPALITIES DURING PIPELINE  
19 CONSTRUCTION. The State Administration Pipeline Impact Commission  
20 shall administer a state program to provide assistance to municipalities  
21 which are adversely affected, economically and socially, by pipeline  
22 construction.

23 Sec. 44.19.587. POWERS AND DUTIES. (a) The commission shall:

24 (1) advise and assist the governor in developing planning  
25 assumptions and a broad preparedness plan with respect to the economic  
26 and social impact that will accompany pipeline construction;

27 (2) advise and assist the governor in developing policies,  
28 programs and control systems designed to alleviate the economic and  
29 social impact resulting from pipeline construction; and

1 (3) advise and assist the governor with respect to resolving  
2 issues, related to pipeline construction impact preparedness responsi-  
3 bilities of state agencies, which arise concerning two or more of those  
4 agencies.

5 (b) The commission, with the consent of the Special Legislative  
6 Pipeline Impact Review Committee (as provided for in secs. 593 and 595  
7 of this chapter), may:

8 (1) make loans and grants and purchase evidences of indebt-  
9 edness with funds from the Pipeline Impact Fund to municipalities  
10 economically or socially adversely affected by pipeline construction;

11 (2) guarantee municipal bonds when a municipality needs to  
12 undertake a capital improvement program on an accelerated basis; and

13 (3) pay (for not more than three years) from the Pipeline  
14 Impact Fund a portion of the debt service or interest or both incurred  
15 by a municipality for undertaking capital improvements made necessary  
16 by pipeline construction.

17 (c) Grants under (b)(1) of this section shall be made on the  
18 basis of percentage increase in population and not on the basis of  
19 per capita increase in population. Applications for grants shall be  
20 made in a form prescribed by the commission. A grant shall be allotted  
21 according to an agreement made between the commission on behalf of the  
22 state and the municipality receiving the grant. The agreement may  
23 include any provision agreed upon by the parties and shall include in  
24 substance the following provisions:

25 (1) a schedule of grant disbursements, if, as determined  
26 by the commission, a grant is to be disbursed other than in one sum;

27 (2) agreement by the municipality to

28 (A) proceed with and complete the proposed project or  
29 program expeditiously;

1 (B) not discontinue operation or dispose of all or  
2 part of the project or program for which it receives a grant  
3 without the approval of the director;

4 (C) apply for, and make reasonable efforts to secure,  
5 federal assistance which may be available for the project or  
6 program, subject to any conditions the commission may require in  
7 order to maximize the amounts of that assistance received or to  
8 be received for all projects or programs in the state;

9 (3) agreement by the municipality that, if federal assis-  
10 tance for a project or program becomes available to the municipality  
11 which was not included in the calculation of the amount of a grant  
12 authorized and disbursed under this section, the value of the federal  
13 assistance shall be ascertained and subtracted from the total value  
14 of the project or program and the balance shall be proportionately  
15 divided between the state and municipality;

16 (4) provision for alteration or modification of an approved  
17 project or program and for remedies in case of failure to perform  
18 the agreement between the parties or noncompliance with regulations  
19 promulgated by the commission under this section.

20 (d) If funds appropriated by the legislature to provide loans  
21 and grants and purchase evidences of indebtedness under this section  
22 are not adequate to satisfy amounts required by approved grant appli-  
23 cations, funds shall be allocated on the basis of priority established  
24 by the commission by regulations promulgated to carry out the pro-  
25 visions of this section.

26 (e) The commission shall provide an annual report to the legis-  
27 lature with respect to grants made under this section.

28 (f) The commission shall determine the terms and conditions for  
29 making a loan and purchasing an evidence of indebtedness under this

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

470 SCOMM13: JOINT COMM. ON GAS PIPELINE IMPACT 1974-76



D  
R  
A  
F  
T

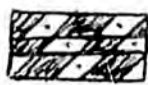
January 29, 1974

The legislature finds that construction of the Trans-Alaska Pipeline, from its commencement to completion over a period of approximately three years, will impose severe to mild strains on local and state governmental services and facilities. While the pipeline construction doubtless will, in the long run, mean immense growth and development to the communities and areas along the pipeline route, and to those areas coming under direct pipeline construction influence, the legislature further finds that localities most affected will be unable to cope with the probable impact on facilities and services brought about by expected overwhelming and sudden increases in numbers of citizens to be served. The legislature finds, also, that while likely impacted communities are willing and ready via local taxation to do all possible themselves to meet impact requirements, even to the full limits of local taxation tolerance, nevertheless, recognizing the state will be the prime beneficiary of pipeline construction via realization of enormous oil development revenues for the total state, the legislature finds that local impact financial burdens logically should be borne by the state as its investment in those future revenues.

It is, therefore, the intent of the legislature, in this measure, to provide a means of quickly and decisively determining specific impact problems and, likewise, for moving quickly and decisively to provide funds, facilities, personnel or other means for quick solution. Finally, the legislature intends via this legislation to meet local and state pipeline construction impact problems as quickly and efficiently as possible in manners similar to the handling of

disaster impact problems. The legislature finds, too, that revenue sharing formula on per capita or percentage per capita increase basis are less desirable, less effective, and more costly than the case by case approach intended in the legislation. Under the formula approach, provision would have to be made for all probable as well as all possible impact contingencies - some of which may never develop.

REM:hg



Pipeline Impact Committee 1/31/74

Present: Kettig, Yeak, Wilson, K. Miller,  
Hartig, Siegle, Warwick. (Trudy)

- 1.) Discussion of "Purpose Clause" -  
- comments: good.
- 2.) Discussion of drafts.
  - 1- Warwick: #1 is ~~the~~ best. (per Seattle meeting).
  - 2- Hartig: #1 is best
  - 3- Yeak: suggestions = combine both.
    - Agency with review by spirit legis review comm. (3 from each house): B/A is overloaded and it hard to get quorum.
    - Andy = B/A w better structure but Yeak is probably right.
    - Don - decision by mail. questions. Concern was no.
    - M'Piegl - agrees w. Yeak. - should be legis. comm. (w. compensation)
    - Don. - what about separations power question - Yeak thinks could be problem but not likely.
    - Frank - legis comm. w. assistance by B/A & finance staff. - permanent expertise is needed.
  - 4- Informal note
    - Agency v. Comm. ? Agency (#1 draft)
    - Yeak's (3 member review comm.) ?  
Comm. of review is legis not B/A. -
    - Should comm. be able to approve

a portion of request? - seemed  
to be general agreement.

3.) Appropriation discussed:  
~~\_\_\_\_\_~~

- Ron. Supp + F one for next year.  
may be needed.
- Andy - shouldn't be part of the  
operating budget.
- Ross 15 mil this fy } suggestions  
25 " next fy }

\* agreed  
on

⊖ Kirk & Bob = \$25 mil. until <sup>July</sup> 1975. (use "non-lapse" language.)

\* agreed  
on

Fink = Review comm. = W. majority  
of full comm? yes - 3 to act  
4 years.

agreed  
upon

Warwick - should meet by phone? yes

Sec. 8(a)(2)

- Small business dis-  
aster loans (15 USC  
636 (b)); sec. 7 (b) (1), (2)  
and (4) of 513A
- Farmer Home Ad-  
ministration Act  
(7 U.S.C. 1961-1967) &  
for rural (42 USC 1472)
- Rural Electrification  
Act (7 USC 5591e)
- HUD (12 USC 5 17019-  
5)

AGO 532041

- 1.) 16 Am Jur 2d  
 §§ 231-233 - Legislative encroachment  
 on executive
- 2.) West's Pacific Digest (7 Pac 2d 513)  
 - Const. Law § 26 (Limitation of power)  
 - " " " 58 (Encroachment on  
 executive)
- 3.) 134 ALR 1405 - Parker v. Riley, 113  
 P.2d 373 (Calif.)
- 4.) Mac Manus v. Law, 499 P.2d 607 (Colo.  
 1972) Portions of a bill providing  
 that any federal or cash funds  
 received by agency in excess of  
 the appropriation shall not be  
 expended without additional legis-  
 lative appropriation violated con-  
 stitutional doctrine of separation  
 of powers by attempting to limit  
 the executive branch in its ad-  
 ministration of federal funds  
 unconnected with any state  
 appropriations. Const. art. 3; art.  
 5, § 32.

Const. Issue (Separation of Powers)

P.J.S.

- 1.) Encroachment on executive  
§§ 130-132 pp. 545 - 552 (Const. Law)  
\* § 130 generally contra
- 2.) Bank v. State Office Building Commission,  
149 N.E. 2d 273, 296. (Ind.)
- 3.) State ex rel. Amberson v. State  
Office Building Commission, 345  
P. 2d 674 (Kan.)
- 4.) Shei-lan v. Gardner, 196 N.E. 2d 303  
& Conn. v. Schunckhauer, 248  
N.E. 2d 237 (Mass.)
- 5.) Mann v. McHain, 165 S.E. 2d 355 (S.C.)

AGO 532043

1/22/74

Petroleum Impact Comm.

Look up

\* Centennial Loan Committee

- state board committee was the body used
- check on how much discretion it had and how it operated.

- Declaration by agency when he files an order with a in to be impacted (some good)
- after agency has the facts then

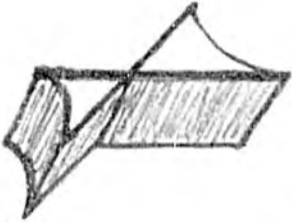
- Comm. Bd. (behaviour) } members on comm. or agency
- C & R Aff
- Revenue
- Commission

\* State Agency

- State admin. impact Commission
- C of H (Chairman)
- C of R
- C of C & R affairs

- check ~~of~~ investment & commission.
- appraiser sent to agency (loan blank or amount)
- report by them (engineer)
- Special Legis Impact Committee
- 2 members from each house
- authority to appear as disapprovers activities of the Commission
- nature to review maintenance by reg. maint and then has

10 days to hold meeting; no  
action with 15 days then  
action is approved.



PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

FINANCIAL DISCLOSURE -- ZIEGLER

AGO 532046 F+

Alaska State Legislature

SENATOR  
ROBERT H. ZIEGLER, SR.  
P. O. BOX 979  
KETCHIKAN, ALASKA 99901  
—  
POUCH V  
JUNEAU, ALASKA 99801



Senate

CHAIRMAN  
JUDICIARY  
—  
VICE CHAIRMAN  
LEGISLATIVE COUNCIL  
—  
MEMBER  
RULES  
COMMERCE  
COMMITTEE ON COMMITTEES  
SPECIAL SENATE PIPELINE  
CONSTRUCTION IMPACT  
COMMITTEE

December 14, 1973

Russell E. Mulder  
Deputy Director  
Legislative Affairs Agency  
Pouch Y  
Juneau, Alaska 99801

Dear Russ:

On page 9 of the State Government News (enclosed), it would appear that California has mandated ethics in government. The relevant paragraph has been encircled.

Would you arrange, please, to have copies of the pertinent California statutes air mailed to me.

Thanks in advance.

See you in about a month.

Regards to you and Ellen,

*RZ*

Robert H. Ziegler, Sr.

RHZ/pks

RECEIVED  
DEC 17 1973

LEGISLATIVE AFFAIRS  
AGENCY

AGO 532047

18. entitling 18 year olds to most adult privileges, including the right to buy alcoholic beverages.

Sunday beer and liquor sales were permitted by businesses which derive more than 50 percent of their gross income from goods and services other than alcoholic beverages.

A cash bonus to Vietnam veterans was authorized.

The official observance of Veterans Day was changed from the fourth Monday in October to November 11.

Egg check-off legislation was passed allowing promotional funds to be raised by permitting a check-off of up to five cents per 30-dozen case of eggs.

The Legislature increased state aid to schools, appropriating \$242 million for fiscal 1974 and \$276 million for fiscal 1975.

An auxiliary services bill was passed that provides money to local school districts to provide special programs to private and parochial school children, such as health, special education, remedial education and library services.

A bill providing for the assessment and taxation of property of municipally owned utilities held under joint ownership was passed.

A formula for distribution of revenues from taxing large electrical power-generating plants was approved.

Workmen's compensation coverage was expanded.

## California Mandates Ethics In Government



Governmental ethics and tax relief were among major actions taken by the 1973 California Legislature.

### TAX AND FISCAL

A \$9.38 billion budget was signed on June 30, the day before the start of the new fiscal year. The sales tax was rolled back from 6 percent to 5 percent for six months starting October 1. Income tax rebates on a sliding scale up to 35 percent were authorized against 1973 liability. Single heads of households were given the same tax advantage as married couples.

### ETHICS

Public officials were required to disclose any property they own valued at more than \$1,000 and any gifts, income and loans exceeding \$250.

Open meetings legislation specified when meetings of the Legislature and its committees can be closed to the public and required the conference committee on the budget to open its doors to the public. A companion constitutional amendment will be on the 1974 ballot.

A political contributions law required statements of receipts and expenditures for or against ballot measures, and revised campaign reporting with respect to candidates and ballot measures.

### CRIME

The death penalty was mandated for specified types of murder.

Allowable state compensation to victims of violent crimes was raised from \$5,000 to \$23,000.

### ENVIRONMENT

The Legislature appropriated \$15 million to acquire 11 parcels of land for parks and recreation.

A \$250 million bond issue for construction of water pollution control facilities was placed on the 1974 ballot.

A bi-state Tahoe Conservancy Agency Compact was created and \$20 million appropriated to acquire land in the Tahoe basin.

Regulations were enacted to govern timber-cutting on private lands by a board dominated by nontimber interests.

### EDUCATION, HEALTH

Community colleges were granted \$65 million and property tax limits established for college districts.

Names of some state universities were changed. Child care and preschool programs for some 27,000 children were funded \$41 million.

Provision was made for improved nursing homes.

### CONSUMERS, LABOR

Retail pharmacists were required to post prices of the 100 most commonly prescribed drugs.

Tax-preparation services were regulated by the Department of Consumer Affairs.

Benefits were improved for unemployment insurance, disability insurance and workmen's compensation.

Laws discriminating between men and women regarding hours and working conditions were eliminated.

(continued on page 10)

Women were given the same rights as men in obtaining credit. Discrimination against women in property rights was eliminated.

A State Occupational Safety and Health Act was adopted.

A new Department of Employment Development was authorized to create jobs and to provide for coordination of local-regional-state manpower training.



## Death Penalty, Abortion Concern Louisiana

The 1973 Louisiana Legislature enacted a new death penalty law and passed a new abortion act. The session adjourned June 12.

### BUDGET AND FISCAL

The Legislature adopted a \$1.9 billion general fund budget for the 1973-74 fiscal year.

A Legislative Budgetary Control Council was created to establish rules and regulations governing expenditures of funds appropriated to the Legislature, its committees, and employees.

Procedures for distributing the state revenue sharing fund were revised. Under the new law, funds will be allocated to each parish annually, the amount to be based on parish-state population ratio and homestead ratio.

### LAW ENFORCEMENT

A new capital punishment law makes the death penalty mandatory for first degree murder convictions. Offenses constituting first degree murder include murder during kidnapping, rape or armed robbery; killing a peace officer or fireman engaged in performance of his duties; murder committed by a person with a previous murder conviction or who is serving a life sentence; mass murder, and murder for hire.

Methaqualone was added to the list of dangerous drugs. Changes in the State's controlled substances law included stiffer penalties for distribution and selling of such drugs.

### EDUCATION

The Legislature provided for a comprehensive state program of career education. Money was appropriated for construction of regional, post-secondary vocation-technical schools and expansion and renovation of existing ones.

Construction of a new medical education building for Louisiana State University was authorized.

### OTHER

Local government agencies were prohibited from imposing residency requirements on employees.

A constitutional amendment to allow gasoline tax revenues to be used for mass transit facilities was placed on the June 1974 ballot.

### OTHER

A new abortion law allows hospitals and medical personnel to refuse to participate in abortions. Discrimination against any person or institution for so refusing was forbidden.

Workmen's compensation benefits were increased from a maximum of \$45 per week to \$65 per week.

Retirement benefits were improved for members of the State Teachers Retirement System, Municipal Retirement System and State Employees Retirement System.

Official observance of Veterans Day was changed from the fourth Monday in October to November 11.

The Division of Actuary Review was created within the Office of Legislative Auditor.

The Legislature abolished its interim study committees and by rule changes in the respective houses authorized standing committees to undertake any needed interim studies. Funding was provided for staffing of committees, on a two-committee shared basis, through the Louisiana Legislative Council. In the House provision was made for pre-session referral and hearing of prefiled bills.

## Utah Cuts Taxes

Elimination of the 1.6 mill state property tax for schools was approved by the Utah Legislature meeting in special session in October.

Unless the levy is reimposed by the January budget session, it will be the first time since 1954 that there has been no state property tax.

The Legislature also approved a \$6 income tax credit for each dependent off 1973 taxes.

A one-time \$3 million appropriation is to go to local governments to assist in completing low income housing programs disrupted by the federal housing moratorium.

# Alaska State Legislature

SENATOR  
ROBERT H. ZIEGLER, SR.  
P. O. BOX 979  
KETCHIKAN, ALASKA 99901

POUCH V  
JUNEAU, ALASKA 99801



Senate

CHAIRMAN  
JUDICIARY  
—  
VICE CHAIRMAN  
LEGISLATIVE COUNCIL  
—  
MEMBER  
RULES  
COMMERCE  
COMMITTEE ON COMMITTEES  
SPECIAL SENATE PIPELINE  
CONSTRUCTION IMPACT  
COMMITTEE

December 1, 1973

Russell E. Mulder  
Deputy Director  
Legislative Affairs Agency  
Pouch Y  
Juneau, Alaska 99801

Dear Russ:

Enclosed are several pages from the November, 1973 issue of State Government News. Apparently Maryland, Hawaii and Nevada have enacted disclosure legislation.

Would you get copies of whatever has been done or is in the hopper for me and hang on to them until I see you in January.

Thanks and regards,

*R. H. Ziegler, Sr.*

Robert H. Ziegler, Sr.

RHZ/pks

enc.

LEGISLATIVE AFFAIRS AGENCY  
DEC 3 1973  
RECEIVED



## Maryland Enacts Governmental Ethics

The 1973 Maryland General Assembly met in regular and special sessions.

A financial disclosure law, which had been termed vague and possibly unconstitutional, enacted by the regular session was replaced by a new law enacted in special session. The new law requires disclosure of top state officials, legislators, sheriffs, State's attorneys, registers of wills and circuit court clerks, and candidates for those offices. Disclosure is required of interests in property and corporations, and any gift over \$50, any position, or interest in any business which has dealings with the State. Disclosure systems are to be set up by the Court of Appeals for judges and by local governments for local officials.

Total appropriations for fiscal 1974 amounted to \$2,491,504,666. This figure compares to an appropriation of \$2,176,326,183 for fiscal 1973, an increase of 14.4 percent.

### EDUCATION

A compensatory education program for disadvantaged children and a comprehensive program of special educational services for handicapped children were established. Free education was provided for certain handicapped children and day care programs were established in the schools.

A new method and formula was created for providing state financial assistance to public education. This measure will have the effect of increasing state aid to the poorer counties and Baltimore City, while decreasing the educational assistance provided to richer areas of the State.

County Boards of Education were authorized to enter into agreements with each other, with the State Department of Education, and with other educational institutions for cooperative or joint administration of programs. State aid to private colleges was provided based upon the number of advanced degrees awarded beyond the baccalaureate degree. School principals were given certain police powers to search students and school lockers if they have probable cause to believe an illegal item, such as weapons or drugs, may be found.

### CONSUMER PROTECTION

A rent control law placed a 5 percent ceiling on rent increases retroactive to January 1, 1973. The law allows rent increases over 5 percent if they can be justified by increased taxes paid by the landlord or increased costs in maintaining an apartment, but it does not provide for state action to enforce

the rent ceiling. Another law provides that a tenant can redeem his leased premises prior to eviction if he pays all due rents and costs.

In other action, the General Assembly established new occupational safety and health standards; passed a Maryland Hazardous Substances Act; prohibited the labeling and sale of hamburger, chopped or ground beef as "all beef" or "all meat" unless the product meets certain requirements; set standards relating to repair of home appliances; prohibited unauthorized manufacture, distribution, and possession with the intent to distribute drugs or unauthorized attempts to obtain prescription drugs; and required certain elevators to have signs warning against usage during a fire.

The Attorney General was given subpoena power in enforcing consumer protection laws, and the Insurance Commissioner was given the authority to act immediately and before a hearing in the issuance of a cease and desist order in enforcing certain requirements of the Unfair Trade Practices Act.

Consumer electrical products must be tested "safe for use" rather than only "reasonably safe."

### LAW ENFORCEMENT

In an attempt to speed up trials, prosecuting attorneys were allowed to by-pass time-consuming grand jury indictments. Social workers were given the authority, without court approval, to enter houses where child abuse is suspected and to remove an abused child on an emergency basis.

Law enforcement officials were exempted from civil liability when rendering emergency services after an accident under certain conditions.

The General Assembly transferred the probation officers of certain state courts to the State Division of Parole and Probation, included a Community Correction Center as a correctional and reformatory institution under the Division of Corrections, and increased the jurisdiction of the Court of Special Appeals.

### HUMAN RESOURCES

Persons or hospitals were given the right to refuse to perform, participate in, or submit to abortions, sterilizations, or artificial insemination.

The problems of the elderly were considered and legislation passed to establish day-care centers and services, a nutritional program under the Maryland Commission for the Aged, and a program of community care services.

## North Carolina State Workers Get Raises



Aid to education was increased by the 1973 North Carolina General Assembly.

### EDUCATION

A 5 percent pay raise was granted to all state employees, including school personnel. In addition, more than \$30 million was appropriated for 13 extra days of teacher employment beyond the school term, \$26 million to reduce class size, and \$12.2 million to extend public kindergarten programs. The session approved capital improvement budgets of \$33 million for community colleges and \$66 million for universities. A reserve fund of \$7.5 million was created to help fund a proposed state medical school. A matching fund of \$4.6 million was established to provide private colleges and universities with \$200 for each in-state student enrolled.

Total public and higher education appropriations, excluding capital budgets, were just short of \$1 billion.

College students were no longer required to drop out of school for a year to qualify for in-state tuition rates.

### TAX AND FISCAL

Appropriations from all sources for fiscal 1973-74 totaled \$2.9 billion, including \$1.7 billion in general funds.

Farm, forest and horticultural land is to be taxed according to its present use, rather than its market value, subject to payment of back taxes if use changes. Counties were required to assess property at a full 100 percent ratio. Property tax exemption laws were clarified.

A small part of the state gasoline tax, 1/8 of 1 percent of net proceeds of taxes on motor fuels, was allocated to development of artificial reefs off the coast and to aid the fishing industry.

### GOVERNMENT

For 1973-74, the General Assembly, by parliamentary procedure, shifted from a biennial session to a more flexible format. The 1973 session was divided into two segments; the first adjourned in May and the second will begin in January 1974. Standing committees were authorized to meet in the interim to discuss bills delayed for disposition during the second segment of the session.

As part of a planned six-year reorganization program, the General Assembly approved imple-

menting legislation to reorganize the Departments of Human Resources, Cultural Resources, Revenue, and Military and Veterans Affairs.

The State Highway Commission was abolished as of July 1 and replaced by a Board of Transportation and a Secondary Roads Council.

### CONSUMERS, LABOR

The assigned risk auto liability plan was abolished and replaced with an industry reinsurance facility system which allows motorists to choose their own company for reinsurance.

It was made a crime for used car dealers to alter odometer readings.

Courts were authorized to approve attorney fees for plaintiffs in consumer-oriented small claims cases.

The state minimum wage was raised from \$1.60 to \$1.80 per hour, effective September 2. Employers of four or more employees are governed by state maximum working hours of 10 hours per day, 56 hours per week, and time and a half pay for over 50 hours a week, except if covered by federal law. Workmen's compensation benefits were raised from a maximum of \$56 to \$80 per week. State administration of the Federal Occupational Safety and Health Act (OSHA) was authorized.

### OTHER

The session approved a Governor-sponsored bill to aid rural health clinics to provide care in doctor-short areas. A bill of rights for mental patients was enacted and the law dealing with involuntary commitment to mental institutions was made more restrictive.

A new law provides for automatic driver license suspension for refusal to take a blood alcohol test on arrest for driving under the influence.

Some drug law penalties were increased.

A juvenile convicted of a misdemeanor may have his record cleared if he has no more convictions before reaching age 18.

Some \$14 million was appropriated to acquire new state parklands. A Board of Sedimentation Control was created to develop a state-local program for control of sediment and silt pollution of waterways from building projects. The State Board of Air and Water Resources was strengthened and regulations were tightened on waste discharges. Those responsible for oil spills were required to clean up and pay for the damages.



## *Hawaii Studies Population Patterns*

The 1973 Hawaii Legislature reformed campaign financing, adopted no-fault auto insurance, and provided for a population study.

### *TAX AND FISCAL*

For the 1973-75 biennium, the Legislature approved general fund expenditures totaling \$1.1 billion and capital improvements totaling \$352.4 million.

Retroactive pay raises of 5.5 percent were approved for most state employees, including teachers. Blue collar workers received 7 percent back pay.

Income received by prisoners of war was excluded from state income taxes.

Agricultural land dedicated to that purpose in 10 to 20 year agreements may be taxed at 50 percent of assessed value. A penalty and the extra tax must be paid if the land's use is changed.

### *SOCIAL LEGISLATION*

A permanent commission on population and planning is to study in- and out-migration, population distribution, and the capacity of the State regarding agricultural production, waste, recycling and natural resources. It is also to coordinate family planning.

A continuing census was authorized of all persons entering and leaving the State, including vital statistics and purpose of entering or leaving the State.

A statewide planning and development system for child services was authorized. The Uniform Child Custody Jurisdiction Act was adopted.

### *GOVERNMENT*

A campaign finance reform law, applicable to candidates for state, federal and local offices, placed spending limits on campaigns, required reports of contributions of more than \$100, and outlawed acceptance of anonymous contributions of \$250 or more. Penalties for violations are punishable as a misdemeanor for a person and by a \$1,000 fine for a corporation.

The emergency powers of the Governor were expanded to cover situations where Hawaii's supply lines are curtailed and the State's economic welfare is threatened.

A public service employment program was established under the Department of Social Services and Housing.

### *LAW ENFORCEMENT*

The state corrections system was reorganized, including provisions for contracts with private firms for operation of profit and wage paying industries in correctional institutions, establishment of conditional release centers, and prisoner work release programs.

Various amendments were made to the state penal code. The gambling provisions of the penal code were clarified, including establishment of a new misdemeanor offense of gambling for which evidence of profit need not be shown and definition of the components of social gambling as an affirmative defense.

Creation of a district family court in each of the judicial circuits was approved.

Methaqualone was added to drugs listed in the Uniform Controlled Substances Act.

### *ENVIRONMENT*

Provision was made for state acquisition or management of lands which have natural, environmental, recreational, scenic or historic value.

Private or public antipollution projects may be financed with revenue bonds issued by the Department of Budget and Finance with gubernatorial approval. The project party must pay the principal and interest on all such revenue bonds issued.

Subdividers and developers were required to set aside land for public access to beaches and public recreation areas.

Counties were required to prepare urban design plans, including measures for land use, pedestrian and traffic systems, community facilities, historic sites and views, among others.

State law was conformed with the federal Coastal Zone Management Act.

### *OTHER*

A no-fault auto insurance law eliminates tort liability for personal injuries up to a maximum of \$15,000 per person. However, tort liability coverage is mandated for property damage and for personal injuries over the no-fault limit.

State chartered credit unions were allowed.

A statewide emergency medical services program was established. Unlicensed physician assistants were allowed to serve under a licensed physician.

A revised uniform principal and income act sets forth rules for administration of trusts and

Laws were passed to prohibit discrimination in certain financial relationships because of the sex or marital status of the prospective buyer and to make the payment of workers' compensation upon the death of an employee applicable to a spouse of either sex.

The Maryland Wage and Hour Law was extended to include domestic workers. The age of majority was lowered from 21 to 18 years of age, except with reference to alcoholic beverages. Any reference to race, color or national origin in any document or investigation used to establish an applicant's credit under the Retail Credit Accounts law was prohibited.

#### OTHER

Voter registration by mail was allowed in certain counties and Baltimore City.

A law prohibited the adoption or amendment of rules which will increase expenditures beyond budgetary allowance by an agency without the approval of the General Assembly.

The Noise Pollution Control Advisory Council was created and noise control was established as a policy of the State.

The Interstate Corrections Compact, the Interstate Mining Compact, and the Interstate Library Compact were enacted.

## Colorado Equalizes School Finance



A new formula for the State's financing of public schools was adopted by the 1973 Colorado General Assembly.

A "power equalizing" formula guarantees that each school district will receive \$25 per pupil for 1974 for each mill levied, with increases to \$27 in 1975 and \$29 in 1976. The State subsidizes the amount to \$25 per pupil not raised by the levy. School districts which raise more than those amounts for each mill are given state aid of \$8, \$9, and \$10 for those years anyway. Limitations are placed on the amount to be spent by a school district in an effort to equalize per pupil expenditures among districts. Provision is made for administrative and voter approval of higher mill levies.

The state share of pupil transportation costs was increased. The preparation of any academic paper for a college student by another person for a fee was prohibited.

#### TAX

The cigarette tax was increased to 10 cents a pack with proceeds of the increase to be distributed to local governments to replace local cigarette taxes.

Real property tax credit refunds were provided for persons over 65. The method of taxing mobile homes was changed from specific ownership to ad valorem, like other residential property.

#### LAW ENFORCEMENT

The post of State Solicitor General was created in the Department of Law.

State licensing agencies were prohibited from automatically denying a trades or professional license to a person who has served time for a felony.

Standards for certification for peace officers were established. Reimbursement was provided from state monies for training expenses at the law enforcement training academy. The death penalty issue was considered, but its reinstatement was not adopted.

Annual judicial salaries were increased, including a raise to \$37,500 for the Chief Justice of the Supreme Court, and to \$28,000 for district court judges.

#### GOVERNMENT

The Model Act Relating to Interference with the Legislative Process was adopted.

Effective January 1975, legislators residing in the Denver area will be allowed actual expenses of up to \$10 a day and those outside the area \$20.

Clarifying and substantive changes were made in the election laws.

Bills were enacted relating to the state personnel retirement board and employee contributions.

#### OTHER

Sex discrimination was prohibited in housing practices, granting of consumer credit, and in employment.

The following laws relating to uniform state codes were adopted: Alcoholism and Intoxication Act, Child Custody Jurisdictional Act, Disposition of Community Property Rights at Death Act, Marriage Act and Uniform Dissolution of Marriage Act, Management of Institutional Funds Act, and Probate Code.

The Cumbres and Toltec Scenic Railroad Compact was adopted with New Mexico.

termine the sufficiency and validity of signatures on initiative and referendum petitions, removing this authority from the Secretary of State.

The names of prospective jurors must be drawn from lists of all registered voters, including voters between 18 and 21 years of age.

A new law clarified the right of employees to be absent from work for two hours on election days, with compensation, if they notify their employer of their intention to be absent. This requirement does not apply to school board or bond elections.

#### *OTHER*

The legal rights of women were guaranteed by granting them the same legal existence and legal personality they had before their marriage.

The authority of the Department of Institutions, Social and Rehabilitative Services was continued and, in addition, the department was authorized to provide birth control information and to pay the cost of sterilization of adult male welfare recipients under age 65 who request such aid.

Cities and towns were authorized to carry

workmen's compensation insurance on employees in hazardous work. Registered pharmacists were required to receive a minimum of 15 hours of continuing professional education for license renewal each year.

A ceiling of two cents per dollar was placed on sales tax that a city or town may levy, with the exception of a one cent per dollar additional levy that may be made for educational or health facilities. This legislation is scheduled to expire in 1975, unless renewed.

The district court clerks were authorized to issue licenses to conduct bingo games to any bona fide tax-exempt religious, charitable, labor, fraternal or educational organization or any nonprofit veterans' or firemen's organization. Proceeds from these games must be used to compensate for expenses incurred in conducting the games and must not go for the benefit of any individual.

The Oklahoma Horse Racing Commission was created and the operation of horse racing and parimutuel betting systems by county fair boards or agricultural expositions was authorized. The act must first be adopted on a statewide basis and then each county wishing to conduct racing may vote on a local option basis to approve such racing meets.

## ***Nevada Legalizes Acupuncture***



The practice of Chinese medicine, including acupuncture, was permitted by the 1973 Nevada Legislature.

#### *LAW ENFORCEMENT*

The death penalty was mandated for capital murder. The penalty was increased for offenses committed with dangerous weapons by prisoners in the Nevada State Prison. Limitations were placed on the term of imprisonment which may be imposed to satisfy a fine. Changes were made in juvenile court procedure and laws enacted on unnecessary use of criminal labels for delinquent children.

#### *ENVIRONMENT*

The Nevada Water Pollution Control law was enacted. Property used for air or water pollution control devices was exempted from the property tax. The Nevada Tahoe Regional Planning Agency was established.

#### *GOVERNMENT*

Laws were adopted creating a presidential primary election, prohibiting write-in voting, and clarifying the extent of anti-nepotism laws. Cam-

paign expenditures of State Senators and Assemblymen were limited. Remedies were provided for interference with the legislative process. New resident voting provisions and the six-month residency requirement for voter registration were eliminated.

#### *EQUAL RIGHTS*

Discrimination between men and women in real property transactions was prohibited. Equal rights of management and control of community between husband and wife were provided. A new law makes wages, hours, and working conditions of female employees in private employment applicable to all employees.

#### *OTHER*

False or misleading statements in advertising were prohibited. Open-market advertising and sale of prescription drugs was permitted. Consumer protection from door-to-door salesmen was provided.

A Nevada Occupational Safety and Health Act was adopted.

A system of comparative negligence was enacted in lieu of defenses of contributory negligence and assumption of risk. A Uniform Contribution Among Tortfeasors Act was adopted.

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### RHODE ISLAND CON-CON APPROVES VOTE ON LOTTERY

The 100 delegates at the Rhode Island Constitutional Convention approved seven proposals to go before Rhode Island voters November 6. The convention met from September 4 to October 5.

The issues include legalization of state lotteries, increasing legislative salaries and making them statutory rather than constitutional, increasing the terms of general state officers from two to four years, modifying the requirement for grand jury indictment in all felony cases, requiring that election campaign contributions and expenditures for general state offices be publicly disclosed, providing that the holding of a constitutional convention be put on the ballot at least once every ten years, and prohibiting the holding of any civil office by anyone not a qualified elector for that office.

### INDIANA LIEUTENANT GOVERNOR, OTHERS SURVIVE PLANE CRASH

Indiana Lieutenant Governor Robert D. Orr survived a plane crash in Brazil, along with 10 other members of an Indiana trade mission to South America including State Representative William Latz.

The plane crashed in water off the Rio de Janeiro runway as it was attempting takeoff, killing five persons. One member of the trade mission was missing and the Lieutenant Governor remained to find out about him while the others returned home.

### GEORGIA EARNS HIGHER INTEREST

Investing money in banks which are the highest bidders is resulting in greater returns to Georgia. Recently (on August 20) Georgia invested \$349,750,000 in banks throughout the State, based on the highest bids.

The preponderance of these funds was invested at interest rates in excess of 8 percent; the rates ranged from 5.8 to 10.25 percent. Under the process, Georgia is increasing its interest income, up to \$17.3 million in interest on an accrual basis in fiscal year 1973 from the corresponding figure of \$9.5 million for fiscal 1972.

The money is invested with the highest bidders, resulting in greater returns to the State. The Governor noted, "there are no more political debts being paid with state money."

### OHIO SENATOR PENALIZED FOR CAMPAIGN REPORT FAILURE

The Ohio Supreme Court upheld a provision of state law which prohibits a candidate who fails to file a timely report of his campaign income and expenses from seeking office for five years.

The case involved Donald Lukens, a State Senator who failed to file financial reports by the legal deadline for the 1972 general election. He had formerly served in Congress and was an unsuccessful contender for the Republican nomination for Governor in 1970, but was considered a likely candidate for nomination in 1974.

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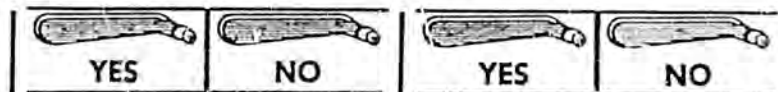


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## Elections '73



GOVERNORS were elected in **New Jersey** and **Virginia**, both of which also elected legislators, along with **Kentucky**. See page 4.

A **TAX LIMIT** proposed by Governor Ronald Reagan was defeated by **California** voters.

AN **INCOME TAX** was turned down by **Washington** state voters in a proposal to change school finance. The State remains one of four without an income tax.

**LOTTERIES** were authorized by voters in **Maine** and **Rhode Island**.

**SCHOOLS** were voted up to \$300 million in bonds for construction in **North Carolina**. **New Jersey** voters approved a \$25 million bond for education facilities for the handicapped.

**HIGHWAY BONDS** totalling \$500 million were approved in **West Virginia**. **New Yorkers** rejected spending \$3.5 billion on mass transit and roads.

**VETERANS' BONDS** were ratified by voters in **Ohio**, **Pennsylvania** and **West Virginia** for veterans' bonuses and in **Texas** for a veterans' land trust fund.

**GOVERNMENT PROCEDURE** changes failed in most instances. Annual legislative sessions lost in **Kentucky** and **Texas**. A proposal for four year terms for chief state officers was defeated in **Rhode Island**. Pay raises for **Washington** state officials were held to 5.5 percent and legislative pay changes rejected in **Texas** and **Rhode Island**.

**GRAND JURY** indictment would be replaced by the filing of information to initiate criminal proceedings under measures voted in **New York**, **Pennsylvania** and **Rhode Island**.

Reports on legislative sessions appear on the following pages:

West Virginia . . . . .	6	California . . . . .	9
Delaware . . . . .	7	Louisiana . . . . .	10
Wa . . . . .	8	Utah . . . . .	10

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## 13 States Have Referendums

# Big Tax Changes Lose, Most Bond Issues Win

### AMERICAN SAMOA

**NO**

A revised constitution which would have allowed popular election of the Governor (who is appointed by the U.S. President), a legislative salary raise, and more authority for village officials. A similar proposal was defeated in 1972.

### CALIFORNIA

**NO**

Tax limitation initiative proposed by Governor Ronald Reagan. It would have limited state expenditures to a declining percentage of personal income; reduced personal income taxes 7.5 percent permanently; frozen property tax rates at present maximums unless voted higher, and restricted use of surpluses to refunds or emergencies. Legislative Analyst Alan Post estimated by 1977-78 state tax revenues would have fallen by \$1.3 billion under the plan. The vote was 56 percent against.

### KENTUCKY

**NO**

Annual legislative sessions. The proposal lost by a wider margin than it did in 1969.

Appointment rather than election of State Superintendent of Public Instruction. Permit sheriffs to succeed themselves. Abolish elective offices of Railroad Commissioner.

### MAINE

**YES**

Authorize a state lottery.

\$3 million bond issue to acquire lands for state parks.

Remove constitutional limit on municipal indebtedness and allow legislative limit.

Clarify the pocket-veto.

**NO**

Initiative measure to create Power Authority to generate and sell electricity.

### NEW JERSEY

**YES**

Allow six-member juries in all civil cases.

Authorize \$25 million bond issue for education facilities for handicapped children.



*Veterans' bonds passed in four States.*

### NEW MEXICO

**YES**

Remove discrimination based on sex in qualifications for holding public office.

Remove discrimination based on sex in veteran's property tax exemption.

Provide procedure for recall of local school board members.

Provide for five-member board of county commissioners in counties of more than 100,000 population.

Exempt from taxation personal property moving in interstate commerce through the State.

**NO**

Conform state constitution to 18 year old voting and 30-day voter residency requirements.

Remove the limitation on terms for county officers and provide an age limit of 70.

### NEW YORK

**YES**

Permit local governments to exceed their constitutional debt limits for sewage-treatment plant construction.

Permit felony defendants in other than capital cases to waive grand jury indictment.

Expand power of State to make loans for job development purposes.

Authorize sale of parcels of land up to 100 acres outside major parks if proceeds are used to purchase land in forest preserve.

End role of Commissioner of Corrections as Chairman of Commission on Corrections.

Expand jurisdiction of Family Court in custody cases.

**NO**

\$3.5 billion transportation bond issue, with most for mass transit and rest for highways.

Extend retirement age for judges.

Permit small areas to become counties.

Increase monetary jurisdiction of district courts and term of office of district judges.

## NORTH CAROLINA

## YES

\$300 million public school construction bond.  
Technical amendment to allow sale of \$30 million in 1972 clean water bonds, which had been legally frozen due to a change in federal law.

## NO

Permit sale of liquor by the drink on a local option basis.

## OHIO

## YES

Authorize \$300 million bond issue to provide bonuses for Vietnam veterans up to a maximum of \$500.

Allow agricultural land to be taxed according to use.

Remove \$3,000 limit on aggregate personal exemptions from state income tax and allow all dependents to be claimed.

Allow counties to form a joint common pleas court district; allow divisions of common pleas courts; and permit municipal and county court judges to receive in-term raises.

## PENNSYLVANIA

## YES

Authorize an additional \$10 million bond to fund the Vietnam veterans' bonus.

Allow initiation of criminal proceedings by information rather than grand jury indictment.

## RHODE ISLAND

## YES

Allow a state lottery.

Require disclosure of election campaign contributions and expenditures by candidates for top state offices.

Permit all felony cases other than capital offenses to be brought to trial by criminal information filed in Superior court by the Attorney General's Office rather than grand jury indictment.

Vote on whether to call a constitutional convention at least once every decade.

Clarify restriction of holding civil offices to qualified electors.

Expand the mortgage guarantee power of the Industrial Building Authority from \$40 million to \$80 million and the Recreational Building Authority from \$5 million to \$20 million.

## NO

Increase the terms of chief state officers, including the Governor, from two to four years.

Repeal the constitutional limit of \$5 a day for 60 days on legislative pay and set a statutory salary of \$2,000 a year.

## TEXAS

## YES

Authorize an additional \$100 million in bonds for the Veterans' Land Fund, through which veterans may purchase land.

Extend the \$3,000 homestead tax exemption to single adults.

Include the homestead of a single person in the legal protection against forced sale for debt.

Authorize the Legislature to revamp court jurisdiction in probate matters.

Require only a simple majority of local voters to authorize a tax for sea walls.

Give counties and cities a voice in creation of conservation and reclamation districts.

## NO

Annual legislative sessions and a raise in legislative pay from \$4,800 to \$15,000.

Allow localities to levy property taxes to pay off general obligation bonds.

Allow Legislature to exempt nonprofit water suppliers from property taxes.

## WASHINGTON

## YES

Initiative measure which limits increases in salaries of elected officials to 5.5 percent. It voids a 1973 law which would have hiked legislative pay from \$3,600 to \$10,560 in 1975, the first raise in a decade, and would have greatly increased executive and judicial pay.

Allow sale of personalized motor vehicle license plates with extra fee to support nongame wildlife preservation.

## NO

A state income tax, elimination of special school levies, exemption of food and medicine from the sales tax. (continued on page 4)

*Education  
Bonds  
Passed In  
North  
Carolina  
and New  
Jersey*



Washington (continued)

Lower drinking age to 19.

Permit additional property tax revenue from a development project sponsored by a taxing district to be used for financing the project.

Allow smaller voter turnout to pass general obligation bonds.

Allow precinct committeemen of major political parties to serve as deputy voting registrars.

### WEST VIRGINIA

#### YES

Authorize up to \$500 million in bonds for better roads.

Authorize up to \$40 million in bonds for Vietnam veterans' bonus, with maximum of \$400 bonus per veteran.

Increase the homestead exemption for those over 65 from \$1,000 to \$5,000 of assessed valuation.

Allow sheriff to serve two consecutive terms.

### VIRGINIA ELECTS REPUBLICAN GOVERNOR, DEMOCRATIC HOUSE

For the second time Mills E. Godwin, Jr., has been elected Governor of Virginia, this time on the Republican ticket, narrowly defeating Lieutenant Governor Henry E. Howell, Jr., who ran as an Independent. There was no Democratic candidate.

Governor-elect Godwin was a Democrat during his 1966-70 term and was prevented from succeeding himself by a prohibition on consecutive terms. Incumbent Governor Linwood Holton was the first Republican Virginia Governor in 84 years.

Lieutenant Governor Howell also was a former Democrat.

The Lieutenant Governor's race was captured by the Republican candidate State Senator John N. Dalton, who defeated an Independent and a Democratic candidate.

Incumbent Democratic Attorney General Andrew P. Miller overwhelmingly defeated his Republican challenger.

Democrats retained their majority in the 100-member House, but won only 55 seats compared to their previous 71; Republicans won 16 seats, dropping from their previous 25, and Independents won 29 seats for a major gain over their previous four.

### NEW YORK CHIEF JUDGE ELECTED

New York voters elected Charles D. Breitel Chief Judge of the Court of Appeals.

Three of the six special elections for State Representatives were won by Republicans, adding to the party's comfortable majority. Democrats, in winning the other three seats, picked up one formerly held by a Republican.

### DEMOCRATS WIN NEW JERSEY

It was a Democratic landslide in the New Jersey gubernatorial and legislative races.

Democratic gubernatorial candidate Brendan T. Byrne won a 700,000 vote plurality over Republican nominee Charles W. Sandman, Jr.

Governor-elect Byrne was a State Superior Court judge before he resigned to enter the primary. He has been a state deputy attorney general and assistant counsel to a former Governor. His reputation was attested to by FBI tapes released several years ago in which Mafia figures referred to him as a prosecutor money could not buy.

Incumbent Governor William T. Cahill was defeated in the Republican primary by U.S. Representative Sandman.

Also on the gubernatorial ballot were 10 other candidates nominated by direct petition. Their party labels ranged from Taxpayers Watchdog to Defeat Narcotics Crime to the more traditional American Party, Socialist Labor, and Communist.

Democrats won a 3-to-1 margin in the Senate and a nearly 5-to-1 margin in the Assembly. Only 12 Republicans were elected to the 80 member House. Republicans emerged with only 10 seats in 40 member Senate, losing their former 22-seat majority. There was a possibility of a recount for one Republican win.

Some legislative candidates shunned the traditional party labels for such slogans as Politicians Are Crooks; Dedicated, Honest, Unbossed; My Brothers Keeper, and Abolish County Government.

### KENTUCKY LEGISLATORS ELECTED

Kentucky Democrats strengthened their majority in the Legislature by gaining eight seats in the House for a total of 81 Democrats to 19 Republicans and gaining two Senate seats for a total of 29 to 9. The entire House and one-half the Senate were elected.

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## STATE GOVERNMENT LEADERS MEET

State legislative and executive officials from across the Nation will meet at the Annual Meeting of the Council of State Governments December 13-15 in New Orleans.

The "State of the States" in 1973 will be portrayed by Maryland Governor Marvin Mandel, Council President. Also speaking will be Idaho Speaker William J. Lanting, Council Chairman.

Panels of state and federal leaders and educators will discuss "Federalism U.S.A." and "American Public Administration." Newsmen will be panelists on "Politics U.S.A."

Speaker at the final session will be Alexander M. Bickel, Professor of Law at Yale University and author.

## DEATH PENALTY LAW VOIDED

The U.S. Supreme Court November 12 let stand a June 19 decision by the New York Court of Appeals that New York's limited death penalty was unconstitutional.

The 1965 law limited the death penalty to three specific types of murder, but did not make it mandatory. Instead, after a guilty verdict a separate jury determined whether the death penalty should be imposed. The court ruled the procedure unconstitutional because of the discretion given to the jury.

Many of the other state capital punishment laws passed since the 1972 U.S. Supreme Court death penalty ruling limit the death penalty to certain crimes but do not mandate it.



*New chairman, Lieutenant Governor Reinecke of California (pictured far left). Lieutenant Governors Schreiber of Wisconsin (left) and Otley of the Virgin Islands (right) applaud Governor Evans (at podium).*

## Lieutenant Governors Urge Energy Policies

The 12th annual meeting of the National Conference of Lieutenant Governors, held October 3-7 in the U.S. Virgin Islands, encompassed a wide variety of current state issues including land use, power and energy, welfare, and public confidence in government.

Lieutenant Governor Martin J. Schreiber of Wisconsin, conference Chairman, presided over the business sessions at the Beach Hotel on St. Croix. Host to the meeting was Lieutenant Governor Athniel C. Otley of the Virgin Islands. The conference was welcomed to the Virgin Islands by Governor Melvin H. Evans.

At its final session, the conference adopted resolutions on such topics as: a state role in energy, the fuel oil shortage, retail gasoline prices, the right of U.S. citizens of Guam and the Virgin Islands to vote for president, export controls on agricultural commodities, and a changed structure for the Environmental Protection Agency.

The conference said each State should deter-

mine its current energy posture, then develop a state energy policy and form an organization to coordinate governmental agencies, universities, and the private sector for the best utilization and conservation of energy resources.

Elected conference Chairman for 1973-74 was Lieutenant Governor Ed Reinecke of California. Lieutenant Governor Julian M. Carroll of Kentucky was elected Vice Chairman.

Elected Regional Vice Chairmen were Lieutenant Governors Eugene Bookhammer, Delaware, Eastern Region; Earle E. Morris, Jr., South Carolina, Southern Region; Frank Marsh, Nebraska, Midwestern Region, and Harry Reid, Nevada, Western Region.

Executive Committee Members-at-Large are Lieutenant Governors James H. Brickley, Michigan; John S. Burgess, Vermont; J. Joseph Garrahy, Rhode Island; Neil F. Hartigan, Illinois; William C. Jacquin, Arizona; Blair Lee, III, Maryland, and Robert A. Mondragon, New Mexico.

## WESTERN CSG CONFERENCE MEETS

Energy legislation should be considered by the States, the Western Conference of the Council of State Governments recommended at its October annual meeting in Denver.

The conference further urged States to examine laws which might slow down power plant siting or energy development.

Elected President was State Senator Fay DeBerard of Colorado, who is also Chairman of the Colorado Commission on Interstate Cooperation, which hosted the meeting along with the Colorado Legislature. State Senator Elizabeth W. Browne of Oregon was chosen Vice President.

Among the other 18 resolutions passed were ones which urged an allocation policy for diesel or distillate fuels and opposed a federal motor fuels tax increase.

A special resolution formally provided for executive-branch participation in the work of the conference.

The conference's six study committees and the clerks and secretaries held workshop sessions. Topics reviewed were the proposed criminal justice standards and goals, the New Federalism, solar energy, transportation, and interstate compacts on mining, the environment, and placement of children.

Plenary sessions reviewed federal highway and transportation legislation, the impact of school finance reform and state energy conservation efforts.

Presiding at all sessions was Senator Nat Washington of Washington State, outgoing conference President. Colorado Governor John D. Vanderhoof keyed the host State dinner. Other



speakers included Ellis C. MacDougall, Commissioner of the Georgia Department of Offender Rehabilitation and Speaker Pro Tem John Thomas of Indiana, Chairman of the Midwestern Conference of the Council of State Governments. Also attending was the Chairman of the Council's Governing Board, Idaho Speaker William J. Lanting.

*Senator Nat Washington, outgoing President of Western Conference*



## ABORTION CONSENT RULE VOIDED

A woman may not be required to have her husband's or parents' consent to have an abortion, a federal court ruled in overturning a Florida law.

The court said the State has no authority to interfere with the woman's right to privacy in abortion decisions before the fetus is viable and therefore could not delegate such authority to spouses or parents. (*Coe and Noe, et al v. Gerstein, et al, USDC, S. D.Fla., Case No. 72-1842-Civ-JE*). Many other States have similar requirements.

## West Virginia Raises Teacher Pay

The West Virginia Legislature met in regular and special session in 1973.

### GOVERNMENT

A 5 percent pay raise was authorized to all full-time employees receiving less than \$10,000 a year and to teachers and support personnel. A minimum of \$335 a month was required for school support personnel.

The House of Delegates was reapportioned.

Provision was made for the filling of vacancies in the offices of Senate President and House Speaker when the Legislature is not in session.

### ENVIRONMENT, HEALTH

The prohibition against issuing new permits

for the surface mining of coal in all counties where no surface mining existed during 1970 was extended to 1975.

Penalties were provided for littering along streams, including requiring cleanup of littered areas.

High-voltage transmission lines may not be constructed without Public Service Commission approval.

No sewage, drainage, water supply or solid waste disposal system may be implemented without a permit from the State Director of Health.

The disaster law was revamped and an office of emergency services established in the Governor's office.

Regulations were established regarding the donation of anatomical gifts. Rules were set for armed forces technicians to qualify for civilian health

occupations. Treatment of minors for drug addiction was permitted without parental permission.

### LAW ENFORCEMENT

A new law authorizes offering rewards for detection of crime and apprehension of persons charged with crime. Prosecutors were authorized to appoint crime investigators with county court approval.

The Supreme Court of Appeals was authorized to appoint one of its justices as chief justice and the justices' pay raised to \$32,500.

Regulations and record-keeping procedures were established governing criminal fines and civil case awards in justice of the peace courts and annual audit of civil and criminal dockets required.

## Delaware Stiffens Drug Abuse Law



Major legislation approved by the 1973 Delaware General Assembly included environmental bills, a measure providing life imprisonment for the sale of hard drugs, and tax increases.

### ENVIRONMENT

The environmental measures sponsored by Governor Sherman W. Tribbitt protect the State's wetlands and strengthen the State's hand against pollution.

The wetlands act prevents unregulated dredging, dumping, and filling. It gives the Department of Natural Resources and Environmental Control (NREC) the power to issue or deny permits which might alter the wetlands.

The new antipollution law abolishes the former Water and Air Resources Commission, placing all authority in the secretary of the NREC. The NREC also has the power now to license and monitor all interstate and intrastate pipeline systems, to regulate solid waste operations, septic tanks and liquid waste treatment operators.

### BUDGET AND TAXES

The gasoline tax was increased one cent per gallon. The Legislature approved an average 10 percent increase in the personal income tax effective January 1, 1974. The corporation income tax was raised from 6 percent to 7.2 percent. Also enacted was a full tax on capital gains, ending the 50 percent exemption in effect for many years. The 2 percent tax on real estate transfers was extended to include condominiums and long-term leases.

### OTHER

The issuance of \$20 million in road bonds was approved.

College student extracurricular fees may be used to finance a student's attorney to perform legal services approved by the college head.

Licensing and regulation was required of collection agencies and of hearing aid dealers.

The maximum unemployment compensation benefit was increased from 50 to 55 percent of the average wage. The maximum disability benefit was raised from 55 to 60 percent of the average weekly wage and the minimum weekly disability benefit raised from \$35 to \$40. A coal workers' pneumoconiosis (black lung) fund was established.

The Legislature approved an operating budget of approximately \$327 million.

### DRUGS, ALCOHOL

New antidrug abuse laws include the life sentence for one convicted of selling or manufacturing a drug that brings death to the user. Sale or manufacture of a hard drug, which does not result in death, will bring a fine up to \$100,000 and a jail term of 30 years.

The supervision of drug-control operations was placed in the Department of Health and Social Services, ending a rambling system which made it difficult to fix responsibility for programming.

The Legislature enacted a law ending intoxication as a defense to a criminal charge if the intoxication was voluntary.

### OTHER

News reporters were given a shield law against testifying about their sources.

A new law permits the establishment of a law school in the State, unaffiliated with any university, with power to grant an academic law degree after it has met the standards of approval of the American Bar Association.

Delaware joined the rest of the States with its first Blue Sky Law, regulating the sale of securities in the State and requiring the registration of brokers, investment advisers and agents. The new law is supervised by the Attorney General.

A statewide Court of Common Pleas (small claims) was created, bringing together for the first time the Courts of Common Pleas of the three counties. These courts also hear minor crimes.



## Iowa Raises Governmental Pay Levels

The 1973 Iowa Legislature boosted salaries for government employees and state legislators, increased aid to schools, and provided for a personal property tax phaseout.

### TAX AND FISCAL

The Legislature approved a record \$1.66 billion budget for the biennium which began July 1.

A phaseout of personal property tax over a 10-year period was provided, and the personal property tax on livestock was repealed.

Elderly renters and homeowners were given property tax relief.

Iowans whose income is \$4,000 a year or less were exempted from paying income tax.

### GOVERNMENT

Pay raises were granted state employees earning under \$10,000 a year. The pay hike was graduated so that lowest-paid workers get the highest raises.

Legislative pay was boosted from \$5,500 to \$8,000 a year beginning in 1975 and expense allowances raised from \$15 to \$20 a day while the General Assembly is in session.

Supreme Court justices' salaries were raised to \$30,000 in 1973-74 and \$33,000 in 1974-75, with the Chief Justice receiving \$31,000 and \$34,000.

The Department of Mines and Minerals was abolished and its responsibilities transferred to the Department of Soil Conservation.

### HEALTH, SOCIAL SERVICES

A bill authorizing the establishment and providing for the regulation of Health Maintenance Organizations was passed, legalizing prepaid health care plans.

Money was appropriated to establish family-practice residency programs in community hospitals around the State.

Construction of an eight-story addition to the University of Iowa hospital was authorized.

Necessary statutory changes were made to permit Iowa to conform to the January 1, 1974, federal takeover of the existing old age assistance, aid to the blind, and aid to the disabled programs.

More than \$334,000 was appropriated for the Governor's Youth Opportunity Program to provide 1,300 summer jobs for youth.

A bill was approved to allow two-parent families to receive AFDC money if the father is

unemployed. Also, the State will assume the full responsibility for matching federal grants for this program on January 1, 1974. Counties presently must pay one half the non-federally funded cost of the program.

### ELECTION, CAMPAIGN REFORM

A bill revising Iowa's election laws will require statewide voter registration, provide for canvassing of elections by the county board of supervisors, and makes the statutory changes necessary to reflect the lengthening to four years of the terms of the Governor and other state officials. Four-year terms were approved by the electorate in 1972 but do not commence until 1975.

A campaign reform act was passed requiring candidates for public office to file financial reports of all receipts and disbursements. The act created a Campaign Finance Disclosure Commission to review candidates' statements. The law allows a \$1 state income tax checkoff for party contributions.

### LAW ENFORCEMENT

Corrective amendments to the Unified Trial Court Act were passed. The court reform act replaces justices of the peace with full-time magistrates and municipal judges with "district associate judges," requiring them to be lawyers, allows small claims suits of less than \$1,000 to be filed without lawyers, and permits some traffic fines to be mailed in.

Gambling was legalized on bingo and games of skill and chance at fairs and nonprofit organization activities, and social gambling was permitted.

Prisoners on work release or furlough were allowed to be released for family activities under supervision and to be housed outside prison.

Criminals were required to provide restitution to their victims in some cases before parole is granted.

A bill to establish a community corrections system was passed to provide for a series of rehabilitative institutions that will eventually replace county jails.

Iowa's motor vehicle inspection law was modified to allow motorists to file complaints about a faulty inspection within 15 days or 500 miles of driving after the inspection.

### OTHER

The age of majority was lowered from 19 to

18, entitling 18 year olds to most adult privileges, including the right to buy alcoholic beverages.

Sunday beer and liquor sales were permitted by businesses which derive more than 50 percent of their gross income from goods and services other than alcoholic beverages.

A cash bonus to Vietnam veterans was authorized.

The official observance of Veterans Day was changed from the fourth Monday in October to November 11.

Egg check-off legislation was passed allowing promotional funds to be raised by permitting a check-off of up to five cents per 30-dozen case of eggs.

The Legislature increased state aid to schools appropriating \$242 million for fiscal 1974 and \$276 million for fiscal 1975.

An auxiliary services bill was passed that provides money to local school districts to provide special programs to private and parochial school children, such as health, special education, remedial education and library services.

A bill providing for the assessment and taxation of property of municipally owned utilities held under joint ownership was passed.

A formula for distribution of revenues from taxing large electrical power-generating plants was approved.

Workmen's compensation coverage was expanded.

## California Mandates Ethics In Government



Governmental ethics and tax relief were among major actions taken by the 1973 California Legislature.

### TAX AND FISCAL

A \$9.38 billion budget was signed on June 30, the day before the start of the new fiscal year. The sales tax was rolled back from 6 percent to 5 percent for six months starting October 1. Income tax rebates on a sliding scale up to 35 percent were authorized against 1973 liability. Single heads of households were given the same tax advantage as married couples.

### ETHICS

Public officials were required to disclose any property they own valued at more than \$1,000 and any gifts, income and loans exceeding \$250.

Open meetings legislation specified when meetings of the Legislature and its committees can be closed to the public and required the conference committee on the budget to open its doors to the public. A companion constitutional amendment will be on the 1974 ballot.

A political contributions law required statements of receipts and expenditures for or against ballot measures, and revised campaign reporting with respect to candidates and ballot measures.

### CRIME

The death penalty was mandated for specified types of murder.

Allowable state compensation to victims of violent crimes was raised from \$5,000 to \$23,000.

### ENVIRONMENT

The Legislature appropriated \$15 million to acquire 11 parcels of land for parks and recreation.

A \$250 million bond issue for construction of water pollution control facilities was placed on the 1974 ballot.

A bi-state Tahoe Conservancy Agency Compact was created and \$20 million appropriated to acquire land in the Tahoe basin.

Regulations were enacted to govern timber-cutting on private lands by a board dominated by nontimber interests.

### EDUCATION, HEALTH

Community colleges were granted \$65 million and property tax limits established for college districts.

Names of some state universities were changed.

Child care and preschool programs for some 27,000 children were funded \$41 million.

Provision was made for improved nursing homes.

### CONSUMERS, LABOR

Retail pharmacists were required to post prices of the 100 most commonly prescribed drugs.

Tax-preparation services were regulated by the Department of Consumer Affairs.

Benefits were improved for unemployment insurance, disability insurance and workmen's compensation.

Laws discriminating between men and women regarding hours and working conditions were eliminated.

(continued on page 10)

Women were given the same rights as men in obtaining credit. Discrimination against women in property rights was eliminated.

A State Occupational Safety and Health Act was adopted.

A new Department of Employment Development was authorized to create jobs and to provide for coordination of local-regional-state manpower training.



## Death Penalty, Abortion Concern Louisiana

The 1973 Louisiana Legislature enacted a new death penalty law and passed a new abortion act. The session adjourned June 12.

### BUDGET AND FISCAL

The Legislature adopted a \$1.9 billion general fund budget for the 1973-74 fiscal year.

A Legislative Budgetary Control Council was created to establish rules and regulations governing expenditures of funds appropriated to the Legislature, its committees, and employees.

Procedures for distributing the state revenue sharing fund were revised. Under the new law, funds will be allocated to each parish annually, the amount to be based on parish-state population ratio and homestead ratio.

### LAW ENFORCEMENT

A new capital punishment law makes the death penalty mandatory for first degree murder convictions. Offenses constituting first degree murder include murder during kidnapping, rape or armed robbery; killing a peace officer or fireman engaged in performance of his duties; murder committed by a person with a previous murder conviction or who is serving a life sentence; mass murder, and murder for hire.

Methaqualone was added to the list of dangerous drugs. Changes in the State's controlled substances law included stiffer penalties for distribution and selling of such drugs.

### EDUCATION

The Legislature provided for a comprehensive state program of career education. Money was appropriated for construction of regional, post-secondary vocation-technical schools and expansion and renovation of existing ones.

Construction of a new medical education building for Louisiana State University was authorized.

### OTHER

Local government agencies were prohibited from imposing residency requirements on employees.

A constitutional amendment to allow gasoline tax revenues to be used for mass transit facilities was placed on the June 1974 ballot.

### OTHER

A new abortion law allows hospitals and medical personnel to refuse to participate in abortions. Discrimination against any person or institution for so refusing was forbidden.

Workmen's compensation benefits were increased from a maximum of \$45 per week to \$65 per week.

Retirement benefits were improved for members of the State Teachers Retirement System, Municipal Retirement System and State Employees Retirement System.

Official observance of Veterans Day was changed from the fourth Monday in October to November 11.

The Division of Actuary Review was created within the Office of Legislative Auditor.

The Legislature abolished its interim study committees and by rule changes in the respective houses authorized standing committees to undertake any needed interim studies. Funding was provided for staffing of committees, on a two-committee shared basis, through the Louisiana Legislative Council. In the House provision was made for pre-session referral and hearing of prefiled bills.

## Utah Guts Taxes

Elimination of the 1.6 mill state property tax for schools was approved by the Utah Legislature meeting in special session in October.

Unless the levy is reimposed by the January budget session, it will be the first time since 1954 that there has been no state property tax.

The Legislature also approved a \$6 income tax credit for each dependent off 1973 taxes.

A one-time \$3 million appropriation is to go to local governments to assist in completing low income housing programs disrupted by the federal housing moratorium.

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### STATES CONSERVE ENERGY

Speed limits were cut to 50 m.p.h. on all highways by at least six States shortly after President Nixon's request in his energy address to the Nation.

New Jersey, New York, Pennsylvania, Rhode Island, Washington and Vermont ordered 50 m.p.h. speed limits. California had previously ordered a switch to 65 m.p.h.

Among the obstacles to immediate reduction of the speed limits in many States were the need for legislative authorization at a time when most have adjourned and the major task of replacing highway signs.

The lower speed limit was accomplished on the New Jersey Turnpike with the flick of a switch controlling the electrically regulated signs.

Many Governors had earlier directed state employees to drive at reduced speeds and form car pools and heat reductions in state office buildings.

Motorists have been asked to voluntarily reduce their speeds by many State Governors.

Relaxation of pollution standards to allow use of fuel with higher sulphur content this winter was initiated in New Jersey in an announcement by Governor William Cahill before the President spoke. Use of higher sulphur fuel for heating and industry was authorized in Massachusetts.

Emergency energy powers were granted to Maryland Governor Marvin Mandel by a November special session.

Power cutbacks were ordered by Pacific Northwest Governors earlier this fall due to a shortage of hydroelectric power in the area. A blackout of commercial lighting was ordered in Oregon and emergency energy powers were granted Washington Governor Daniel Evans. The conservation efforts resulted in a 7 to 8 percent electric savings, the Bonneville Power Administration announced in October.

Recently, similar commercial lights out were asked by the Governors of Florida and Washington. Earlier this fall Nevada launched a "Power Down" campaign and Las Vegas hotels turned off neon displays during daylight.

A suggestion to close schools during December was retracted by Oregon Governor Tom McCall after adverse public reaction. Instead he asked schools to teach energy conservation.

All States are participating in the federal mandatory allocation program for heating oil and diesel fuel which began November 1. States are empowered to recommend that suppliers divert up to 10 percent of their fuel to certain hardship cases. A federal representative is assigned to each State to order the allocation.

Regional briefings on the federal program have been held by the National Governors' Conference Energy Project, headed by Ed Rovner.

States or localities instituting conservation programs may receive help from the federal Office of Energy Conservation, Department of the Interior, (202) 343-8634. It will also help States conduct conservation seminars.

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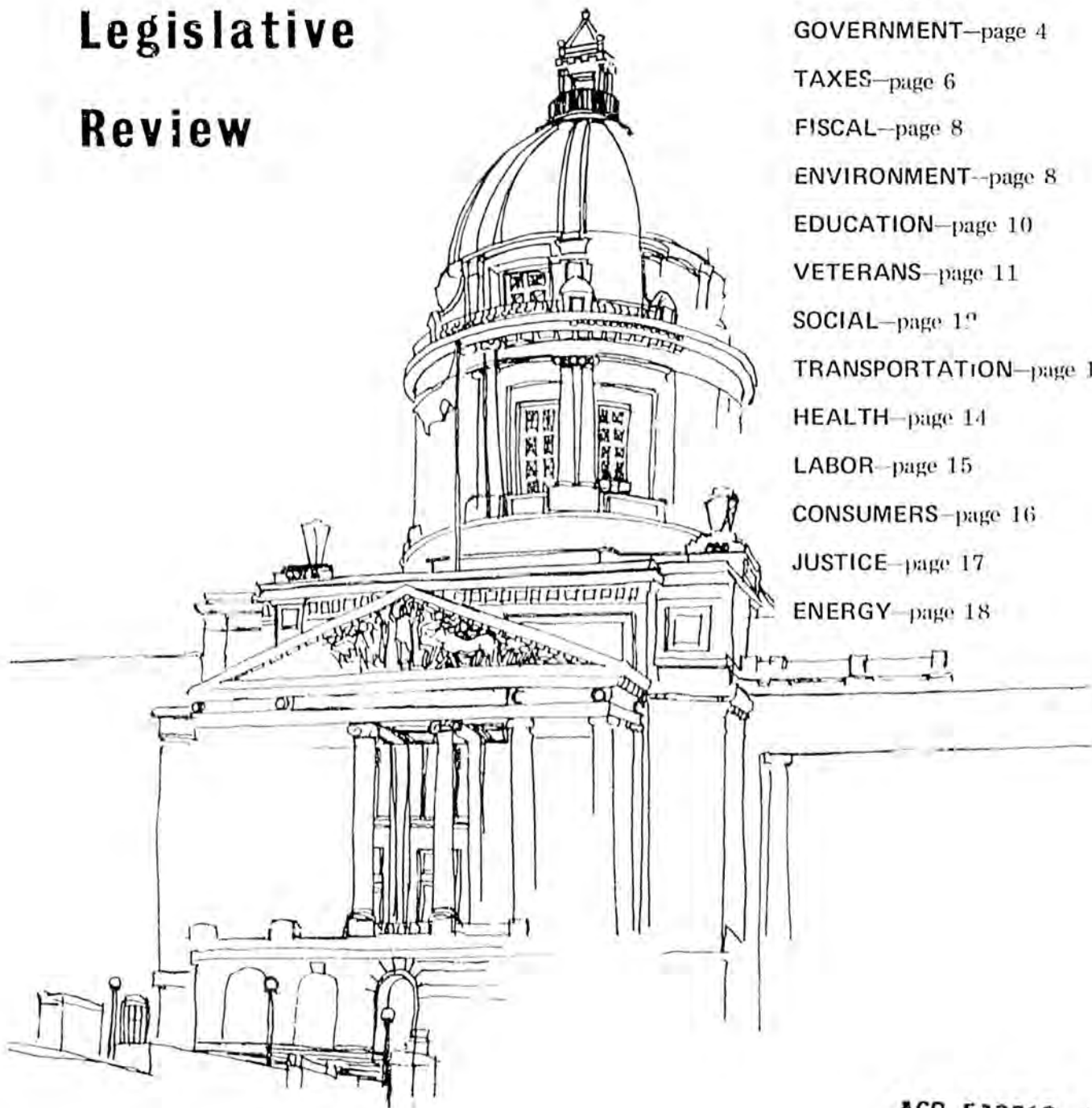
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1973

## Legislative Review



*Ziegler  
(Lecturer)*

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## 1973: IT WAS A VERY GOOD YEAR

For the States, 1973 was a "black" year.

Black, that is, in the sense of vastly improved fiscal conditions that allowed State Legislatures to enact more net tax reductions than increases in many years.

It was a very good year for state legislative action in other ways, as if the lessening of fiscal pressures permitted more time, resources, and a more favorable attitude for careful examination of social issues and development of meaningful solutions to serious problems.

And there was an abundant supply of problems to solve during the year.

At least 34 States enacted new water pollution control laws; 16 States acted in the areas of solid waste management and resource recovery; nearly 20 States reenacted capital punishment laws; and consumer protection legislation touched nearly every facet of a citizen's life.

More than half the States acted to bolster the public's decreasing confidence in governments at all levels by passing financial disclosure laws, campaign and lobbying regulations, open meetings rules and many other forms of open-government regulations.

Despite court decisions that seemed to negate the necessity for equalizing educational opportunities by leveling school finances, at least eight States made major changes in their school financing formulas to accomplish that goal.

The nearly inseparable issues of energy and environment were given thorough consideration in most States. Power plant siting, oil spills, strip mining, statewide land use regulation, and taxing of natural resources were all objects of legislation.

Many Legislatures gave their Governors authority to meet the energy crisis by lowering speed limits and directing other conservation action.

The following "wrap-ups" of state legislative activity in selected issue areas are intended as sources of information for legislators, judicial officers, executive and administrative personnel who not only need to study what transpired in the past year, but also consider the activity in light of the needs of upcoming legislative sessions.

The summaries may not contain all the major legislation in the past legislative period, but they do give a broad perspective of the scope and direction of state lawmaking.

The synopsis of state legislative activity replaces the summary which has appeared for many years in the Winter edition of *State Government*, the journal of state affairs published by the Council of State Governments.

## GOOD-BYE WATERGATE

State Legislatures responded to the national debate over confidence in government by enacting financial disclosure and other ethics measures.

The legislators section of the National Legislative Conference at its 1973 annual meeting called for legislative branches at all levels of government to adopt laws covering open meetings and records, conflict of interest, financial disclosure, lobbyists, and campaign financing.

Disclosure of financial interests and prohibition of financial interests which conflict with governmental duties were mandated by 1973 laws in Alabama, California, Iowa, Maryland, Ohio, Texas, and Wisconsin. Montana passed an ethics code.

The new Alabama code of ethics requires disclosure of certain economic interests and incomes and occupations of their immediate families by state officials, certain state employees, certain members of the press, and persons having business dealings with the government. It forbids certain practices by state officials or employees which conflict with safeguarding of the public trust. It prohibits cabinet members and gubernatorial appointees from owning any interest in any business which does business with the State or from receiving any income from

any other governmental agency. It empowers a State Ethics Commission to enforce the law and to prescribe ethics rules for local government officials or employees. The provision applying the law to members of the press is being challenged in court.

The California financial disclosure law requires major state and local appointed and elected officials to annually disclose business investments of more than \$1,000; real property worth more than \$1,000; and the source of loans, income or gifts worth more than \$250.

Maryland required financial reporting by top state officials, legislators, sheriffs, State's attorneys, registers of wills and circuit court clerks, and candidates for those offices. Disclosure is required of interests in property and corporations, any gift over \$50, and any position or interest in any business which has dealings with the State. Disclosure systems are to be set up by the Court of Appeals for judges and by local governments for local officials.

The new Ohio law covers legislators, elected state and top appointed officials, judges, and city and county officials.

The Wisconsin ethics code covers legislators, constitutional officials, gubernatorial appointees and other appointed officials covered by an executive salary plan. It also requires ethics rules to be adopted for all civil service employees and university teaching personnel. Disclosure is required of significant business ties or other sources of income. Conflicts of interest are defined and proscribed. A Board of Ethics was empowered to administer the code.

Arkansas extended its code of ethics to cover county, municipal and school district officials.

## CAMPAIGN FINANCE

Campaign financial reporting requirements were stiffened by California, Florida, Hawaii, Iowa, Massachusetts, Nebraska, New Jersey, and Texas. Illinois, Michigan, and Pennsylvania were considering ethics legislation in late 1973.

California candidates for office must report all contributions over \$100 and the donor's name, address, occupation and employer. Cash contributions larger than \$500 and anonymous contributions larger than \$100 were banned.

Florida expanded its campaign financial reporting to include political committees which receive or spend \$500 and to outlaw anonymous cash contributions in excess of \$100.

Hawaii's campaign finance law, applicable to state, federal and local candidates, placed spending limits on campaigns, required reports of contributions of more than \$100, and outlawed anonymous contributions of \$250 or more. Violations are punishable as a misdemeanor for a person and by a \$1,000 fine for a corporation.

Iowa required candidates to file financial reports of all receipts and disbursements.

New Jersey required candidates for state, county, and local offices to report contributions of \$100 or more. Groups which support candidates were also required to report.

Texas strengthened its campaign financing reporting provisions; required political advertising to show who paid for it, and regulated out-of-state contributions.

Spending limits were placed on campaigns by new laws in Hawaii on state, federal, and local candidates; in Nevada on legislative candidates, in Wyoming and expanded in Utah to include the Attorney General and Secretary of State in addition to the Governor.

Reporting of lobbyists' activities was required by Alabama, Maine, Nevada, Oregon, and Texas.

Ethics codes for executive branch officials and employees were promulgated by the Governors of Illinois, Michigan, and Missouri.

## OPEN MEETINGS

Citizen access to meetings of governmental bodies was guaranteed in all but five States by late 1973.

A comprehensive open meetings law was enacted in Oregon in 1973 which required all government meetings to be in public except for some executive sessions for specific purposes. However, minutes of these sessions must later be made available to the public.

Minnesota and Missouri required virtually all meetings of public bodies to be open by 1973 laws.

State and local elected bodies in Vermont were forbidden from excluding the public from meetings. Closed sessions are allowed only for certain discussions, and minutes must be made available to the public.

Among other 1973 actions, legislative committee meetings were opened to the public in Connecticut, North Dakota, Texas, and Vermont. California opened legislative budget conference committee sessions.

Florida required public agencies to utilize public announcement and competitive negotiation in selecting services of architects, professional engineers and registered land surveyors.

Illinois required identification of the owners of secret land trusts involved in transactions with governmental units.

News reporters' right to protect the source of their information is guaranteed to some extent by 25 States, with action taken to enact new or more extensive laws in 1973 in California, Indiana, Minnesota, Nebraska, New Mexico, and Oregon.

A new Utah law requires administration agencies to give public notice of any new or changed rules.

Mechanisms to assure citizen access to public records were strengthened in New Hampshire and Oregon. Citizen access to public records is provided in 46 States.



Cartoons by  
Debra Stuart

# GETTING IT TOGETHER

## EXECUTIVE REORGANIZATION

Extensive governmental reorganization was implemented in Kentucky and South Dakota.

In South Dakota, more than 160 agencies, boards and commissions were consolidated into 16 departments under a proposal by Governor Richard Kneip which received legislative sanction.

Reorganization of Kentucky government by Governor Wendell Ford awaits the approval of the 1974 Legislature.

Executive agencies were established or reorganized in at least 18 other States.

In the area of finance, Delaware authorized reorganization of the Department of Revenue. Nevada reorganized the Departments of Administration and General Services. Connecticut reorganized the State Investment Department and combined the Budget Division and the Office of State Planning. Idaho changed the Bureau of the Budget to the Division of the Budget under the Governor's office. Minnesota created a new department of finance. New York established a commission to study state and local financing. North Carolina reorganized the Department of Revenue. Wyoming established a Department of Revenue and Taxation to combine the State Tax Commission, the State Board of Equalization and related agencies. In Montana, the functions of the Board of Equalization were divided between the new Department of Revenue and the new State Tax Appeal Board. Michigan reorganized its Department of Management and Budget.

Environmental functions were merged in Virginia into a Department of Conservation, Development and Natural Resources and in Wyoming into a Department of Environmental Quality. Maine established a Department of Conservation to absorb forestry and parks and recreation. Idaho merged the Department of Environmental Protection and Health and the Department of Social and Rehabilitation Services into the Department of Environmental and Community Services.

In the area of social services, Connecticut established a Council on Human Services, Kansas created a cabinet-level Department of Social and Rehabilitative Services, and North Carolina reorganized the Department of Human Resources. Michigan's Governor combined the Departments of Social Services, Public Health and Mental Health into a new Department of Human Services.

Among other executive reorganization activity:

Idaho created a Legislative-Executive Commission to study executive reorganization.

Alabama created a Department of Youth Services.

New consumer units were established in Montana, Nevada, and Tennessee.

California implemented earlier legislation es-

tablishing new Departments of Health, Transportation, and Planning and Research.

Connecticut established Departments of Personnel and Administration and of Commerce, a State Development Authority, a Foundation of the Arts, and an Indian Affairs Council.

Illinois established state boards of education and elections as mandated by the 1970 constitution.

Minnesota established a Department of Personnel.

Montana changed the name of the Department of Law Enforcement and Public Safety to the Department of Justice and created the State Board of Education, the Board of Regents and the Board of Public Education. Montana also provided for team election of the Governor and Lieutenant Governor and succession to the office of Governor.

North Carolina's planned six-year reorganization included implementing legislation for new Departments of Cultural Resources and Military and Veterans Affairs.

Utah established a council on science and technology, a federal research steering committee to assemble data to support location of federal installations, a state office of veterans affairs, and a committee of marriage and family counseling.

Virginia created a Commission on State Governmental Management to bring greater efficiency in government. The Department of Mental Hygiene and Hospitals was renamed the Department of Mental Health and Mental Retardation. The Office of Civil Defense was renamed the Office of Emergency Services.

South Dakota placed executive branch employees on a merit system basis. Gubernatorial succession procedures were established. State and local agencies were permitted to buy radio and television time for public interest announcements.

Kansas implemented a constitutional amendment providing for team election of the Governor and Lieutenant Governor.

Colorado adopted the Model Act Relating to Interference with the Legislative Process.

Arkansas established an authority to finance and construct public buildings and created an Office of Emergency Services.

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## LEGISLATIVE REORGANIZATION

Legislative reorganization or other legislative changes were implemented in at least 16 States.

New positions of Auditor General, responsible to the Legislature, were established in Illinois and Rhode Island. Joint legislative committees on post audit were established in Mississippi and Virginia and a legislative subcommittee on post audit established by Oklahoma.

Legislative research functions were revamped in Maine, Minnesota, Oregon, and Virginia.

Wyoming implemented a constitutional amendment authorizing annual legislative sessions. North Carolina by parliamentary procedure divided the 1973 session into two segments, the second to begin January 1974.

The Washington Legislature by resolution established the concept of itself as a continuing lawmaking body in 1973 and interim committees met until a fall session was held.

Alaska changed its convening date from the second to the third Monday in January.

Texas' Legislature adopted joint rules to prohibit "free conference committees." West Virginia provided for filling vacancies in offices of Senate President and House Speaker when the Legislature is not in session. The New Hampshire Legislature sustained the Governor's veto of a legislative management plan.

The Oklahoma Legislature prohibited executive creation of any agency while it is in session and required legislative approval of any executive-established agencies. It also required all state funds to be deposited in the State Treasury and required legislative approval of any capital improvement authority projects.

The Louisiana Legislature abolished its interim study committees and authorized standing committees to undertake any interim studies. The House provided for pre-session referral and hearing of pre-filed bills. The Legislature also established a council to control legislative staffing and committee spending.

Montana provided for legislative review of administrative rules, repealed the Governor's power to pocket-veto and provided for an amendatory veto.

Arkansas provided for legislative review of rules promulgated by state agencies and provided for pre-session filing of bills.

## REAPPORTIONMENT

A dramatic change in the principles shaping state reapportionment occurred when the U.S. Supreme Court ruled in February on the Virginia case of *Mahan v. Howell*. The Court declared that state legislative districts need not meet the strict equality of population guidelines set forth by the Court for congressional districts. The thrust of the

decision was buttressed by June rulings by the Court in Connecticut and Texas cases.

However, by 1973 most States had completed reapportionment and followed the stricter, earlier guidelines.

Among 1973 reapportionment actions, House districts were redrawn by Alabama, California, Illinois, Kansas, Maryland, Massachusetts, Mississippi, Nevada, New Jersey, North Dakota, South Carolina, Tennessee, and West Virginia.

Senate districts were redrawn by Alabama, California, Illinois, Maryland, Massachusetts, Mississippi, Nevada, New Jersey, North Dakota, Tennessee, and Vermont.

Court actions are possible on several of these reapportionment plans. Alabama's legislatively approved reapportionment was voided by a federal court which opted to retain districts as it drew them in 1972.

Some other Legislatures, such as Mississippi, effectively ratified court-drawn reapportionment plans by adopting them as law.

North Dakota voters defeated two reapportionment proposals on the December 4 ballot, leaving the issue up to a federal court. The rejected measures were a legislative proposal with single- and multi-member districts and an initiative proposal for single-member districts and a reapportionment commission.

A proposal to reduce the size of the House by one third was placed on the 1974 ballot by the Massachusetts Legislature.

Action was predicted in 1974 in House redistricting in Georgia, Idaho, Maine, Montana, Rhode Island, and Vermont, and in Senate reapportionment in Idaho, Montana, Pennsylvania, and West Virginia.

## ELECTIONS

Citizens were allowed to check off \$1 of their state income tax returns for local and state political party contributions in Iowa, Maine, Massachusetts, Rhode Island, and Utah.

Presidential primaries were authorized in Georgia and Nevada.

Statewide voter registration was required in Iowa and Missouri. Voter registration by mail was allowed in certain Maryland counties and Baltimore. Minnesota approved voter registration by postcard and registration on election day.

Voter durational residency laws continued to be revised by States in accordance with the U.S. Supreme Court's 1972 ruling. Residency requirements were reduced to 30 days or less or otherwise revamped by Maine, Minnesota, Nevada, New Jersey, Tennessee, and Wyoming, among others.

Massachusetts' state employees who are elected to local office must be granted a leave of absence if they so request. Connecticut employers of 25 or more must rehire workers elected to one term of municipal office.

# A TAXING SITUATION

## SALES, EXCISE TAXES

Connecticut cut its sales tax from 7 to 6.5 percent, although it still remains the highest state sales tax.

Indiana hiked its sales tax from 2 to 4 percent, exempting food, to help finance property tax relief.

Tennessee extended for another year its "temporary" sales tax of 3.5 percent.

North Dakota exempted food from its sales tax and initiated a phaseout of the oleomargarine tax.

Wisconsin repealed its oleomargarine tax.

California on October 1 rolled back for six months the increase in the sales tax from 5 to 6 percent which took effect in July. It was increased by a December 1972 session but proved unnecessary as the State amassed an \$800 million surplus.

The Illinois Legislature is considering an amendatory veto by the Governor which substituted a \$10 per person rebate on food and medicine taxes for a legislatively-passed reduction in the sales tax from 4 to 3.5 percent.

Alcoholic beverage taxes were raised in Connecticut, Indiana, South Carolina, and Washington, and reduced by Minnesota.

Motor fuel taxes were increased in Arkansas, Delaware, Michigan, and Mississippi.

Only Colorado increased its cigarette tax, with proceeds to replace local cigarette taxes.

Montana increased its coal production license tax, to a graduated scale of from 12 cents to 40 cents per ton depending on its grade.

Tennessee authorized a 10-cent-per-ton tax on coal.

Louisiana in a special December session increased its severance taxes on oil and gas; exempted food, drugs, fuel oil and coal from the sales tax; and reinstated deductibility of federal tax for state income tax purposes.

## PERSONAL INCOME TAXES

Delaware was the only State to increase its personal income tax, raising it by 10 percent.

Montana made permanent a 10 percent surcharge on the personal income tax.

Washington voters in November chose to remain one of four States without a personal or corporate income tax by rejecting a legislative proposal to impose one and assume state financing of school costs.

A permanent 7.5 percent reduction in personal income tax rates and a limitation on state spending to a declining percentage of personal income were rejected by California voters in November, defeating the Governor's tax initiative.

Personal and corporate income taxes would be increased as part of a new school finance, property tax relief plan on the May 1974 ballot in

Oregon. A similar proposal was defeated in May 1973 by voters.

Income tax reductions and exemptions were more numerous. New York suspended the 2.5 percent income tax surcharge for 1973. Nebraska reduced its personal income taxes from 15 to 13 percent for 1973 and to 11 percent for 1974 of federal liability and corporate taxes from 3.75 to 3.25 percent for 1973 and to 2.75 percent for 1974 of federal taxes.

Income tax relief in the form of increased exemptions was provided in nine States.

Arkansas reduced taxes for lower income persons.

California reduced its income tax on sliding scale for 1973 and eliminated 1973 taxes for couples with incomes under \$8,000.

Iowa exempted from the income tax persons with incomes under \$4,000.

Idaho allowed an additional \$5 tax credit per personal exemption for 1973.

Michigan raised the personal income tax exemption by \$300 to \$1,500.

Mississippi exempted from income taxes taxpayers with incomes less than \$8,000, and provided relief for middle-income families, as well as increasing personal exemptions.

Ohio provided working couples a credit on 1973 returns and voters lifted the \$3,000 ceiling on income tax exemptions for dependents.

Utah provided a \$6 income tax credit for each dependent off 1973 taxes.

Wisconsin increased the personal income tax credit from \$15 to \$20.

North Dakota and Utah raised income tax rates, but adopted federal deductions and exemptions.

## CORPORATE INCOME TAXES

Corporate income taxes were changed in several States.

Delaware kept existing rates by raising the corporate income tax from 6 to 7.2 percent when a 20 percent surcharge expired. It also ended the 50 percent exemption on capital gains.

Indiana raised its corporate income tax from 2 to 3 percent and placed a 2 percent tax, to rise to 3 percent by 1977, on corporate profits. A 20-year phaseout of corporate gross income taxes was initiated.

Maine raised its corporate income tax to 5 percent on taxable income under \$25,000 and to 7 percent on income in excess of \$25,000. Large industries were exempted from paying a sales tax on new manufacturing machinery. Local inventory taxes were replaced by a state inventory tax for the next three years.

Montana made permanent its "temporary" 6.75 percent corporate tax.

### ELDERLY PROPERTY TAX RELIEF

Some form of property tax relief for the elderly is now provided in every State with action being taken by five States in 1973.

For the first time, property tax relief programs for the elderly were enacted in Arizona, Arkansas, Missouri, and Nevada, each of which adopted a state-financed circuit breaker, and in Wyoming which provided a homestead exemption.

Under the circuit breaker concept, property tax relief is provided when the property tax reaches a percentage of income that the State considers an overload. Income levels for eligibility are set in each State.

Circuit breakers were adopted for the first time by Indiana, Connecticut, Kansas and Michigan to replace other forms of property tax relief for the elderly. Circuit breakers are now in effect in 21 States.

Property tax relief programs for the elderly were improved or expanded in at least 20 other States in 1973: Alabama, Alaska, Colorado, Connecticut, Idaho, Indiana, Iowa, Kansas, Michigan, Minnesota, Mississippi, New Mexico, North Dakota, Ohio, Rhode Island, South Carolina, Utah, Vermont, Virginia, and West Virginia.

Property tax relief for the elderly is state financed in 31 States while local financing is state mandated or authorized in the others.

### HOMEOWNER TAX RELIEF

Direct property tax relief for homeowners was provided in at least nine States.

Far-reaching property tax relief programs were enacted in Michigan, Oregon, and Vermont.

Michigan authorized a general 60 percent state income tax credit or rebate on property taxes in excess of 3.5 percent of income. A 100 percent credit was provided the elderly.

Oregon homeowners were provided property tax relief ranging from \$100 to \$490 and renters given income tax credits from \$50 to \$245, providing their incomes are under \$15,000.

Vermont established a sliding scale formula of property tax relief based on income levels. Property taxes were limited to 4 percent of incomes under \$4,000 and to 6 percent of incomes over \$16,000, up to a maximum amount of \$500, in relief.

Wisconsin added \$75 million to its general property tax relief fund for the biennium, in addition to the annual \$65 million appropriation and growth funds. The relief is in the form of credits based on the extent to which local tax rates exceed one half of the statewide average. In addition, \$33 million was appropriated to finance expansion of the homestead exemption for the elderly to include all homeowners and renters whose incomes are \$7,000 or less. A minimum refund or credit of \$10 was provided and a maximum of \$500 in relief set.



Indiana provided a 20 percent reduction in property taxes and authorized income tax deductions for renters.

Ohio appropriated \$287 million for a 10 percent property tax rollback.

Arizona homeowners were provided a 25 percent credit on 1973 property taxes to offset property tax increases caused by a massive reassessment. The measure was financed by a \$40 million appropriation, of which \$35 million was in federal revenue sharing funds. Localities were limited to 10 percent property tax increases.

Minnesota increased homeowners' property tax relief from 35 percent to 45 percent of taxes, up to a maximum of \$325, and renters' relief by a raise in the income tax credit from \$90 to \$120.

Georgia appropriated \$50 million for property tax relief by requiring counties to grant credit against property taxes in order to collect special state funds for roads.

### OTHER CHANGES

Property tax relief was provided indirectly by state assumption of all county welfare costs in Kansas and Wisconsin and of 50 percent of welfare costs by Minnesota and by assumption of aid to dependent children in Iowa.

Personal property tax relief was authorized by several States.

New Mexico exempted all noncommercial property.

Personal property taxes are to be phased out in Iowa in 10 years and in Wyoming by 1977. A phaseout of personal property taxes on manufacturing materials, business inventories and livestock was initiated in Wisconsin.

Taxing of farmland according to use rather than potential market value was authorized by 1973 laws in Hawaii, Illinois, Montana, New Hampshire, and North Carolina, and by voter-

approved constitutional amendments in Ohio and Pennsylvania. Such farmland tax breaks are now authorized in 32 States.

State takeover of tax assessment administration was authorized by 1973 laws in Maryland and Montana, joining only Hawaii in that task. Montana also authorized a 3-mill levy to finance statewide reappraisal. In Florida state standards are to be developed for property tax assessment. North Carolina required counties to assess property at a full 100 percent ratio.

In a unique program, Ohio authorized private developers to receive tax exemptions up to 20 years on increased value of inner-city property they reclaim under contract with the city council. The hope is that private enterprise will move faster than federal urban renewal.

Montana authorized a 2-mill statewide levy for support of state government. In addition, county levies were raised by 3 mills. Levies were also authorized for joint city-county libraries and for licensed day-care centers.

## IN THE BLACK

Most States experienced surpluses at the end of fiscal 1973. The improved fiscal condition of most States enabled Legislatures to pass such measures as tax relief, increased state services and additional capital projects.

The largest surplus was California's \$850 million. Alaska had the second largest at \$642 million, but it was attributable to the 1969 North Slope oil lease sale. Florida had a surplus of about \$300 million and North Carolina of about \$209 million. Most of the others were less spectacular, being small or moderate general fund balances.

The fiscal condition of most States took an upward turn in fiscal 1972 according to Census Bureau data. In fiscal 1972 aggregate state revenue exceeded state expenditures by \$3.1 billion, in contrast with fiscal 1971 when aggregate state expenditures exceeded state revenue by \$1.6 billion.

The annual, general fund (except where indicated otherwise) budgets for 1973-74 approved by 1973 legislative sessions were:

Alaska, \$352.9 million operating and capital; Arizona, \$507 million; Arkansas, \$841 million, biennial; California, \$9.339 billion; Colorado, \$690 million; Connecticut, \$1.2 billion; Delaware, \$327 million; Florida, \$2.1 billion; Georgia, \$1.6 billion; Hawaii, \$1.1 billion, biennial; Idaho, \$150 million; Illinois, \$7.4 billion; Indiana, \$4.37 billion total including federal; Iowa, \$1.6 billion, biennial; Kansas, \$1.2 billion; Louisiana, \$1.9 billion; Maine, \$231 million; Maryland, \$2.5 billion total; Massachusetts, \$2.3 billion; Michigan, \$2.6 billion; Minnesota, \$3.5 billion, biennial; Mississippi, \$564 million; Missouri, \$911.8 million; Montana, \$225.5 million, biennial; Nebraska, \$213.9 million; New Hampshire, \$212.8 million, biennial; New Jersey,

\$2.4 billion; New Mexico, \$340 million; New York, \$8.77 billion; North Carolina, \$1.7 billion; North Dakota, \$274 million; Ohio, \$9.96 billion, biennial; Oklahoma, \$403 million total; Pennsylvania, a \$3.5 billion budget was in legislative conference in late 1973; Rhode Island, \$375.5 million; South Dakota, \$105 million; Texas, \$9.7 billion, biennial; Utah, \$359 million; Vermont, \$142 million; Virginia, \$72 million; Washington, \$2.7 billion; Wisconsin, \$2.75 billion, biennial; and Wyoming, \$109 million, biennial.

As a cautionary note, all these figures are not comparable as different States may compute their budgets differently.

## CLEAN LIVING

### WATER, SOLID WASTE

Laws to fight water pollution were passed in at least 34 States in 1973 sessions. Among them, sewer systems were funded in New York, \$210 million from a 1972 bond; New Jersey, \$101 million from a 1969 bond; Minnesota, \$30 million; Missouri, \$8 million; Tennessee, \$11.6 million; and Kansas, \$15 million, in 1973 bonds. A \$250 million water quality bond will be voted on in California in June 1974.

A plan to convert most of the garbage in the State to fuel and reusable material by 1985 was initiated by Connecticut with creation of an authority with \$250 million bonding powers.

Laws concerning solid waste management and resource recovery were enacted in some 16 other States. Among them, local revenue bonds were authorized for solid waste disposal programs in Georgia and Louisiana. Minnesota provided state grants to localities for resource recovery. New York approved spending \$66 million for solid waste management from a 1972 bond issue. State regulations for solid waste were enacted in Delaware, Hawaii, Maine, New Jersey, and New York.

### LAND USE PLANNING

One of the major coastal protection laws passed in 1973 was by New Jersey which required a permit for all coastal facilities and authorized blocking of developments if necessary. Coastal or wetlands protections, including regulation of dredging and draining, were passed by Alabama, Delaware, Hawaii, Mississippi, New York, and Texas in 1973.

Hawaii provided for state acquisition or management of lands which have natural, environmental, recreational, scenic or historic value. Minnesota and Tennessee also provided for state regulation of such critical areas. South Dakota created a board to preserve historic sites.

New York was authorized to control development of 3.7 million acres of private land in the Adirondack Park.

Statewide land use policies were adopted in Oregon and Colorado.

Vermont set standards for land development and prepared for a more specific land use plan to come up for legislative action in 1974.

Arizona authorized local planning agencies to manage the urban environment.

Hawaii required counties to prepare urban design plans.

Environmental controls were placed on subdivisions in Arizona, Minnesota, Montana, New Mexico, Oregon, and Tennessee.

Environmental impact statements were required for major state projects in Connecticut, Maryland, and Virginia, and for state and private projects in Minnesota. Such statements are required for sewer and water projects in North Carolina. Environmental impact statement requirements were suspended in New Mexico.

## PARKS, OPEN SPACE

Funds were provided for parks and open space in California, \$14.5 million; North Carolina, \$14 million; New Jersey, \$15 million of 1971 bond; Maine, \$3 million voter-approved bond for parks; and Idaho, 1 percent of the Motor Vehicle Fund.

New Jersey established a natural lands trust and empowered it to acquire, hold and dispose of lands and apply for federal funds. Authorization was also given to invest \$1.6 million to save the New Jersey portion of the Appalachian Trail from development.

California authorized cities and counties to obtain open space land by eminent domain. California also approved the Tahoe Conservancy Agency Compact, subject to congressional approval, and authorized \$10 million for purchase of lands in the Tahoe Basin.

Arkansas established a state system of natural areas.

Minnesota approved a \$23 million bond to establish a state zoo.

Public hiking and other trail systems were authorized in Arkansas, Florida, and New Mexico.

## AIR POLLUTION

Air pollution controls were instituted or made more stringent in at least 15 States, including tighter motor vehicle emission controls in Colorado and Utah. In addition, South Dakota empowered its air commission to determine the type of fuels used in the State.

Texas authorized localities to issue revenue bonds to finance air quality improvements. Hawaii authorized state revenue bonds to finance private or public antipollution projects.

California created a regional agency to fight smog in the south coast air basin.

A number of other States provided tax incentives for pollution control facilities.

## OTHER

Noise pollution was regulated in Hawaii and Maryland and on motor vehicles in Idaho. Ohio provided tax breaks for noise abatement equipment.

North Carolina in 1973 became one of several States to adopt a sediment control plan.

Washington allowed contractors to recover costs for public construction programs delayed by environmental litigation.

North Dakota empowered the Governor to regulate federal land acquisition in the State.

Among new antilittering laws, New Hampshire mandated fines of at least \$50 and up to \$200 as well as a possible three-day jail term or litter cleanup, and West Virginia provided penalties for littering along streams, including requiring cleanup.

Vermont enacted a capital gains tax on speculative land sales, applicable to property held less than six years other than residential land. In its first two months of operation, the tax law raised only \$50,000.

Among States enacting new or stronger pesticide control laws were Connecticut, Montana, New Mexico, and Wyoming.

California regulated its \$1 billion a year timber industry.



## THE 3 R's IN '73

### EQUALITY IN SCHOOL FINANCE

The threat of a nationwide revamping of school finance laws was erased when the U.S. Supreme Court on March 21 upheld Texas' system of reliance on local property taxes in the famous Rodriguez case.

However, the fact that equality in school financing would remain a state-by-state issue was assured when the U.S. Supreme Court later declined to review a New Jersey Supreme Court April decision that the State's school financing system violated a state constitutional mandate for a "thorough and efficient" system of public schools.

In Idaho, a district judge on November 21 ruled the school financing system violated the state constitutional requirement for a uniform system of public schools. The State is appealing.

The Illinois Supreme Court on September 25 upheld the school financing system and turned down a contention the State should finance 50 percent of school costs.

In 1973 legislative actions, at least eight States made major changes in their school financing formulas in efforts to equalize educational opportunities between richer and poorer districts: Colorado, Florida, Indiana, Maryland, Michigan, North Dakota, Utah, and Virginia.

Colorado guaranteed each school district \$25 per pupil for 1974 for each mill levied, with the State to subsidize the amount not raised locally. However, richer school districts will continue to receive certain state aid. Limits were placed on the amount spent by school districts.

Florida's new formula provides additional funds to tax-poor counties where property taxes produce less money per student than wealthier districts. Funds are allocated on the basis of the number of fulltime-equivalent students at a school, replacing the instruction unit as the financing vehicle.

Indiana increased flat grant support, but also created a supplemental support formula for property-poor districts.

Maryland's new formula increases state aid to poorer counties and Baltimore City and decreases state aid to richer areas.

Michigan guaranteed each school district up to \$38 per pupil for each mill of local property tax, up to a limit of 22 mills. The "equal yield" formula limits state aid to rich districts while increasing it to poor districts.

North Dakota increased state aid per pupil from \$260 to \$540, thus assuming 70 percent of all school costs. School districts are to be reimbursed on the basis of actual costs and the amount of state aid to a district is to be reduced by the sum a 20-mill levy would raise. The new formula will expire June 1975, unless renewed. Reductions in maximum school district levies were mandated.

Utah extensively revised its school finance

laws. Total state funds under the new program were raised by \$23.3 million or 12 percent. The increase in state aid will range from 4 to 38 percent for different districts.

Virginia increased state aid to education by \$24.7 million to meet its new state constitutional responsibility of providing "quality education."

Arizona repealed its form of state aid to schools effective July 1974 and was meeting in late 1973 to adopt a new formula.

State aid to public education was increased in most States. Among the major changes, Maine increased state support from 33 to 50 percent of school costs, and Oregon raised state support from 20 to 30 percent. State assumption of most of school finance in addition to tax structure changes was defeated by Oregon voters in May and Washington voters in November.

### PUBLIC EDUCATION

State aid was provided for kindergartens in Alabama, Arkansas, Montana, and North Carolina, and expanded for kindergartens in California, with \$41 million appropriated for preschool programs, Oklahoma, Tennessee, and Texas. Kindergartens were mandated for all schools in Ohio by 1975 and in New Mexico by 1977.

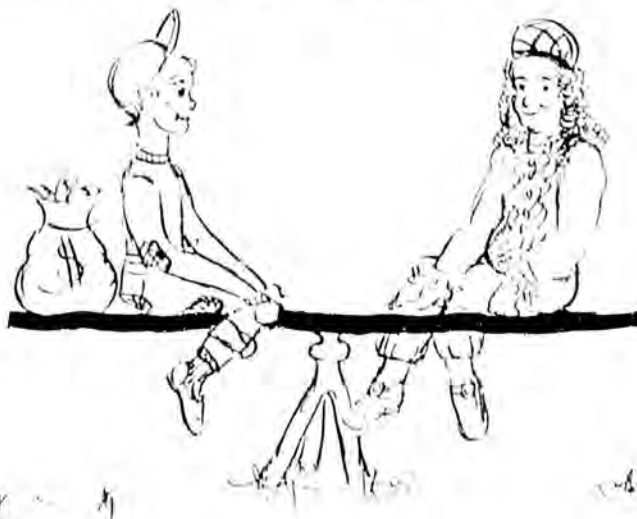
Public education programs for handicapped children were expanded in Arkansas, Colorado, Georgia, Maryland, Missouri, New Jersey, North Dakota, and Oklahoma. New Jersey voters approved a \$25 million bond for education facilities for the handicapped.

Georgia appropriated \$10 million to hire 1,200 new special education teachers, \$2 million to work with emotionally disturbed children, \$900,000 for minibuses for special education, and \$6.8 million for kindergartens for the handicapped.

Colorado required each school district to plan for special education and appropriated \$14 million for the programs.

North Dakota mandated special education for all and authorized local levies up to 3 mills to finance it.

Oklahoma created nine centers to examine children for potential learning handicaps.



## PRIVATE SCHOOL AID

North Carolina voters approved \$300 million in school bonds.

New York created an agency to monitor the efficiency of public schools.

Louisiana and South Dakota provided for regional, post-secondary vocational-technical schools.

Free textbooks were provided in Arkansas for high schoolers as well as other students and in South Dakota for public and private school students.

Pennsylvania required a public vote before construction or addition to public school buildings.

Instruction programs for non-English speaking pupils in their native language were expanded in Arizona and Texas.

Rhode Island authorized a new Board of Regents to rule on school construction.

The Indiana Governor was empowered to appoint the Superintendent of Public Instruction from 1975 to 1977.

College student loan programs were launched in Minnesota and Washington.

Virginia provided grants for students at public and private-nonreligious colleges.

Among States increasing aid to junior and community colleges were California, Kansas, North Dakota, and Wyoming.

West Virginia approved use of college student extracurricular fees for student legal services.

Sale of academic papers, such as term papers and theses, was outlawed in Colorado and Connecticut, joining California, Maryland, Massachusetts, New York, Pennsylvania and Wisconsin in restricting such "ghost-written" papers.

## SCHOOL TAX RELIEF

State assumption of a larger share of local school finance was expected to reduce property taxes in several States. State aid to education in Kansas was increased by about \$69.8 million and county school levies reduced from 8 to 2 mills on 30 percent valuation.

Property taxes are supposed to drop 20 percent for Maine homeowners under state assumption of 50 percent of school costs and a uniform statewide property tax system.

North Dakota assumed 70 percent of school costs and mandated a reduction in maximum allowable school district levies for an estimated statewide reduction of 15 mills.

School levies were limited to 27 mills in Idaho and to 23 mills in Wyoming.

Utah eliminated the 1.6-mill state property tax for schools for 1974.

Wyoming established a procedure to apply a portion of general fund surpluses to reducing the 6-mill property tax levy. Property taxes were reduced by three quarters of a mill for a \$1 million tax break in 1973 under the law.

A statewide school mill levy and a change in local school levies in Montana are expected to increase property taxes in some areas and reduce them in others.

State aid to private, religious schools remained a viable issue in 1973 despite more discouraging court decisions. The U.S. Supreme Court on June 25 voided a 1971 Pennsylvania law and a 1972 New York law providing state aid to parents of parochial school pupils and a 1970 New York law providing funds to private schools for record keeping.

Iowa appropriated \$6 million to provide auxiliary services to private and parochial schools, such as health, remedial education and library services.

Ohio increased its appropriation for auxiliary services to church-related and private schools to \$81.4 million. The program was delayed by a court suit.

Washington authorized grants to needy pupils in public and church-related schools but the program was voided by the State Supreme Court.

Wisconsin implemented a voter-approved constitutional amendment by authorizing school districts to release pupils for outside religious instruction.

## WELCOME HOME

Cash bonuses for soldiers who served in Vietnam were principal subjects of 1973 veterans action.

Fifteen States and the Territory of Guam now have Vietnam veterans' bonuses. The amounts range from \$120 in Vermont to Guam's \$720 with variations on length of time served and location of service.

Enacting bonuses for Vietnam veterans in 1973 were Indiana, maximum \$200 for veterans and \$500 for disabled veterans; Iowa, maximum \$200 bonuses and \$500 for disabled veterans, and Minnesota, \$100-\$600 bonuses.

In November, voters in three States approved funds for bonuses. Ohio authorized \$300 million in bonds for bonuses up to \$500, Pennsylvania authorized an additional \$10 million to fund its bonus, and West Virginia voters authorized \$40 million in bonds for a bonus up to \$400.

Also in 1973, Massachusetts funded its 1968 bonus with \$15 million in bonds and South Dakota provided \$3.95 million for back claims under its 1969 bonus.

Alabama provided for a \$500 payment to members of the armed services from the State who were prisoners of war in Vietnam.

More States joined a list of over 30 States which have changed the observance of veterans day back to the traditional November 11.

Many States also acted to give job preference, educational benefits, and other benefits to veterans.

Alabama, Arkansas, Illinois, and South Dakota were among States providing higher educational opportunities to dependents of disabled veterans or dependents of veterans missing in action or prisoners of war.

# THE FAMILY OF MAN

## EQUAL RIGHTS

The proposed amendment to the U.S. Constitution guaranteeing equal rights for both sexes was ratified by seven more States in 1973, bringing the total to a disputed 30 since Nebraska voted to rescind its ratification. The approval of eight more States is needed by March 1979.

At least 15 States passed laws to prohibit discrimination based on sex in a variety of areas, chiefly credit transactions and employment.

## SOCIAL SERVICES, WELFARE

Changes in welfare programs were made in a number of States. Among them, Illinois and Rhode Island switched to flat grant systems, and state assumption of county welfare costs was approved in Iowa, Kansas, Minnesota (50 percent), and Wisconsin. Montana authorized the Department of Revenue to investigate welfare matters. New York prepared for central computerization of welfare administration. Among States increasing welfare payments were Illinois, New York, and Washington.

Services for the elderly were established in several States, with new administrative units created in Florida, Illinois, and Missouri. Maryland established nutritional and community care services programs for the aged. New Jersey entitled senior citizens to discounts on drugs and bus fares. South Dakota issued free fishing licenses to those over 65.

The problems of the young came under special state attention. Hawaii authorized a state-wide planning system for child services. Montana authorized tax levies to fund day-care centers. New Jersey provided state aid for low-income families willing to accept the State's hard-to-place children. Florida revised its court procedures for juveniles and mandated a state system of detention services. Alabama created a Department of Youth Services which took over the operations of juvenile correctional facilities. Iowa provided funds for summer jobs for youth.

Arizona approved county family counseling programs on an experimental basis.

Utah established a division of family services.

Family planning services were authorized in Arkansas, Georgia, Hawaii, Maine, New Mexico, Oregon, and Oklahoma.

## HANDICAPPED

Architectural and employment barriers against the physically handicapped were ordered lowered by several States. Wheel chair ramps are required on public buildings in Illinois and Florida and on street curbs in Minnesota. Employment discrimination not related to job performance was forbidden in Florida and Rhode Island.



## HOUSING

Several States took action in 1973 to avert a housing crunch which was developing from the federal housing moratorium and the shrinking availability of mortgage money.

Housing for low- and moderate-income people was the object of legislation in Louisiana, New York, Oregon, Rhode Island, South Dakota, Tennessee, and Utah. The Legislatures of Louisiana and Utah appropriated \$3 million each to take up the slack of federal housing funds cutbacks.

New Jersey raised the maximum interest ceiling on mortgage money to 9.5 percent and New York raised the limit from 7.5 to 8 percent. New legislation in Illinois is designed to curb abuses in the mortgage loan broker industry.

Minnesota, Nevada, Rhode Island, South Dakota and Tennessee joined the growing list of States with housing finance agencies or authorities. About 20 States now have these agencies.

Bonding authority for New York's Urban Development Corporation was increased by \$500 million to provide low- and middle-income housing projects and Oregon created a \$200 million bonding program for low-cost housing.

The bonding authority for the Massachusetts Home Finance Agency was raised by \$250 million and \$120 million provided for additional public housing in the Bay State.

# GETTING THERE

At least 11 States enacted regulatory measures for other forms of housing—rented and mobile.

Landlord-tenant relationships were regulated in Arizona, Florida, Illinois, Maryland, Minnesota, Texas, and Washington. Maryland also limited unjustified rent increases to 5 percent and Maine's local communities were given the authority to impose rent controls if a serious public housing emergency occurs.

Rights of mobile home owners or renters in parks were guaranteed in Florida, Massachusetts, Minnesota, New Hampshire, New Jersey, and New Mexico. New Jersey's stringent law limits the grounds for eviction, requires park operators to disclose in writing all fees and rules, and prohibits park owners from requiring mobile home owners to purchase equipment from them.

Safety and other standards for mobile homes were enacted in a number of States, including Arkansas, Missouri, New Mexico, and South Dakota.

In other housing-related news, the New York Legislature appropriated \$150,000 to implement the opening of a housing court for New York City.

The Rhode Island Legislature adopted an act requiring financial institutions to withhold payment of mortgages under \$100,000 until subcontractors have been paid.

## AGE OF MAJORITY

Adult rights and responsibilities were given to 18 year olds by 11 more States, bringing the total to 41. Lower age of majority laws were enacted in Colorado, Florida, Indiana, Iowa, Maryland, Massachusetts, Minnesota, Nevada, New Hampshire, Ohio, North Dakota, and Texas.

At least six of these States also lowered the drinking age to 18 for hard liquor and several others allowed beer consumption. A measure to lower the drinking age to 19 in Washington State was defeated by voters.

Wyoming lowered its age of majority to 19, joining two other States.

## FAMILY LAW

No-fault divorce laws, which make irretrievable breakdown of the marriage a ground for divorce without blame to either spouse, were adopted by Arizona, Colorado, Connecticut, Georgia, Indiana, Missouri, Montana, and Washington.

New York repealed its 120-day conciliation period for serving of the formal complaint in a divorce case.

Connecticut revised the adoption law to make it almost impossible to overturn a final adoption decree and prohibited agencies from withholding adoptions on the basis of marital status or race or religion.

Washington required natural parents to post bond when they take legal action to regain custody of adopted children.

## TRANSPORTATION

The potential energy shortage bolstered interest in public transportation systems in 1973 in addition to the legislative attention they were already commanding.

Substantive action in financing public transit was recorded in the States of Arkansas, California, Colorado, Connecticut, Massachusetts, Tennessee, and Washington.

Arkansas authorized counties and municipalities levying a motor vehicle tax to use certain of these revenues for a public transportation system.

The Colorado General Assembly permitted regional transportation districts to levy a one half of 1 percent sales tax for mass transit subject to voter approval.

California's Legislature approved a constitutional amendment allowing gas tax revenues to be diverted into development of rapid transit systems subject to statewide voter approval in June 1974.

Connecticut merged funds from all transportation sources into a single fund and earmarked a certain percentage of the money for mass transit. The Legislature also authorized the use of town aid highway funds for mass transit.

In late November, the Massachusetts House and Senate approved a statewide transportation package which included \$55 million to cover half the deficit of the Massachusetts Bay Transportation Authority (MBTA) and \$40 million for communities outside the MBTA. The package also includes nearly \$45 million in bonding authority for the MBTA and other public transit systems and the municipal airport.

Counties in Massachusetts were permitted to levy up to two mills in property tax for public transportation upon voter approval. One million dollars from state liquor profits is to be used on a per capita basis for financing transit districts in cities and counties. Certain lanes of state highways were designated as commuter lanes for the exclusive use of buses and certain other multiple-occupant motor vehicles.

Tennessee legislation provides that an amount up to 25 percent of state street aid funds to municipalities may be used to subsidize public transportation systems.

The Washington Legislature provided state matching of local money for public transit systems. Additionally, the State authorized \$75,000 for a study of new and different methods of public transportation facilities.

Arizona and North Carolina joined 21 other States which have Departments of Transportation responsible for many transportation administrative and planning duties. The North Carolina Board of Transportation and a Secondary Roads Council replace the former State Highway Commission.

# AN APPLE A DAY

## HEALTH

Hospital rates were regulated by Connecticut and Washington.

Nevada authorized full-scale practice of the Chinese science of acupuncture. Practitioners are not required to be physicians but must be licensed by the acupuncture board. A 1973 Oregon law allows practice of acupuncture by nondoctors but requires such treatments to be authorized by a physician.

Prepaid health care plans or health maintenance organizations were allowed to operate and regulated in Iowa and New York. Minnesota made available state aid to nonprofit medical facilities offering prepaid health care plans.

New York authorized state aid to help construct municipal medical facilities and limited-profit nursing homes.

North Carolina approved a program to set up rural health clinics to provide care in doctor-short areas.

Texas established a scholarship program for students willing to practice medicine after graduation in rural areas. Tennessee created a loan-scholarship program for students willing to practice in medically short areas.

A \$12.8 million medical scholarship program was approved in California and an additional \$3 million appropriated to aid programs designed to increase the number of family doctors.

Iowa appropriated funds to establish family practice residency programs in community hospitals.

Tennessee authorized localities to fund nonprofit medical services.

New Mexico funded essential medical services for the needy not eligible for public assistance.

Physicians' assistants were given legal status and regulated in Hawaii, New Mexico, South Dakota, and West Virginia, joining some 30 other States which regulate the occupation.

Statewide emergency medical services programs were established in Florida, Hawaii, and Missouri.

Vermont funded a program to help pay dental expenses of school children from low- and moderate-income families.

Arizona consolidated seven agencies into a new Department of Health Services.

California approved a \$12 million plan to develop local alcoholism rehabilitation programs.

Tennessee joined the growing number of States requiring certification of need for construction or expansion of health care facilities.

Procedures were established to safeguard mental patients' rights in Florida and North Carolina. Indiana began a phaseout of some mental hospitals, replacing them with community health centers. Connecticut provided funds to improve mental



retardation facilities and to bring mental health institutions up to new national accreditation standards. New York provided for a unified approach to planning and financing mental health services. Ohio authorized state bonds for nonprofit mental health services.

Central registries for child abuse complaints were established in New York and Tennessee and reporting requirements stiffened in South Dakota and Nebraska.

A number of States approved new medical facilities or improvements, with most connected to state universities, among them Iowa, Kansas, and Louisiana. Initial funding was provided for medical schools in North Carolina, Ohio, Oklahoma, and South Dakota and a school of dentistry in Mississippi. State aid of \$14.6 million was provided to private medical colleges in New York.

## ABORTION

The U.S. Supreme Court's January 1973 decision legalizing abortions resulted in numerous lower court decisions voiding state antiabortion laws, many of which dated back to the last century.

At least 13 States enacted new abortion laws, although several were in outright defiance of the court's legalization of abortion and others legalized abortions but placed additional restrictions on them.

Rhode Island's 1973 law which forbids any abortion not necessary to save a woman's life is now in court. A similar law was enacted in North Dakota. States enacting new laws legalizing abortions were Georgia, Idaho, Illinois, Indiana, Minnesota, Nebraska, Nevada, North Carolina, South Dakota, Tennessee, and Utah.

New laws in Nebraska, Nevada and Utah legalized abortions within certain limits, but required that steps be taken to preserve the life of any viable fetus. Utah's law, however, was voided by a federal court in September.

Conscience measures which allow hospitals or medical personnel to refuse to perform abortions were passed in at least 18 States.

Resolutions calling upon Congress to propose a constitutional amendment to allow States to restrict abortions were approved by at least 14 State Legislatures.

# TIME AND A HALF

## LABOR

The nationwide drive to improve and expand workmen's compensation laws resulted in over 200 amendments to such laws by legislative sessions in 49 States and Puerto Rico.

Maximum benefits for disability were increased in at least 28 States by law and in seven others by automatic adjustments. At least \$3.3 billion in workmen's compensation benefits will be paid out in 1973.

State minimum wage laws were enacted for the first time for workers not covered by federal law in Minnesota, \$1.80 an hour, and Ohio, \$1.60. State minimum wages were increased in Arkansas, Illinois, Maine, Nevada, North Carolina, Oregon, South Dakota, and Washington, and expanded in Maryland and New Mexico.

Private pension plans were regulated in Connecticut and New Jersey.

Connecticut required employers of more than 25 persons to rehire anyone who leaves his job for a single term of elective municipal office.

Hawaii established a public service employment program under the Department of Social Services and Housing.

Massachusetts approved a tax credit of \$500 to business and industry for every new job created at a salary of over \$4,200 to employ persons receiving state unemployment pay, welfare, or manpower training. The jobs must be in excess of a normal 3 percent growth rate.

Employers were restricted from using lie detectors on their employees in Idaho and Minnesota.

States continued to provide for state implementation of the federal Occupational Safety and Health Act standards, with at least 10 passing legislation in 1973.

## GOVERNMENT PAY RAISES

Action was taken in 1973 to raise the pay of top state executive officials in at least 16 States: California, Georgia, Indiana, Iowa, Kansas, Maine, Minnesota, Nebraska, North Dakota, Ohio, Oregon, Rhode Island, Tennessee, Utah, Vermont, and Washington.

Legislative compensation was raised by 1973 actions in Colorado, Georgia, Indiana, Iowa, Missouri, New York, North Dakota, Ohio, Pennsylvania, Utah, Washington, Wisconsin, and Wyoming. Nebraska scheduled a May 1974 vote on a constitutional raise in legislative pay from \$4,800 to \$8,100 annually. In November, voters rejected measures to allow higher legislative pay in Rhode Island and Texas.

Judicial pay levels were raised in 1973 in Arkansas, Colorado, Iowa, Massachusetts, Minne-

sota, New York, North Dakota, Ohio, Utah, Vermont, and Washington.

Washington voters in November approved an initiative measure which provides legislators and other elected state officials and judges with pay increases of approximately 5.5 percent. It voided a 1973 law which would have raised pay levels substantially higher.

School personnel salaries were raised in Arkansas, Georgia, Hawaii, Louisiana, Mississippi, North Carolina, Oklahoma, Washington, and West Virginia.

Public employees' salaries were raised, mostly with the 5.5 percent guidelines, in Alabama, Arkansas, Georgia, Hawaii, Iowa, Louisiana, Nebraska, Nevada, New Hampshire, New York, North Carolina, Ohio, Vermont, Virginia, and West Virginia.

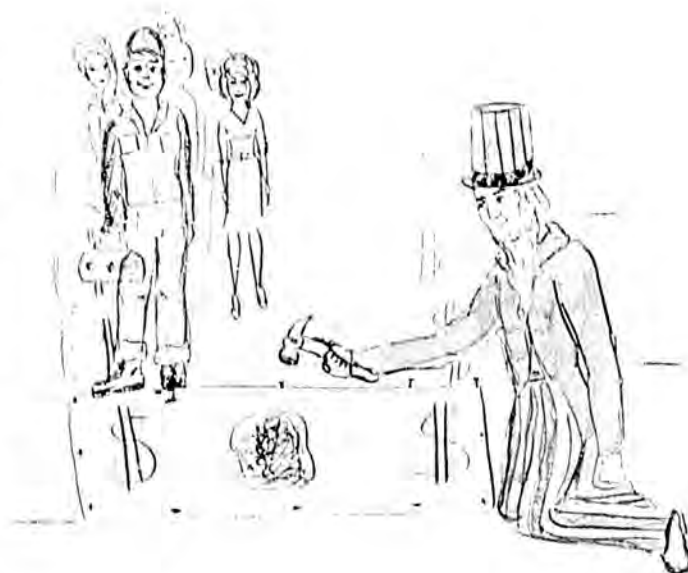
The federal Cost of Living Council (CLC) intervened in several scheduled pay raises for state officials. Among them, the CLC allowed Georgia legislators and chief officials about two thirds of pay raises authorized by a 1973 law. The CLC cut pay raises for 150,000 California state workers from an average 11.3 percent to a 7 percent maximum.

In other 1973 actions, the CLC allowed Pennsylvania legislators a \$2,500 boost in expense allowances and Kentucky police officers a 15 percent raise, both state-authorized in 1972.

Among States granting collective bargaining powers to public employees were Massachusetts, Minnesota, Montana, and Oregon. Virginia provided binding employee grievance procedures for state employees.

Montana created a Salary Commission and granted public employees the right to bargain collectively.

Arkansas created a commission to recommend compensation levels of legislators and executive officials and established a new compensation plan for state employees.



# THE FLIM-FLAM MAN

## CONSUMERS

Laws against unfair trade practices and deceptive ads, most modeled after the federal FTC law, were passed in Connecticut, Florida, Illinois, Missouri, Montana, Nevada, Texas, and Utah.

More States gave consumers cooling-off periods to cancel door-to-door sales with laws passed in 1973 by Arkansas, Idaho, Kansas, Minnesota, Missouri, Nevada, Texas, and Virginia.

Protections for consumers in installment sales were provided in Kansas by a Uniform Consumer Credit Code, in New York by a law which will aid in getting faulty workmanship corrected, in Arkansas, Florida, and Ohio by requiring a court hearing for persons in default on loans, and in Virginia by limiting the late charge to 5 percent of the installment payment. Minnesota raised the maximum bank installment loan from \$5,000 to \$25,000. Florida allowed an increase in lending limits and interest rates.

Public posting of prescription drug prices was required in California, Minnesota, New Hampshire, and New York, and was allowed in Connecticut, Nevada, and South Dakota.

Land sales practices were regulated in Florida, Illinois, Montana, Oregon, Tennessee, and Washington. These laws provide consumer protections such as requiring developers to inform buyers of all facts of the development as water supply, utilities, and road maintenance.

Altering of car odometer readings was outlawed in Minnesota, Missouri, and North Carolina.

Dating of perishable foods was required in Minnesota and Washington.

Collection agencies were regulated in Washington and West Virginia.

Hearing aid dealers were required to obtain state licenses in Minnesota, Rhode Island, Washington, and West Virginia.

Maryland's Attorney General was given subpoena power in enforcing consumer protection laws. Kansas established a small claims procedure. North Carolina courts were allowed to approve attorneys' fees for plaintiffs in consumer small claims cases.

Franchises were regulated in Arkansas, Illinois, and Minnesota to protect small investors. Arizona regulated franchise agreements between auto manufacturers and retailers.

Regulations were placed on the sale of securities in Delaware and such regulations tightened in Georgia, making it difficult to sell worthless bonds and stocks.

Among other consumer laws:

Minnesota authorized consumers to sue violators of consumer laws for damages, and courts were authorized to assess violators up to \$25,000. Other Minnesota laws require posting of gas octane ratings, regulate cable television, require toy safety, and require itemizing of funeral costs.

New Jersey required used household items to be tagged as such when offered for sale.

Utah mandated licensing of radio and television repairmen and regulated lie detection examiners.

Alaska required licensing of psychological associates.

New York outlawed the sale of hazardous toys. New York also established a commission to investigate the cost of living, shortages and the energy crisis.

Rhode Island regulated motor vehicle damage appraisers.

Washington regulated direct solicitation charity drives to insure at least 80 percent of the money goes to the intended charity.

Maryland set labeling requirements for ground beef, set standards for repair of home appliances, and adopted a hazardous substances act.

## INSURANCE

No-fault auto insurance plans were enacted by eight more States in 1973 bringing the total to 16 with some form of no-fault. No-fault is mandatory and tort liability is limited under new laws in Colorado, Hawaii, Kansas, Nevada, New York, and Utah. No-fault is optional with the consumer and suits for negligence are not restricted under new laws in Arkansas and Texas; similar optional laws were passed in Minnesota in 1970 and South Dakota and Virginia in 1972. No-fault laws allow injured motorists to collect up to certain maximums from their own insurers regardless of who's to blame for the accident.

The Florida Supreme Court on July 12 voided the part of Florida's 1971 no-fault law which prohibited motorists from suing for property damages of under \$500.

Insurance practices were further regulated in several States. Among them, Florida required insurers to return to policy holders excess profits on no-fault auto insurance; Maine and Missouri regulated insurance cancellations; New Mexico expanded its unfair insurance practices act to claims and delivery; and Virginia amended its open competition law on rates. North Carolina replaced its assigned risk auto liability plan with an industry reinsurance system to give motorists a choice.



# APPEALING LEGISLATION

## DEATH PENALTY REVIVED

Not since the nail-biting tenseness of the Humphrey Bogart and James Cagney movies has the ominous statement "murder in the first degree" drawn such attention than in the recent Legislatures as many States reenacted the death penalty.

But unlike Bogart or Cagney movies which could take you from courtroom drama to the "chair" in one quick scene, State Legislatures instituted mechanisms of review more applicable to the irreversible nature of the punishment.

Connecticut provided two separate proceedings in capital crimes—one for determining guilt of a defendant and the second to determine if the crime meets death penalty requirements. Oklahoma was among States providing for mandatory review of a death penalty imposition. In Arizona, the judge is to conduct a separate sentencing hearing after a guilty plea or verdict to determine whether the death sentence is to be imposed.

The Georgia General Assembly passed a law providing for the death penalty in specific cases, but only if the jury verdict includes a finding of at least one "statutory aggravating circumstance." Every death penalty handed down in the State must be reviewed for evenhandedness by the Georgia Supreme Court.

A majority of the death penalties are mandatory and specify the crimes to which they apply. Others are not mandatory. Illinois' law—a compromise between the Governor and the Legislature—says a three-judge sentencing panel shall impose the death penalty in a murder case when the crime falls into one of the categories specified in the bill unless a majority of the judges determine that "there are compelling reasons for mercy and that the defendant should not be sentenced to death."

Since the U.S. Supreme Court decision which voided most state capital punishment laws, death penalty laws were enacted in two States in 1972 and in 19 others in 1973. Pennsylvania was considering a bill in late 1973.

States which have death penalty laws on their books are Arizona, Arkansas, California, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Louisiana, Montana, Nebraska, Nevada, New Mexico, Ohio, Oklahoma, Rhode Island, Tennessee, Texas, Utah, and Wyoming.

Massachusetts' Governor vetoed a death penalty bill in late 1973.

## CRIMINAL JUSTICE

At the other end of the spectrum, more States acted to aid ex-offenders return to society.

Connecticut adopted a state policy to encourage private and public employers to hire ex-offenders. Along with Arkansas and Colorado it removed restrictions or disqualifications prohibiting former

felons from receiving trade, occupational or professional licenses. Another Colorado law provides for expunging the records of misdemeanants after one year and felons after three years. In North Carolina, a similar law pertains to juveniles.

Massachusetts law seals criminal records in some circumstances. An Arizona judge may clear the records of persons wrongfully accused and Tennessee legislation requires records of persons not convicted to be expunged.

Ohio acted to remove the stigma of a high school diploma earned in prison. The law requires the diploma to be granted for credits earned in prison to be issued from the inmate's home school.

Two more States acted to aid victims of crime. Eleven States now have legislation providing compensation for victims of crime. Added to the list in 1973 were Illinois and Washington. Illinois provides a compensation range of \$500 to \$10,000 when the victim is not otherwise insured. Washington extended to victims of crime the benefits and services available under existing workmen's compensation provisions. California which had the first law providing compensation for crime victims (1965) raised the maximum amount of benefits from \$5,000 to \$23,000 in 1973.

Courts and judicial revision programs were produced in Delaware and South Dakota.

Correctional reform programs were implemented in several States. Hawaii, Mississippi, South Dakota, and Wyoming approved work release programs and Tennessee permitted prisoner furloughs under certain circumstances. Minnesota established a full-time parole board and provided for a prison ombudsman who will hear prisoner grievances.

Three more States—Illinois, Indiana, and Oklahoma—acted to control the sale and criminal use of cheap handguns known as "Saturday night specials."

Arkansas recognized the need for bilingual technical assistance in the criminal justice field and mandated court interpreters for defendants who do not speak the English language.

Iowa required criminals to make retribution to victims before parole is granted.

## DRUG LAWS

Continuing a definite trend of the past several years, more States acted to liberalize punishment regarding marijuana possession and use and stiffen punishment for persons who sell marijuana or other drugs. A view of both ends of this continuum was provided by legislation in New York and Oregon.

New York cracked down on pushers providing mandatory life sentences for drug traffickers with parole possible after service of a minimum amount of prison term—however, supervision is for life. Minimum prison time of 15 to 25 years is mandatory for sale of one ounce or more of hard drugs and 6 to 8 years for sale of lesser amounts. Stiff

sentences were also required for possession of these drugs.

Oregon lowered the punishment for simple possession of an ounce or less of marijuana from a year in jail and a \$1,000 fine to a fine of \$100 only, even for repeat offenders.

## GAMBLING

Voters in Maine, Ohio, and Rhode Island authorized state lotteries in the November elections bringing the total number of States with such authorization to at least 11.

Lotteries have been implemented in at least eight States. The list of States with lotteries in operation or authorized includes Connecticut, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, and South Dakota.

In 1973, South Dakota legislators authorized lotteries with a maximum prize of \$5,000 and bingo games with a prize limit of \$500 to be operated by certain nonprofit organizations. Ohio set up the machinery for its lottery authorized by voters last May. It provides that 45 percent of the money wagered be returned in prizes.

The cry "BINGO!" will be heard in a few more States as a result of new laws. Iowa, Oklahoma, South Dakota, Virginia, and Washington authorized bingo operations by certain nonprofit, charitable, or religious organizations. Gambling was also legalized on games of skill and chance at fairs in Iowa.

Betting on horse racing was the subject of legislation in Connecticut, New York, Oklahoma, and Wyoming. State racing and wagering boards or commissions were created in New York and Oklahoma.

The operation of horse racing and parimutuel betting systems in Oklahoma by county fair boards or agricultural expositions was authorized. The act was adopted statewide, but local option is in effect for racing meets.

New York's State Racing and Wagering Board was given jurisdiction over the state lottery, horse racing activities and off-track betting. New York City's Off-Track Betting Corporation was allowed to retain most of its powers.

Citizens in Connecticut towns in which race tracks are planned were given authority to petition for a referendum on the issue.

Parimutuel betting in Wyoming was broadened to permit betting on professional roping events with licenses for such events limited to 45 days in any one county.

Washington's gambling legislation was enacted to implement a constitutional amendment approved by the voters last year. In addition to legalizing bingo, the Legislature authorized raffles for nonprofit or charitable organizations and punchboards, pulltabs, and non-payoff, one-coin mechanical amusement devices as trade stimulants in certain public places, newspaper and magazine lotteries,

movie giveaways, and newspaper contests on football and other games where the readers guess the outcome. Local communities in Washington were given the local option on gambling and were permitted to tax gambling activities up to 10 percent of the gross take.

Hawaii amended the state penal code as it applies to gambling. The Legislature established a new misdemeanor offense of gambling for which evidence of profit need not be shown and the Legislature defined components of social gambling as an affirmative defense.

## LIGHT MY FIRE

### ENVIRONMENT, RESOURCES

The location of power plants was regulated by Arkansas, Connecticut, Florida, Minnesota, Montana, and New Hampshire.

Those responsible for oil spills were made liable for damages and cleanup by new laws in New York and North Carolina. A similar 1970 Florida law was upheld by the U.S. Supreme Court April 18 and Maine's oil spill tax was upheld by the Maine Supreme Court June 4.

Strip mining was regulated and reclamation of land required in Minnesota, Montana, and North Dakota. Montana also required permission of surface rights owner for any mining. West Virginia continued to 1975 the prohibition against strip mining in counties where it did not exist in 1970. Minnesota levied taxes of 25 cents per acre on holders of severed mineral rights.

Alabama and Mississippi agreed to authorize a new Ameraport Interstate Off-Shore Harbor and Terminal Compact to develop an off-shore facility for petroleum loading and unloading.

### PRICES, TAXES

New Mexico gave the State the option to buy at the market price any minerals that may be produced from state land.

Connecticut created a commission to regulate petroleum product prices and bring civil actions against unfair distributory practices. Discrimination by refiners against independent retailers was outlawed.

Major U.S. oil companies were sued for anti-trust violations in separate suits filed by Connecticut, Florida, and New York.

Florida authorized regulation of the rates of companies selling energy after consumer complaints.

Alaska revised its oil taxing and regulatory laws in a special session in late 1973 in an effort to settle lawsuits brought by oil companies against 1972 laws.

Oil and natural gas taxes were raised in Louisiana, and the State was given price and supply controls over newly contracting users.

## 17 GOVERNORS TALK FUEL PROBLEMS WITH PRESIDENT, ENERGY ADVISER

Seventeen Governors who met with President Richard Nixon and his energy adviser William E. Simon December 14 agreed on several areas regarding fuel conservation measures and fuel allocation plans including the need for uniform speed limits for all vehicles. The Governors agreed that:

—Agricultural production should be given a category 1 allocation rather than the proposed category 2 allocation;

—The Federal Energy Office should publish state data on the supplies of each type of fuel within each State;

—The 3 percent "state set-aside" for fuels proposed in current regulations should be firm and increased up to 10 percent;

—The state plan for fuel allocation should preempt the federal plan if minimum goals are set and state plans should cover middle distillates, gasoline, and propane; and

—Local boards should be voluntary with each Governor, not mandated.

### CRISIS ACTIONS

Special powers to meet the energy crisis were granted to Governors in Delaware, Maryland, and Washington by special legislative sessions in late 1973. Some other Governors announced they would request energy conservation powers from their Legislatures.

Highway speed limits were lowered to 50 m.p.h. and 55 m.p.h. in a number of States following President Nixon's energy address to the Nation requesting such action. Among States acting were Alaska, Delaware, Idaho, Maryland, Massachusetts, Montana, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Pollution regulations were lifted temporarily to allow use of higher sulfur fuel in some States, among them Florida, Massachusetts, New Hampshire, New Jersey, and Rhode Island.

Oregon required electric and gas utilities to submit plans for load curtailment during emergencies.

A blackout on commercial outdoor lighting ordered by Oregon Governor Tom McCall late September was lifted in December due to an improved electricity supply outlook.

Longer school Christmas holidays to save fuel were authorized in Delaware, Maryland, and New Hampshire.

At least 32 Governors have established state government energy conservation programs, according to a special report on "The States and the Fuel and Energy Crisis," released by the Council of State Governments in early December. It also contains model legislation to give Governors broad authority to control the energy emergency.

## NEW YORK GOVERNOR RESIGNS

Four-term New York Governor Nelson A. Rockefeller announced he would resign December 18 to head two national commissions full time.

Assuming the governorship will be Lieutenant Governor Malcolm Wilson for the term which expires at the end of 1974. Both have served since 1959.

The Governor initiated the recently established Commission on Critical Choices for America which will be funded through private and public grants. Earlier, Henry L. Diamond resigned as State Environmental Conservation Commissioner to become executive director of the commission.

The Governor also heads a water quality commission.

## STATE ATTORNEYS GENERAL FOCUS ON U.S. ATTORNEY GENERAL SELECTION

The National Association of Attorneys General (NAAG) adopted a resolution at its winter meeting in New Orleans, Louisiana, December 2-5, that a NAAG committee study methods for changing the selection of the U.S. Attorney General.

Changes, the resolution said, should be considered with the view of improving and enhancing public confidence in the administration of justice. Changes in the method of selection and in the tenure of the U.S. Attorney General to increase the independence of the office might enhance the Attorney General's ability to investigate and prosecute charges of official misconduct.

Former U.S. Attorney General Elliot Richardson was a guest speaker during the conference. Mr. Richardson told the 47 state chief legal officers attending the meeting that restoration of public trust in government is one of the overriding needs of the day.

The first day of the conference was devoted to a discussion of the energy crisis. Speakers included energy experts from private industry, the federal government and the academic world.

Other resolutions adopted by the NAAG concern federal development of a national energy policy with the goal of U.S. self-sufficiency by 1985, privacy of bank records, and bribery of public officials.

## IDAHO SCHOOL FINANCING VOIDED

Idaho's school financing system violates the state constitution because it does not provide equal educational opportunity to all public school pupils, a district judge ruled November 21.

Attorney General W. Anthony Park said the State would appeal to the State Supreme Court.

The judge said, "A system of public school finances in which per pupil expenditures vary directly with amount and value of taxable property within the school districts which the State has created cannot meet the constitutional mandate."

STATE GOVERNMENT NEWS

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THE COUNCIL OF STATE GOVERNMENTS  
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LEGISLATIVE AFFAIRS  
AGENCY

Mrs. Beverly Keithahn  
Secretary of the Senate,  
Alaska Legislature  
Juneau, Alaska 99801

20

ALASKA REVISES OIL LAWS

Alaska revised its oil taxing and regulatory laws in an effort to settle lawsuits brought by major oil companies challenging 1972 legislation. The Legislature met from October 17 to November 12 in special session.

An industry-supported 20-mill property tax on oil and gas equipment passed and limits were set on local governments' taxing powers on these properties.

An oil production tax at a base of 25 cents a barrel was enacted with an escalation clause to allow the tax to rise with an increase in the U.S. Labor Department's domestic wholesale price index on crude oil. The royalty credit was dropped.

A conservation tax of one-eighth cent a barrel was approved.

The Legislature authorized noncompetitive sale and lease of state land at appraised value for pipeline-related use.

A common purchaser requirement passed to protect the smaller producer.

Deleted from previous law were an option for state purchase of up to 20 percent of the pipeline and an escalating rental provision.

The Legislature approved supplemental appropriations of \$5.3 million to special regional needs generated by the pipeline construction.

The Alaska Pipeline Commission was retained to regulate intrastate pipeline activities.

Alaska's new Attorney General is Norman C. Gorsuch, 31, who has been deputy attorney general since 1971. Governor William A. Egan named him to succeed Attorney General John Havelock, who announced his resignation two months ago but stayed for the recent special session.

NORTH DAKOTA REMAP REJECTED

Reapportionment of North Dakota's Legislature is again before a federal court following voter rejection December 4 of two alternative plans.

Voters turned down a plan drawn by the 1973 Legislature which provided for 37 legislative districts with 50 senators and two representatives per senator. Also rejected was a constitutional amendment to establish a nonlegislative reapportionment commission to divide the State into single-member districts.

The federal court approved a reapportionment plan for the 1972 election and retained jurisdiction for adopting a different plan.

LAME DUCK POWERS AFFIRMED

A lame duck Governor does not lose his powers of appointment to the Governor-elect, a Nebraska district court ruled.

The court voided a portion of a 1972 law which would have empowered the Governor-elect to appoint three new members to an expanded Natural Resources Commission for terms beginning in 1975.

The court also voided the Legislature's designation of certain state officers to the commission as a violation of the Governor's power of appointment.

The substantive portion of the law conferring broad environmental powers on the newly created Natural Resources Commission was upheld by the court.

The State Supreme Court is expected to hear an appeal during January.

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AGO 532088

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*Permanent Investment  
Fund package*

*Retting*

AGO 532089

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.

*Hold 4-23  
yegler*  
*V.*

Original sponsor: Rules Committee by request of the Governor

1 IN THE SENATE

BY THE SPECIAL COMMITTEE ON INVESTMENT AND MONETARY POLICY

2 CS FOR SENATE JOINT RESOLUTION NO. 74

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the  
6 Constitution of the State of Alaska  
7 establishing the Alaska Resources  
8 Permanent Fund.

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

10 \* Section 1. Article IX of the Constitution of the State of Alaska is  
11 amended by adding a new section to read:

12 SECTION 15. ALASKA RESOURCES PERMANENT FUND. The Alaska Resources  
13 Permanent Fund created by the Second Session of the Sixth Legislature,  
14 including any additions by appropriations, shall be permanent and  
15 not subject to appropriation. It shall be invested for maximum long-  
16 term return. Investments shall be made in accordance with the standards  
17 observed by men of ordinary prudence, discretion, intelligence, and  
18 experience, when investing, and not speculating with, their own funds.  
19 Income becomes part of the fund. Market value of the fund will be  
20 determined quarterly. During the first three years of operation of the  
21 fund an amount equal and limited to five per cent of its average market  
22 value shall be withdrawn from the fund annually and thereafter be  
23 subject to appropriation for general purposes. The average market  
24 value will be calculated as the arithmetic mean of the market value  
25 of the fund considering the immediately passed quarter-end, and as the  
26 history of operation of the fund permits, up to but not exceeding the  
27 11 quarters immediately preceding the most recent quarter-end. After  
28 three years of operations of the fund an amount, subject to the minimum  
29 and maximum limitations noted below, equal to one-half of the amount

1 by which the most recent market value of the fund exceeds the market  
2 value of the fund at its inception as adjusted to compensate for the  
3 potential eroding effects of inflation, shall be withdrawn from the  
4 fund annually and thereafter be subject to appropriation for general  
5 purposes. The adjustment to compensate for the potential eroding  
6 effects of inflation shall be equal to the percentage by which the  
7 Consumer Price Index as calculated by the Bureau of Labor Statistics  
8 has changed, between the time of inception of the fund and the time of  
9 the quarter-end for which this calculation pertains, as applied to the  
10 value of the fund at its inception. The procedure of this paragraph  
11 shall not be applied if such adjustment results in an adjusted fund  
12 value less than the value of the fund at its inception. The withdrawal  
13 of funds as provided for above shall be constrained by a minimum and  
14 maximum amount. The minimum amount shall be equal to five per cent of  
15 the average market value of the fund. The maximum amount shall be equal  
16 to 10 per cent of the average market value of the fund. The average  
17 market value shall be calculated as the arithmetic mean of the market  
18 value of the fund considering the immediately passed quarter, and as  
19 the history of the fund permits, up to but not exceeding the 11 quarters  
20 immediately preceding the most recent quarter-end. No other withdrawals  
21 may be made from the fund, except for payment of expenses of adminis-  
22 tration.

23 \* Sec. 2. The amendment proposed by this resolution shall be placed  
24 before the voters of the state at the next statewide election in conformity  
25 with sec. 1, art. XIII of the Constitution of the State of Alaska, and the  
26 state election laws.  
27  
28  
29

✓  
yes  
3/7/70  
to Russ

Original sponsor: Rules Committee by request of the Governor

BY THE RULES COMMITTEE  
BY REQUEST OF THE SPECIAL  
COMMITTEE ON INVESTMENT  
AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 404

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska resources permanent  
7 fund and providing for its administration; and pro-  
8 viding for an effective date."

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

10 \* Section 1. AS 37 is amended by adding a new chapter to read:

11 CHAPTER 12. ALASKA RESOURCES PERMANENT FUND.

12 Sec. 37.12.010. PURPOSE. The purpose of secs. 10 - 180 of this  
13 chapter is to provide a method by which funds surplus to current and  
14 foreseeable needs may be invested to appreciate as a source of future  
15 state revenues.

16 Sec. 37.12.020. ALASKA RESOURCES PERMANENT FUND. There is  
17 created a permanent fund known as the Alaska resources permanent fund  
18 to which appropriations may be made from time to time.

19 Sec. 37.12.030. ALASKA FUND INVESTMENT COMMITTEE. There is  
20 established the Alaska Fund Investment Committee composed of the  
21 commissioners of commerce and revenue, the president of the senate and  
22 another senator appointed by the president from the opposite political  
23 party, the speaker of the house and another representative appointed  
24 by the speaker from the opposite political party, three members of the  
25 public, not more than two of whom are of the same political party,  
26 knowledgeable and experienced in banking, accounting or investing,  
27 appointed by the governor. The three public members of the committee  
28 who are appointed must be confirmed by the legislature in joint session.  
29 The committee shall, at its first meeting, select a chairman and vice

1 chairman.

2 Sec. 37.12.040. TERMS OF MEMBERS APPOINTED FROM THE PUBLIC AND  
3 THEIR REMOVAL. (a) Appointed public members of the committee are  
4 appointed for six-year terms. However, the first three appointments  
5 shall be for two, four and six years respectively.

6 (b) Appointed public members of the committee, unless removed,  
7 serve until their successors are appointed and have qualified.

8 (c) An appointed public member of the committee may be removed  
9 from office by the governor, for cause, after notice and opportunity to  
10 be heard at a public hearing. A vacancy in the membership of the  
11 appointed public members of the committee occurring other than by expira-  
12 tion of a term shall be filled by the governor for the unexpired term  
13 only.

14 Sec. 37.12.050. INVESTMENT POLICY. The committee shall invest  
15 the fund with primary emphasis on long-term total return.

16 Sec. 37.12.060. MANAGEMENT STANDARDS. The committee, in managing  
17 the fund, shall exercise the judgment and care under the circumstances  
18 then prevailing which men of ordinary prudence, discretion, intelligence,  
19 and experience exercise in the management of their own affairs not in  
20 regard to speculation but in regard to the permanent disposition of  
21 their funds, considering probable income, probable appreciation, and  
22 safety of their capital.

23 Sec. 37.12.070. POWERS. The powers of the state with respect to  
24 the investments are all of the powers which a natural person has in  
25 dealing with his own property including but not limited to the power  
26 to invest, reinvest, purchase and purchase at a premium, sell and  
27 sell at less than cost, exchange, convey, transfer, lease, lease back  
28 and otherwise dispose, register securities, vote securities, give  
29 proxies, exercise conversion privileges, subscription rights and other

1 options, consent or otherwise participate in corporate reorganization  
2 or other changes affecting corporate securities, pay assessments or  
3 charges, enforce and compromise claims, make, execute, acknowledge and  
4 deliver documents of transfer, conveyances and other instruments  
5 necessary or appropriate to carry out such powers.

6 Sec. 37.12.080. FUNCTIONS OF THE COMMITTEE. The committee shall

7 (1) act as custodian of the investments and provide for  
8 their safekeeping;

9 (2) collect the interest, dividends, rents, and other  
10 income of the fund and collect principal and the proceeds of the sale  
11 of investments;

12 (3) manage the fund, and in so doing exercise the state's  
13 powers respecting the investments;

14 (4) maintain adequate accounts and records;

15 (5) prepare and submit a monthly report to the governor  
16 disclosing a detailed summary of investments purchased, sold, exchanged,  
17 conveyed, transferred, leased, and otherwise acquired or disposed of,  
18 and stating the investments acquired or disposed of, dates of trans-  
19 actions, the prices paid and received, any gain or loss, and the names  
20 of the brokers, dealers, or contractors who engaged in the transactions;

21 (6) cause an annual audit of the fund by a licensed certified  
22 public accountant who is not an employee of the state and submit the  
23 auditor's report to the governor.

24 Sec. 37.12.090. CONFLICT OF INTEREST AND PUBLIC DISCLOSURE. (a)  
25 Any member of the committee who is an employee or officer of, or who  
26 contracts with, or obtains a direct or indirect interest in any corpora-  
27 tion or other entity in which an investment is made from the fund  
28 shall disclose publicly the existence of such employment, office,  
29 contract or interest upon the acquisition of it.

1 (b) At least quarterly, each member shall file reports with the  
2 committee, to be maintained in the office of the director, as public  
3 documents, of all securities transactions in which he has engaged  
4 during the preceding 90 days.

5 (c) No member shall vote upon any question the outcome of which  
6 would affect substantially the value of any interest.

7 Sec. 37.12.100. QUORUM. Five members of the committee constitute  
8 a quorum for the conduct of business at a meeting.

9 Sec. 37.12.110. EXPENSES. The three members from the public  
10 receive no pay but are entitled to the travel expenses and per diem  
11 authorized for members of boards and commissions.

12 Sec. 37.12.120. EXECUTIVE DIRECTOR. (a) The committee shall  
13 employ an executive director who shall assist the committee with  
14 respect to the administration of the fund.

15 (b) The director is an ex officio, nonvoting member of the  
16 committee.

17 Sec. 37.12.130. CONTRACTS. (a) The committee may contract with  
18 one or more qualified persons in the state or elsewhere

19 (1) to perform the functions specified in sec. 80(1) - (3)  
20 of this chapter; except that when contracts are made with respect to  
21 the function specified in sec. 80(3) of this chapter, three or more  
22 fund managers shall be engaged and separate portions of the fund shall  
23 be allocated to each of them;

24 (2) to provide the commission with advice and other services.

25 (b) Contracts may provide for reasonable compensation and reim-  
26 bursement of expenses.

27 Sec. 37.12.140. ANNUAL DETERMINATION OF MARKET VALUE AND REPORT.  
28 In addition to the monthly reports provided for in sec. 80(5) of this  
29 chapter, at the end of each fiscal year, after deducting from the fund

1 for the purpose of computation the expenses of administration of that  
2 year, the committee shall determine the market value, capital gains  
3 and losses and dividend income of the fund and submit a report of its  
4 findings to the governor and each legislature.

5 Sec. 37.12.150. REPORTS. Reports of the committee provided for  
6 by secs. 80(5) and 140 of this chapter are public 30 days after they  
7 are filed.

8 Sec. 37.12.160. WITHDRAWALS. (a) Expenses of administration  
9 shall be paid out of the fund.

10 (b) Sixty days after the end of each fiscal year, whether or not  
11 provided by income and capital appreciation, an amount in cash, or  
12 securities at market value as of the date of transfer, or both, equal  
13 and limited to five per cent of the mean average of the determined  
14 market value of the fund at the end of that fiscal year and the deter-  
15 mined market values of the fund at the ends of the two (necessarily,  
16 none and one, at the ends of the first and second fiscal years,  
17 respectively) preceding years shall be withdrawn from the fund and  
18 transferred to the general fund.

19 (c) There shall be no other withdrawals from the fund.

20 Sec. 37.12.170. TRANSFER TO FUND. Upon the effective date of  
21 an Act appropriating to the fund, the amount appropriated shall be  
22 transferred to the fund in cash, or securities at market value as of  
23 that date, or both.

24 Sec. 37.12.180. DEFINITIONS. In secs. 10 - 180 of this chapter

25 (1) "committee" means Alaska Fund Investment Committee;

26 (2) "expenses of administration" means the amount incurred  
27 during the fiscal year in accordance with contracts for managerial,  
28 advisory, legal, appraisal, accounting, auditing, performance evalu-  
29 ations, custodial, execution of transactions, brokerage, and other

1 services;

2 (3) "fiscal year" means the fiscal year of the fund, which  
3 is the period July 1 to June 30;

4 (4) "fund" means the Alaska resources permanent fund and  
5 includes income and capital appreciation;

6 (5) "investment manager" means a person who, for compensa-  
7 tion, engages in the business of advising others, either directly or  
8 through publications or writings, as to the value of securities or  
9 as to the advisability of investing in, purchasing, or selling  
10 securities, or who, for compensation and as a part of a regular business,  
11 issues or promulgates, analyzes or reports concerning securities, or  
12 invests in securities as agent for others;

13 (6) "investments" means the property of the fund and in-  
14 cludes cash;

15 (7) "long-term total return" means an investment policy  
16 which includes long-term capital appreciation, dividend income, plus  
17 interest income, plus realized capital gains, plus unrealized capital  
18 gains, minus realized capital losses, and minus unrealized capital  
19 losses;

20 (8) "manage", with respect to the fund, includes but is  
21 not limited to selection of classes of investments, selection of  
22 investments from within those classes, and the acquisition, retention,  
23 disposition, and exchange of investments;

24 (9) "permanent" when applied to the fund means that it  
25 shall have perpetual existence, not be subject to invasion or diversion,  
26 and be kept intact except for withdrawals as provided in sec. 160 of  
27 this chapter.

28 \* Sec. 2. This Act takes effect on the day after its passage and approval  
29 or on the day it becomes law without approval.

✓

*Myer* 3/6/70  
*to Russ*

Original sponsor: Rules Committee by request of the Governor

BY THE RULES COMMITTEE BY REQUEST OF THE SPECIAL COMMITTEE ON INVESTMENT AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 405

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act appropriating to the Alaska resources permanent fund; and providing for an effective date."  
7

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

9 \* Section 1. The sum of \$900,000,000 is appropriated from the general  
10 fund to the Alaska resources permanent fund.

11 \* Sec. 2. This Act takes effect on the day after its passage and approval  
12 or on the day it becomes law without approval.  
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2-21-70  
✓ *Ziegler*

Original sponsor: Rules Committee by  
request of the Governor

BY THE RULES COMMITTEE BY  
REQUEST OF THE SPECIAL  
COMMITTEE ON INVESTMENT  
AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE JOINT RESOLUTION NO. 74

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Consti-  
6 tution of the State of Alaska estab-  
7 lishing the Alaska Resources Permanent  
8 Fund.

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

10 \* Section 1. Article IX of the Constitution of the State of Alaska is  
11 amended by adding a new section to read:

12 Sec. 15. ALASKA RESOURCES PERMANENT FUND. The Alaska Resources  
13 Permanent Fund created by the Second Session of the Sixth Legislature,  
14 including any additions by appropriations, shall be permanent and not  
15 subject to appropriation. It shall be invested with primary emphasis  
16 on long-term total return. Investments shall be made in accordance  
17 with the standards observed by men of ordinary prudence, discretion,  
18 intelligence, and experience, when investing, and not speculating  
19 with, their own funds. Income becomes part of the fund. An amount  
20 equal and limited to five per cent of its market value shall be with-  
21 drawn from the fund annually and thereafter be subject to appropriation  
22 for general purposes. No other withdrawals may be made from the fund,  
23 except for payment of expenses of administration.

24 \* Sec. 2. The amendment proposed by this resolution shall be placed  
25 before the voters of the state at the next state-wide election in conformity  
26 with sec. 1. art. XIII of the Constitution of the State of Alaska, and the  
27 state election laws.  
28  
29

Hold

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senator Rettig  
 Subject:  
 APPRO -- Permanent Fund - Hellstrand  
memorial  
 Drafter Russ  
 Assigned by Russ  
 Date in 1/28/74 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 Instructions to typist

Special Instructions

Per attached

**OBJECT OF LEGISLATIVE ACTION**  
Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.  
Resolution  
 \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

**SOURCES OF LAW AND FACT**  
 \_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

**INTERPRETATION**  
 \_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

**LEGAL CHECK**  
 \_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

**DRAFTING CHECK**  
 \_\_\_ Organize bill.  
 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and internal references.

**ADVICE AND CONSULTATION**  
 \_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

✓  
Nye  
3/6/70  
to Rules

Original sponsor: Rules Committee by request of the Governor

BY THE RULES COMMITTEE BY REQUEST OF THE SPECIAL COMMITTEE ON INVESTMENT AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 405

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act appropriating to the Alaska resources permanent fund; and providing for an effective date."

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

9 \* Section 1. The sum of \$900,000,000 is appropriated from the general  
10 fund to the Alaska resources permanent fund.

11 \* Sec. 2. This Act takes effect on the day after its passage and approval  
12 or on the day it becomes law without approval.

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*Hald*

BILL AND RESOLUTION REQUEST

Request for Bill  
 By Senator Rettig  
 Subject:  
PERMANENT FUND -- Earl D. Hillstrand  
*7*  
*memorial fund*  
 Drafter Russ  
 Assigned by Russ  
 Date in 1/28/74 Due on ASAP

Recorded \_\_\_\_\_  
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Instructions to typist

Special Instructions  
 Per attached

OBJECT OF LEGISLATIVE ACTION

Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.  
Resolution  
 \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

SOURCES OF LAW AND FACT

\_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
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 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

INTERPRETATION

\_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

LEGAL CHECK

\_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

DRAFTING CHECK

\_\_\_ Organize bill.  
 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and interal references.

ADVICE AND CONSULTATION

\_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

✓  
yes  
3/7/70  
to Russ

Original sponsor: Rules Committee by request of the Governor

BY THE RULES COMMITTEE  
BY REQUEST OF THE SPECIAL  
COMMITTEE ON INVESTMENT  
AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 404

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska resources permanent  
7 fund and providing for its administration; and pro-  
8 viding for an effective date."

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

10 \* Section 1. AS 37 is amended by adding a new chapter to read:

11 CHAPTER 12. ALASKA RESOURCES PERMANENT FUND.

12 Sec. 37.12.010. PURPOSE. The purpose of secs. 10 - 180 of this  
13 chapter is to provide a method by which funds surplus to current and  
14 foreseeable needs may be invested to appreciate as a source of future  
15 state revenues.

16 Sec. 37.12.020. ALASKA RESOURCES PERMANENT FUND. There is  
17 created a permanent fund known as the Alaska resources permanent fund  
18 to which appropriations may be made from time to time.

19 Sec. 37.12.030. ALASKA FUND INVESTMENT COMMITTEE. There is  
20 established the Alaska Fund Investment Committee composed of the  
21 commissioners of commerce and revenue, the president of the senate and  
22 another senator appointed by the president from the opposite political  
23 party, the speaker of the house and another representative appointed  
24 by the speaker from the opposite political party, three members of the  
25 public, not more than two of whom are of the same political party,  
26 knowledgeable and experienced in banking, accounting or investing,  
27 appointed by the governor. The three public members of the committee  
28 who are appointed must be confirmed by the legislature in joint session.  
29 The committee shall, at its first meeting, select a chairman and vice

1 chairman.

2 Sec. 37.12.040. TERMS OF MEMBERS APPOINTED FROM THE PUBLIC AND  
3 THEIR REMOVAL. (a) Appointed public members of the committee are  
4 appointed for six-year terms. However, the first three appointments  
5 shall be for two, four and six years respectively.

6 (b) Appointed public members of the committee, unless removed,  
7 serve until their successors are appointed and have qualified.

8 (c) An appointed public member of the committee may be removed  
9 from office by the governor, for cause, after notice and opportunity to  
10 be heard at a public hearing. A vacancy in the membership of the  
11 appointed public members of the committee occurring other than by expira-  
12 tion of a term shall be filled by the governor for the unexpired term  
13 only.

14 Sec. 37.12.050. INVESTMENT POLICY. The committee shall invest  
15 the fund with primary emphasis on long-term total return.

16 Sec. 37.12.060. MANAGEMENT STANDARDS. The committee, in managing  
17 the fund, shall exercise the judgment and care under the circumstances  
18 then prevailing which men of ordinary prudence, discretion, intelligence,  
19 and experience exercise in the management of their own affairs not in  
20 regard to speculation but in regard to the permanent disposition of  
21 their funds, considering probable income, probable appreciation, and  
22 safety of their capital.

23 Sec. 37.12.070. POWERS. The powers of the state with respect to  
24 the investments are all of the powers which a natural person has in  
25 dealing with his own property including but not limited to the power  
26 to invest, reinvest, purchase and purchase at a premium, sell and  
27 sell at less than cost, exchange, convey, transfer, lease, lease back  
28 and otherwise dispose, register securities, vote securities, give  
29 proxies, exercise conversion privileges, subscription rights and other

1 options, consent or otherwise participate in corporate reorganization  
2 or other changes affecting corporate securities, pay assessments or  
3 charges, enforce and compromise claims, make, execute, acknowledge and  
4 deliver documents of transfer, conveyances and other instruments  
5 necessary or appropriate to carry out such powers.

6 Sec. 37.12.080. FUNCTIONS OF THE COMMITTEE. The committee shall

7 (1) act as custodian of the investments and provide for  
8 their safekeeping;

9 (2) collect the interest, dividends, rents, and other  
10 income of the fund and collect principal and the proceeds of the sale  
11 of investments;

12 (3) manage the fund, and in so doing exercise the state's  
13 powers respecting the investments;

14 (4) maintain adequate accounts and records;

15 (5) prepare and submit a monthly report to the governor  
16 disclosing a detailed summary of investments purchased, sold, exchanged,  
17 conveyed, transferred, leased, and otherwise acquired or disposed of,  
18 and stating the investments acquired or disposed of, dates of trans-  
19 actions, the prices paid and received, any gain or loss, and the names  
20 of the brokers, dealers, or contractors who engaged in the transactions;

21 (6) cause an annual audit of the fund by a licensed certified  
22 public accountant who is not an employee of the state and submit the  
23 auditor's report to the governor.

24 Sec. 37.12.090. CONFLICT OF INTEREST AND PUBLIC DISCLOSURE. (a)  
25 Any member of the committee who is an employee or officer of, or who  
26 contracts with, or obtains a direct or indirect interest in any corpora-  
27 tion or other entity in which an investment is made from the fund  
28 shall disclose publicly the existence of such employment, office,  
29 contract or interest upon the acquisition of it.

1 (b) At least quarterly, each member shall file reports with the  
2 committee, to be maintained in the office of the director, as public  
3 documents, of all securities transactions in which he has engaged  
4 during the preceding 90 days.

5 (c) No member shall vote upon any question the outcome of which  
6 would affect substantially the value of any interest.

7 Sec. 37.12.100. QUORUM. Five members of the committee constitute  
8 a quorum for the conduct of business at a meeting.

9 Sec. 37.12.110. EXPENSES. The three members from the public  
10 receive no pay but are entitled to the travel expenses and per diem  
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13 employ an executive director who shall assist the committee with  
14 respect to the administration of the fund.

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16 committee.

17 Sec. 37.12.130. CONTRACTS. (a) The committee may contract with  
18 one or more qualified persons in the state or elsewhere

19 (1) to perform the functions specified in sec. 80(1) - (3)  
20 of this chapter; except that when contracts are made with respect to  
21 the function specified in sec. 80(3) of this chapter, three or more  
22 fund managers shall be engaged and separate portions of the fund shall  
23 be allocated to each of them;

24 (2) to provide the commission with advice and other services.

25 (b) Contracts may provide for reasonable compensation and reim-  
26 bursement of expenses.

27 Sec. 37.12.140. ANNUAL DETERMINATION OF MARKET VALUE AND REPORT.  
28 In addition to the monthly reports provided for in sec. 80(5) of this  
29 chapter, at the end of each fiscal year, after deducting from the fund

1 for the purpose of computation the expenses of administration of that  
2 year, the committee shall determine the market value, capital gains  
3 and losses and dividend income of the fund and submit a report of its  
4 findings to the governor and each legislature.

5 Sec. 37.12.150. REPORTS. Reports of the committee provided for  
6 by secs. 80(5) and 140 of this chapter are public 30 days after they  
7 are filed.

8 Sec. 37.12.160. WITHDRAWALS. (a) Expenses of administration  
9 shall be paid out of the fund.

10 (b) Sixty days after the end of each fiscal year, whether or not  
11 provided by income and capital appreciation, an amount in cash, or  
12 securities at market value as of the date of transfer, or both, equal  
13 and limited to five per cent of the mean average of the determined  
14 market value of the fund at the end of that fiscal year and the deter-  
15 mined market values of the fund at the ends of the two (necessarily,  
16 none and one, at the ends of the first and second fiscal years,  
17 respectively) preceding years shall be withdrawn from the fund and  
18 transferred to the general fund.

19 (c) There shall be no other withdrawals from the fund.

20 Sec. 37.12.170. TRANSFER TO FUND. Upon the effective date of  
21 an Act appropriating to the fund, the amount appropriated shall be  
22 transferred to the fund in cash, or securities at market value as of  
23 that date, or both.

24 Sec. 37.12.180. DEFINITIONS. In secs. 10 - 180 of this chapter

25 (1) "committee" means Alaska Fund Investment Committee;

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27 during the fiscal year in accordance with contracts for managerial,  
28 advisory, legal, appraisal, accounting, auditing, performance evalu-  
29 ations, custodial, execution of transactions, brokerage, and other

1 services;

2 (3) "fiscal year" means the fiscal year of the fund, which  
3 is the period July 1 to June 30;

4 (4) "fund" means the Alaska resources permanent fund and  
5 includes income and capital appreciation;

6 (5) "investment manager" means a person who, for compensa-  
7 tion, engages in the business of advising others, either directly or  
8 through publications or writings, as to the value of securities or  
9 as to the advisability of investing in, purchasing, or selling  
10 securities, or who, for compensation and as a part of a regular business,  
11 issues or promulgates, analyzes or reports concerning securities, or  
12 invests in securities as agent for others;

13 (6) "investments" means the property of the fund and in-  
14 cludes cash;

15 (7) "long-term total return" means an investment policy  
16 which includes long-term capital appreciation, dividend income, plus  
17 interest income, plus realized capital gains, plus unrealized capital  
18 gains, minus realized capital losses, and minus unrealized capital  
19 losses;

20 (8) "manage", with respect to the fund, includes but is  
21 not limited to selection of classes of investments, selection of  
22 investments from within those classes, and the acquisition, retention,  
23 disposition, and exchange of investments;

24 (9) "permanent" when applied to the fund means that it  
25 shall have perpetual existence, not be subject to invasion or diversion,  
26 and be kept intact except for withdrawals as provided in sec. 160 of  
27 this chapter.

28 \* Sec. 2. This Act takes effect on the day after its passage and approval  
29 or on the day it becomes law without approval.

Hold

BILL AND RESOLUTION REQUEST

Request for Resolution  
 By Senator Rettig  
 Subject:  
 PERMANENT FUND -- Earl D. Hillstrand  
 ↑  
*memorial fund*  
 Drafter Russ  
 Assigned by Russ  
 Date in 1/28/74 Due on ASAP

Recorded   
 Draft 1 2 3 4 5 6 FINAL  
 OK for final \_\_\_\_\_  
 Deliver to Rettig  
 Date delivered \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Instructions to typist

Special Instructions  
 Per attached

**OBJECT OF LEGISLATIVE ACTION**  
Bill  
 \_\_\_ Determine appropriate AS section, chapter or title (including latest supplement) to amend. Legislator may specify.  
 \_\_\_ Check with revisor of statutes concerning section numbering.  
Resolution  
 \_\_\_ Use special resolution request work form for basic facts and addressees. Record and proceed on this form.

**SOURCES OF LAW AND FACT**  
 \_\_\_ Journals and Legislative Reporting Service for previous session bills.  
 \_\_\_ Check with agency concerned (with requestor's permission).  
 \_\_\_ Laws of other states.  
 \_\_\_ Bar Foundation Bill Reporting Service.  
 \_\_\_ Publication "Suggested State Legislation."  
 \_\_\_ Professional and industrial groups and services (with requestor's permission).  
 \_\_\_ Alaska Delegation newsletters.  
 \_\_\_ Other \_\_\_\_\_

**INTERPRETATION**  
 \_\_\_ AS annotations.  
 \_\_\_ Shepard's Citations.  
 \_\_\_ Alaska Attorney General Opinions.  
 \_\_\_ Legal Reference Works.

**LEGAL CHECK**  
 \_\_\_ Constitutional aspects considered.  
 \_\_\_ Conformity with one-subject rule.  
 \_\_\_ Law not local or special unless general will not suffice.  
 \_\_\_ Subject reflected in title.  
 \_\_\_ Alaska Supreme Court rules checked for 2/3 majority vote requirement.

**DRAFTING CHECK**  
 \_\_\_ Organize bill.  
 \_\_\_ Provide effective date clause if effective date other than constitutional; reference to in title;  
 \_\_\_ Style, grammar, and words.  
 \_\_\_ Read three times: 1 - for meaning; 2 - for clarity and simplicity; and 3 - for loopholes or misapplication.  
 \_\_\_ Recheck AS citations and interal references.

**ADVICE AND CONSULTATION**  
 \_\_\_ Confer with appropriate staff members.  
 \_\_\_ Consult with legislator.  
 \_\_\_ Advise revisor of final numbering.  
 \_\_\_ Make recommended changes.  
 \_\_\_ Submit for final approval.

4-23  
J. C. Miller

✓

Original sponsor: Rules Committee by request of the Governor

1 IN THE SENATE

BY THE SPECIAL COMMITTEE ON INVESTMENT AND MONETARY POLICY

2 CS FOR SENATE JOINT RESOLUTION NO. 74

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the  
6 Constitution of the State of Alaska  
7 establishing the Alaska Resources  
8 Permanent Fund.

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

10 \* Section 1. Article IX of the Constitution of the State of Alaska is  
11 amended by adding a new section to read:

12 SECTION 15. ALASKA RESOURCES PERMANENT FUND. The Alaska Resources  
13 Permanent Fund created by the Second Session of the Sixth Legislature,  
14 including any additions by appropriations, shall be permanent and  
15 not subject to appropriation. It shall be invested for maximum long-  
16 term return. Investments shall be made in accordance with the standards  
17 observed by men of ordinary prudence, discretion, intelligence, and  
18 experience, when investing, and not speculating with, their own funds.  
19 Income becomes part of the fund. Market value of the fund will be  
20 determined quarterly. During the first three years of operation of the  
21 fund an amount equal and limited to five per cent of its average market  
22 value shall be withdrawn from the fund annually and thereafter be  
23 subject to appropriation for general purposes. The average market  
24 value will be calculated as the arithmetic mean of the market value  
25 of the fund considering the immediately passed quarter-end, and as the  
26 history of operation of the fund permits, up to but not exceeding the  
27 11 quarters immediately preceding the most recent quarter-end. After  
28 three years of operations of the fund an amount, subject to the minimum  
29 and maximum limitations noted below, equal to one-half of the amount

1 by which the most recent market value of the fund exceeds the market  
2 value of the fund at its inception as adjusted to compensate for the  
3 potential eroding effects of inflation, shall be withdrawn from the  
4 fund annually and thereafter be subject to appropriation for general  
5 purposes. The adjustment to compensate for the potential eroding  
6 effects of inflation shall be equal to the percentage by which the  
7 Consumer Price Index as calculated by the Bureau of Labor Statistics  
8 has changed, between the time of inception of the fund and the time of  
9 the quarter-end for which this calculation pertains, as applied to the  
10 value of the fund at its inception. The procedure of this paragraph  
11 shall not be applied if such adjustment results in an adjusted fund  
12 value less than the value of the fund at its inception. The withdrawal  
13 of funds as provided for above shall be constrained by a minimum and  
14 maximum amount. The minimum amount shall be equal to five per cent of  
15 the average market value of the fund. The maximum amount shall be equal  
16 to 10 per cent of the average market value of the fund. The average  
17 market value shall be calculated as the arithmetic mean of the market  
18 value of the fund considering the immediately passed quarter, and as  
19 the history of the fund permits, up to but not exceeding the 11 quarters  
20 immediately preceding the most recent quarter-end. No other withdrawals  
21 may be made from the fund, except for payment of expenses of adminis-  
22 tration.

23 \* Sec. 2. The amendment proposed by this resolution shall be placed  
24 before the voters of the state at the next statewide election in conformity  
25 with sec. 1, art. XIII of the Constitution of the State of Alaska, and the  
26 state election laws.  
27  
28  
29

2-24-70  
J. Ziegler

Original sponsor: Rules Committee by  
request of the Governor

BY THE RULES COMMITTEE BY  
REQUEST OF THE SPECIAL  
COMMITTEE ON INVESTMENT  
AND MONETARY POLICIES

1 IN THE SENATE

2 CS FOR SENATE JOINT RESOLUTION NO. 74

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Consti-  
6 tution of the State of Alaska estab-  
7 lishing the Alaska Resources Permanent  
8 Fund.

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

10 \* Section 1. Article IX of the Constitution of the State of Alaska is  
11 amended by adding a new section to read:

12 Sec. 15. ALASKA RESOURCES PERMANENT FUND. The Alaska Resources  
13 Permanent Fund created by the Second Session of the Sixth Legislature,  
14 including any additions by appropriations, shall be permanent and not  
15 subject to appropriation. It shall be invested with primary emphasis  
16 on long-term total return. Investments shall be made in accordance  
17 with the standards observed by men of ordinary prudence, discretion,  
18 intelligence, and experience, when investing, and not speculating  
19 with, their own funds. Income becomes part of the fund. An amount  
20 equal and limited to five per cent of its market value shall be with-  
21 drawn from the fund annually and thereafter be subject to appropriation  
22 for general purposes. No other withdrawals may be made from the fund,  
23 except for payment of expenses of administration.

24 \* Sec. 2. The amendment proposed by this resolution shall be placed  
25 before the voters of the state at the next state-wide election in conformity  
26 with sec. 1. art. XIII of the Constitution of the State of Alaska, and the  
27 state election laws.  
28  
29