ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 3072

458 SCOM 13: JOINT COMM. ON GAS PIPELINE IMPACT 1974-76 458

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 Martin for negotiation —

Banking bill

J O U R N A L

S U P P L E M E N T

February 19, 1974 HOUSE No. 12

"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 fpr 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 Apendices 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 recommentdations 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

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

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 Development & 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 degreee 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 crossexamine 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 crossexamining 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

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

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 Development & 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 McCollum, 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

February 3, 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 Development & 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

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 Gross 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 Gross 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 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 [illegible]rs for state participation. Lee McAnerney, Ernst Mueller a[illegible]m Brooks stated that their departments would like to pre[illegible]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

bcc: S. Sagalkin, Fred Boness, Jon Tillinghast

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH X — STATE CAPITOL
JUNEAU 99801

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 Development & 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 approximatley 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 thay 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 segement 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 segement 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-North 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 submition 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

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99801

February 11, 1975

M E M O R A N D U M

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.

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

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
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 Development & 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

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 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 Saga[illegible]in 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

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99801

March 21, 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
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 Development & 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 pipeline	-	-	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 Alyeska Route	-	-	75	480
3. 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 (821)
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

M E M O R A N D U M

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 liquefication 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, solufluction 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 <u>at least</u> 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' <u>pro forma</u> 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 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 <u>minimum</u> 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. <u>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.</u>

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 differenc 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 <u>any</u> 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. <u>A Recommended State Position.</u>

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

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 renumeration or to other types of renumeration 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 aired 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 renumerations 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 translation 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 committment 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 ofpolicy 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 fora 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 statuatory 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 catylitic 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 inactive 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 policyeven more critical for what gas remains elsewhere. Gas discovered elsewhere, perhaps closer to the urban areas, would even be more super critial 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 unequivocable 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 imput 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 priorites 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 consel 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 to 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 construct ion 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 not 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 been presented as a possibility?

BEV: We are aware of that 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 dame 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 <u>Governor's Special Gas Policy Committee</u>...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 develope 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 develope 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 develope 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 develope 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 committe?

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 developes 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. Iwas 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 underwrit 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 analsis 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 committment to use in Alaska and the FPC looks at that condition committment, 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 theFPC 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 barrelis 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 with held 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 develope the gas at Prudhoe Bay in exchange for a committment 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 proprietory 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 ball park 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 it's 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 revived 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 the're doing and develope 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 develope 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 onstaff, 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 specificinvitations 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 oppostion, so ordered.

The meeting was adjourned at 1:40 p.m.