

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

459 SCOMM13: JOINT COMM. ON GAS PIPELINE IMPACT 1974-76

NOT FOR QUOTATION

MAP POLICY APPLICATIONS

[Man in the Arctic Program]

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INTRODUCTION

The initial set of projections carried out using the MAP models concentrated on analysis of alternative petroleum development scenarios. There are, of course, a variety of other types of policy actions which can be analyzed through use of the MAP models. The projections presented here provide four illustrative examples of policy applications using the MAP models.

The first policy application considers the implication of placing varying proportions of the state petroleum revenues into an investment trust fund for use in the future. The second application projects the impact of using petroleum revenues to eliminate personal income taxes in Alaska. The third application estimates the economic impact of a proposed state lease sale in the Beaufort Sea. This is an example of how the MAP models can be used to evaluate a very specific policy action or project. The fourth and final policy application is also a type of project analysis. It analyzes the economic impacts of the alternative proposed gas pipelines bringing natural gas from the North Slope. The gas pipeline analysis is carried out using the regional economic models rather than the statewide model which was used in the first three policy applications.

MAP POLICY APPLICATION: ALTERNATIVE FISCAL SAVING POLICIES

It is apparent that the growth of the Alaska economy will be influenced significantly by the fiscal policies of the state government. A key policy decision that must be made concerns the amount of money, if any, that is to be saved out of the massive petroleum revenues accruing to the state. In the projections used to analyze the alternative petroleum development scenarios, it was assumed that the fiscal saving rate was a fixed proportion of petroleum revenues. In particular, it was assumed that 25 percent of recurrent revenues were saved and 50 percent of petroleum bonuses were saved. The saving took the form of deposits into an investment trust fund, the interest from which was then used to finance current expenditures.

The projection presented here will examine the implications of alternative fiscal saving rates. A high saving rate case is considered in which 75 percent of recurrent revenues are saved and 100 percent of bonus are saved; the low (or zero) saving rate case assumes that none of the petroleum revenues are saved; and the medium saving rate case uses the same rate as in the previous projections, namely 25 percent of recurrent revenues and 50 percent of bonuses.

In all, five separate projections are made. All of them assume a well-head price for oil of \$5 a barrel. Three of the projections are based on the accelerated petroleum development scenario used in conjunction with the three alternative fiscal saving rates. The other two projections are extreme cases: the first uses the maximum development scenario in conjunction with the zero fiscal saving rate and the second uses the limited development scenario in conjunction with the high fiscal saving rate.

As would be expected, the high saving rate produces a slower growth in the Alaska economy, and the zero saving produces more rapid growth. Some selected summary measures for the five different projections are shown in the attached table and the population projections are shown in the attached figure. In 1990 under the accelerated development scenario, the high fiscal saving rate produces a projected population which is 64 thousand persons lower than under the medium fiscal saving rate. The zero fiscal saving rate produces a projected population which is 33 thousand persons larger in 1990.

Most measures of aggregate economic activity display very similar patterns of change in response to changes in the fiscal saving policy. Under the accelerated petroleum development scenario, the zero fiscal saving rate produces 1990 increases of 4.6 percent in population, 4.1 percent in employment, 4.0 in personal income, and 3.7 percent in disposable personal income. Since the policy change being studied is centered on the government sector, the impact there is somewhat larger; expenditures of state and local government increase by 7.6 percent in 1990. On the other hand, the increase in real gross state product was relatively modest, only 2.0 percent. This was because the economic expansion induced by the additional state spending tended to be concentrated in those sectors with relatively low labor productivity, namely in trade, finance, services, and state and local government. The induced expansion in total employment in 1990 was 14.7 thousand persons, of this trade, finance, and services accounted for 47 percent and state and local government accounted for another 37 percent.

When one moves from aggregate measures to per capita measures, the impact of the zero fiscal saving appears in a very different light. Real disposable personal income per capita is actually lower with zero fiscal saving than it was with medium fiscal saving. However, public sector expenditures per capita are higher under the zero saving rate. On balance, these two changes very nearly cancel out. As shown in the attached table, real disposable personal income plus real state and local government expenditures per capita are just slightly higher, about 0.7 percent, under the zero fiscal saving than under the medium saving. Thus, for the typical individual living in Alaska, the use of all petroleum revenues for current expenditures produces an insignificant increase in real economic benefits.

A further point which should be stressed is that by the end of the period, the projected rate of growth is actually slower under the assumption of zero fiscal saving than under the medium fiscal saving. This is attributable to the difference in the accumulated general fund balance and in the interest accruing on that balance. As shown in the table, by 1990 the medium fiscal saving produces a general fund balance of \$6.8 billion while the zero fiscal saving case produces a general fund balance of only \$1.1 billion. (The accumulated general fund balance in the zero fiscal saving case is viewed as a general contingency reserve and is accumulated out of non petroleum revenues. This type of fiscal saving is held at the same level in all the cases considered.) Because of the larger general fund balance, the state interest income in 1990 is nearly \$360 million larger under medium fiscal saving than under zero fiscal saving. Furthermore, the difference in interest income is tending to

widen over time. As a result, state government expenditures, though at a lower level, are growing more rapidly in the medium saving case. This, in turn, induces a more rapid growth in general economic activities. Thus, a key impact of fiscal saving is to shift some of Alaska's rapid economic growth from the early years of the period to the later years of the period. Selection of the appropriate set of fiscal saving policies is one way of smoothing out Alaska's petroleum induced "boom-bust" cycle.

The impact of implementing a high fiscal saving policy is roughly the mirror image of the impact of the zero fiscal saving policy. That is, under high fiscal saving the magnitude of the expansion in the Alaska economy is smaller, but in the later years of the period, the growth rate is substantially higher. By 1990, the high fiscal saving policies produce a general fund balance in excess of \$18 billion and an annual interest income for the state of \$1.1 billion.

The two extreme cases included in the projections serve to illustrate the degree to which fiscal policies and petroleum policies are interactive. The impacts of the two types of policies are not additive. For example, under the maximum petroleum development scenario, the zero fiscal saving case produces a 1990 population projection of 957 thousand persons. That is 49 thousand persons more than the comparable projections under the medium fiscal saving case. In contrast, under the accelerated petroleum development scenario, shifting from medium to zero fiscal saving produced an increase in projected population of only 33 thousand persons. The change in fiscal policy has a larger impact under the maximum petroleum development scenario because the change is applied to a larger amount of petroleum revenue. Conversely, a given change in the fiscal saving rate has a smaller impact under the limited petroleum development scenario.

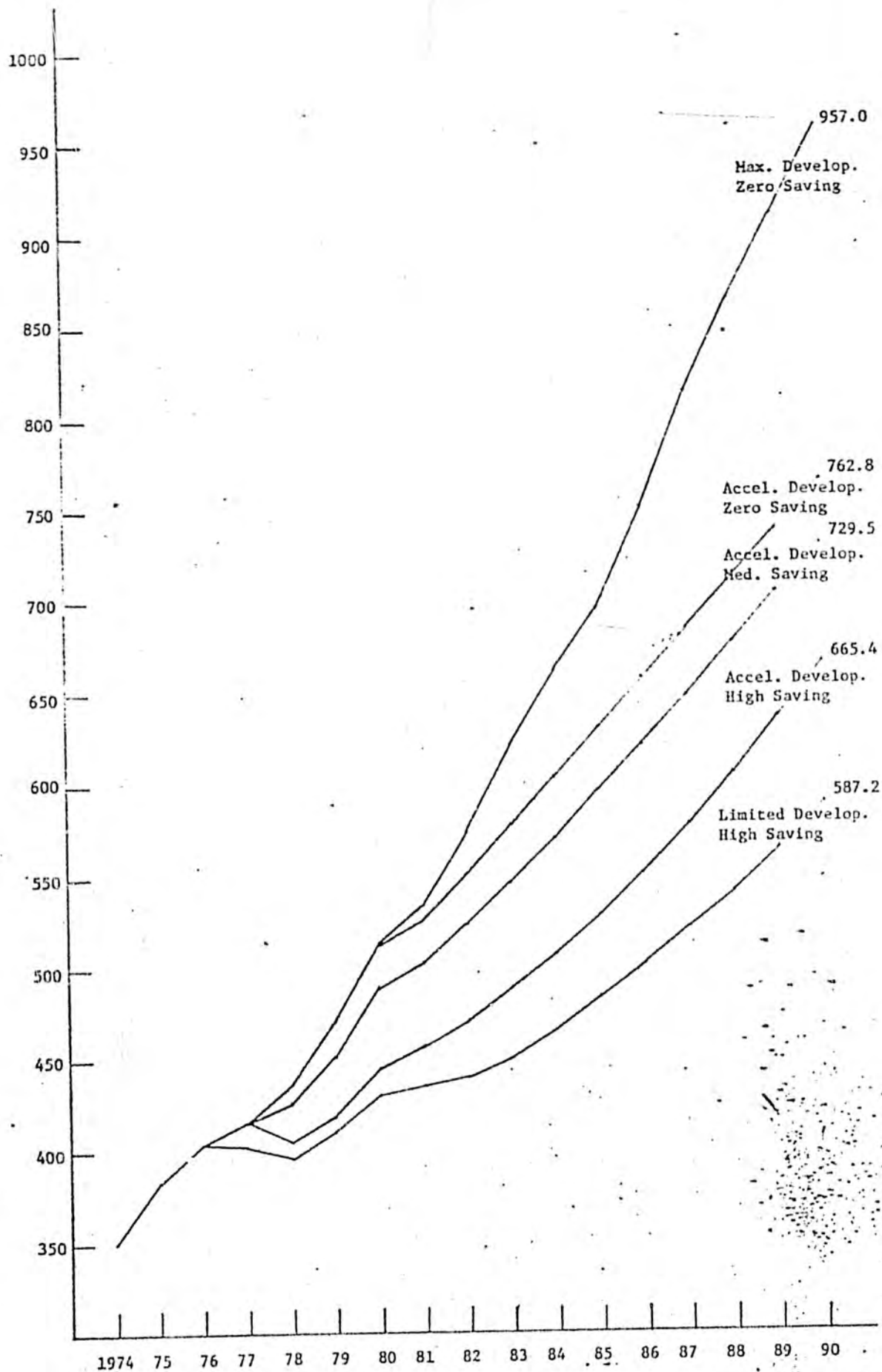
ALTERNATIVE FISCAL SAVING POLICIES
PROJECTED 1990 VALUES FOR SELECTED VARIABLES

		<u>UNITS</u>	<u>Accelerated Development Med. Saving</u>	<u>Accelerated Development High Saving</u>	<u>Accelerated Development Zero Saving</u>	<u>Maximum Development Zero Saving</u>	<u>Limited Development High Saving</u>
X	Total Output	(Millions of 1958 \$)	5728.2	5510.8	5843.3	10253.0	4015.2
E	Total Employment	(Thousands of Persons)	356.7	328.7	371.4	490.9	286.7
POP	Total Population	(Thousands of Persons)	729.5	665.4	762.8	577.0	587.2
PI	Personal Income	(Millions of \$)	12390.0	11442.4	12887.2	16988.1	9972.4
PIPC	Personal Income Per Capita	(\$)	16983.3	17195.1	16895.7	17751.0	16983.9
DIRPA	Real Disposable Personal Income Per Capita	(1967 \$)	3296.1	3355.5	3270.3	3371.5	3345.6
RP9S	State Government Total Petroleum Sector Revenue	(Millions of \$)	2339.0	2339.0	2339.0	2940.0	1685.0
SLGEXP	State-Local Government Expenditures	(Millions of \$)	6190.3	5280.9	6662.0	9074.3	4361.4
GFBAL	State Government General Fund Balance	(Millions of \$)	6807.5	18136.0	1093.3	1693.3	14896.3
SLGEXP/POP	State-Local Government Expenditures Per Capita	(\$)	8485.7	7936.4	8733.6	9482.0	7427.4
DIRPA + SLGEXP/POP RPI	Real Disposable Personal Income plus Real State- Local Government Expendi- tures Per Capita	(1967 \$)	5603.9	5513.9	5645.5	5950.2	5365.6

ALTERNATIVE FISCAL SAVING POLICIES

PROJECTED POPULATION

(Thousands
of Persons)



MAP POLICY APPLICATION: IMPACT OF A REDUCTION IN STATE PERSONAL INCOME TAXES

A reduction in state personal income taxes is frequently suggested as an appropriate use of the petroleum revenues that will be accruing to the state of Alaska. In the projection presented here, it is assumed that state personal income taxes are reduced by 25 percent in 1978, by 50 percent in 1979, and are eliminated completely from 1980 on. It is further assumed that this tax cut is financed through a reduction in state fiscal saving rather than through a reduction in state expenditure. Except for these policy changes, the assumptions are the same as those used in the accelerated petroleum development scenario with the price of oil at \$5 a barrel. The attached figures and table show the differences between that scenario and the projection made after implementing the cut in state personal income taxes.

As shown in Figure 1, the 1990 increase in projected employment is 40.4 thousand and the increase in population is 86.7 thousand persons. As would be expected, the increase in personal income has produced an increase in job opportunities in Alaska and has induced a substantial increase in migration into the state. From 1980 on, net migration into the state is from three to eight thousand persons more per year than was the case in the absence of the tax cut.

It is particularly noteworthy that with an increase in total employment of over 40 thousand in 1990, less than 2,800 of this is in state and local government. Thus, the use of petroleum revenues to cut personal income

taxes serves to focus more of Alaska's growth on the private sector rather than on the public sector. Much of the growth induced by the tax cut is concentrated in the support sector and particularly in the trade, finance, and service industries. The projected gain in employment in those three industries in 1990 is over 29 thousand persons or about 72 percent of the total increase in employment. As before, the increase referred to is relative to the employment projected in the absence of the tax cut.

As shown in the attached table, the general fund balance in 1990 is \$3.7 billion lower with the tax cut. The lower general fund balance reflects the fact that the tax cut is assumed to be financed out of reduced fiscal saving. The lower general fund balance in turn results in a state interest income which is nearly \$220 million lower in 1990. However, because of the induced increase in general economic activity, most other sources of state revenue are higher. This combined with the fact that the cut in personal income taxes is financed through a reduction in fiscal saving means that state expenditures are almost the same as in the absence of a tax cut; state expenditures are less than \$20 million lower in 1990. With state expenditures remaining almost the same and with a general expansion in economic activity, local government revenues, and therefore expenditures, are higher with the tax cut. The net effect is to increase state and local government expenditures by \$240 million in 1990.

The cut in state personal income taxes naturally has the effect of increasing disposable personal income much more than personal income. Thus, in 1990 real personal income increases by 9.6 percent while real dis-

posable personal income increases by 15.4 percent. On a per capita basis, the contrast between the two measures is even sharper. With the tax cut, real personal income per capita is actually lower in 1990 by 2.1 percent, while real disposable personal income per capita is higher by 3.2 percent (see Figure 2.)

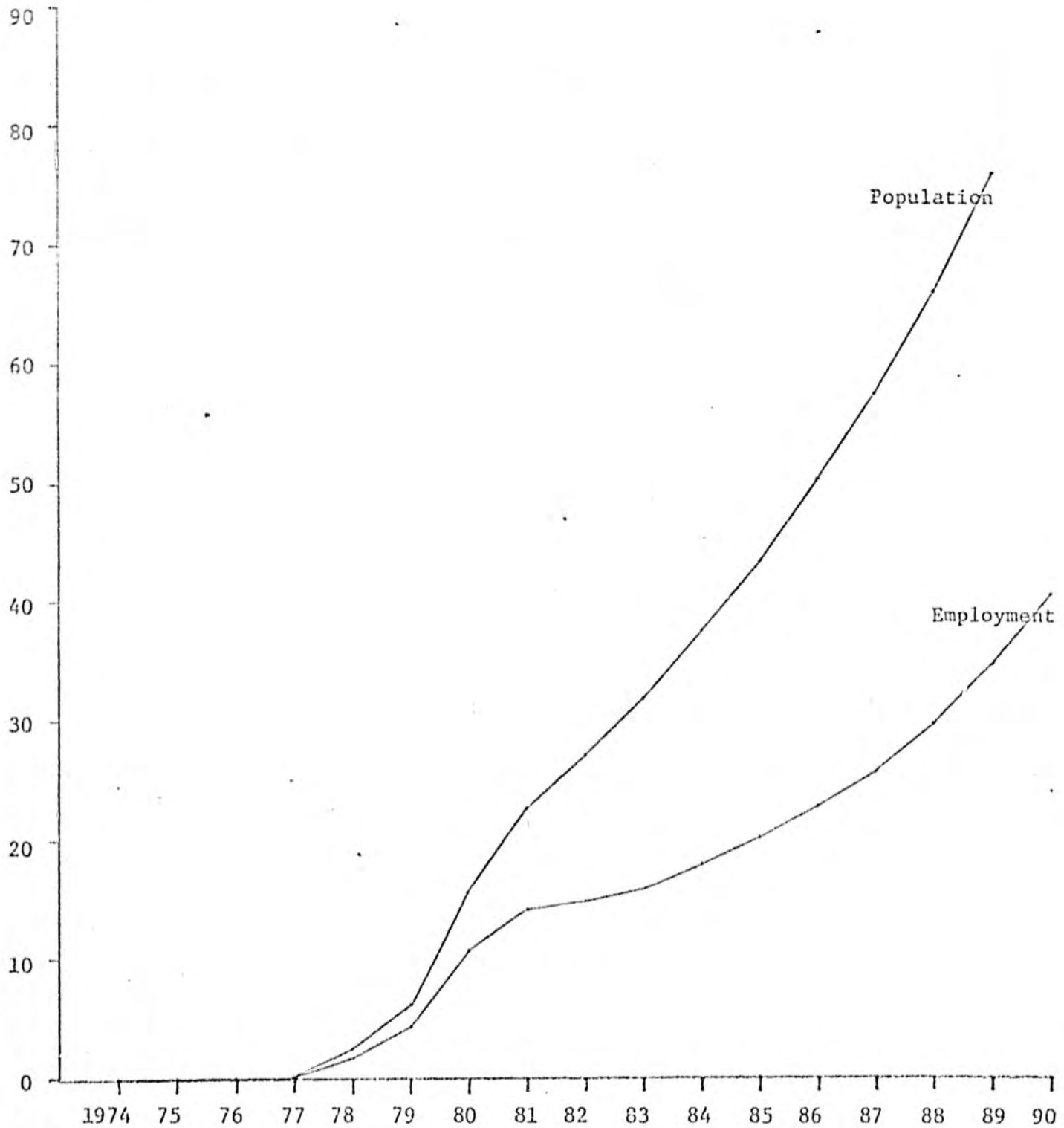
The increase in population induced by the gain in disposable personal income is so large that state and local government expenditures per capita declined substantially; they are over 7 percent lower in 1990. Thus, the increase in population more than offsets the increase in total state and local government spending. Furthermore, real disposable personal income plus real state and local government expenditures per capita are lower by 1.1 percent in 1990. This implies that for the typical individual in Alaska, real personal income plus real public services are, on balance, lower after the tax cut than they were before the tax cut. While the analysis is by no means conclusive at this point, it does raise some questions concerning the efficacy of across-the-board tax cuts as a means of distributing the benefits of Alaska's economic growth.

Figure 1

POPULATION AND EMPLOYMENT IMPACT OF A REDUCTION

IN STATE PERSONAL INCOME TAXES*

(Thousands
of Persons)

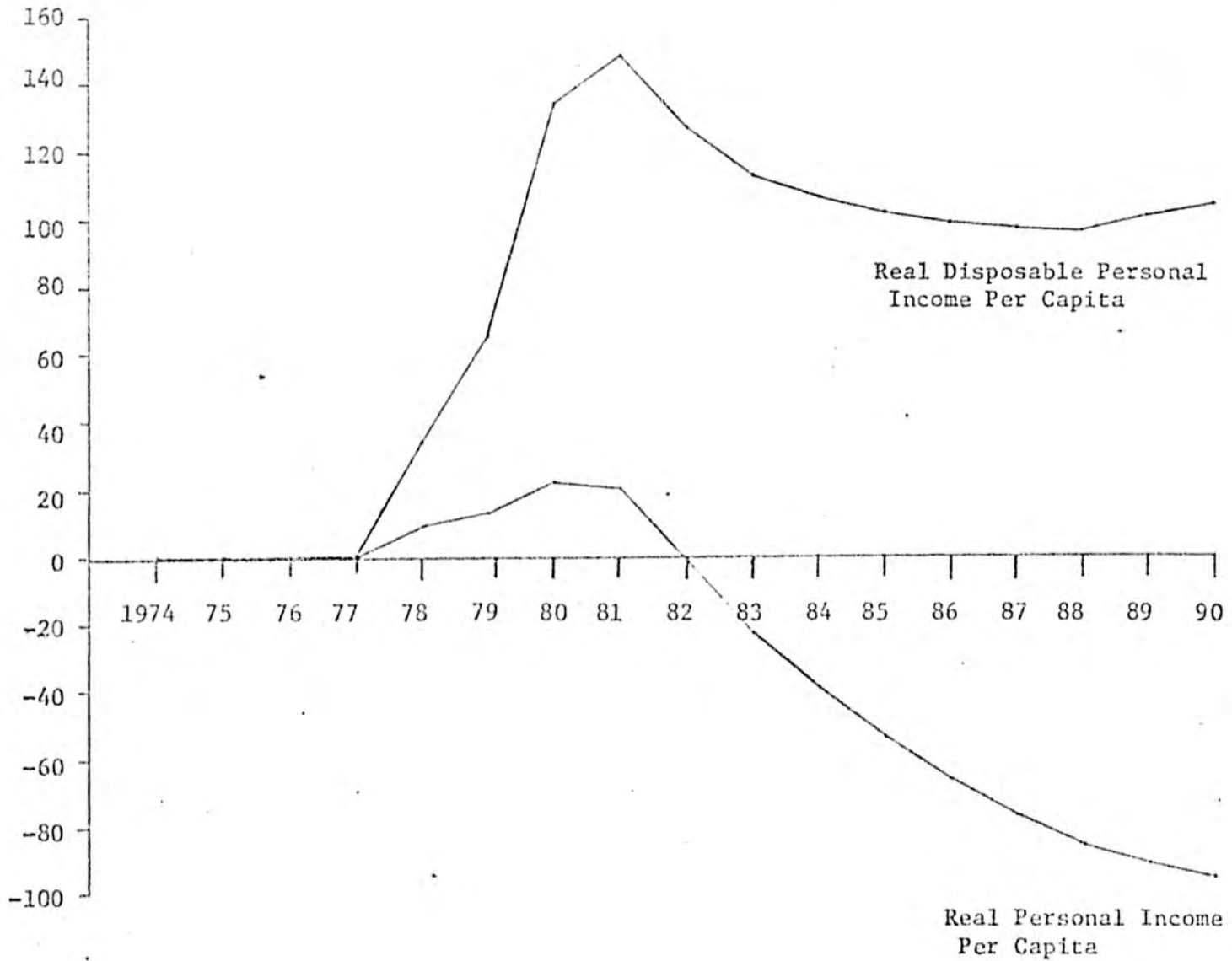


*The impact is measured as the change from the results obtained in the absence of the tax reduction.

Figure 2

PERSONAL INCOME IMPACT OF A REDUCTION IN
STATE PERSONAL INCOME TAXES*

(1967 Dollars)



*The impact is measured as the change from the results obtained in the absence of the tax reduction.

FISCAL SUMMARY

MILLIONS OF DOLLARS

	F99S	R99S	RTIS	RP9S	RINS	GF9AL	F99L	R99L	RSIL	SLGESP
74	-0.001	-0.001	-0.001	0.0	0.0	0.0	-0.000	-0.000	-0.000	-0.001
75	-0.001	-0.001	-0.001	0.0	0.0	0.0	-0.001	-0.000	-0.000	-0.002
76	-0.002	-0.002	-0.002	0.0	0.0	0.0	-0.001	-0.001	-0.000	-0.003
77	-0.003	-0.003	-0.002	0.0	0.0	0.0	-0.001	-0.002	-0.001	-0.004
78	-0.003	-28.968	-28.967	0.0	0.0	-20.965	-0.001	-0.002	-0.001	-0.004
79	2.245	-62.677	-63.592	0.0	-2.028	-53.687	4.840	4.856	0.379	6.767
80	4.457	-153.548	-154.585	0.0	-6.572	-251.892	12.565	12.685	0.718	16.304
81	11.926	-184.091	-186.905	0.0	-17.632	-447.909	34.666	35.181	1.881	44.711
82	10.162	-196.656	-194.038	0.0	-31.354	-654.727	47.886	48.717	1.549	56.499
83	1.235	-227.907	-214.704	0.0	-45.831	-883.868	53.574	54.678	0.184	54.624
84	-6.885	-269.869	-264.204	0.0	-61.871	-1146.853	62.756	64.307	-1.001	56.872
85	-13.249	-312.292	-278.653	0.0	-80.280	-1445.896	77.410	79.615	-1.890	66.050
86	-19.694	-361.735	-317.442	0.0	-101.213	-1787.936	95.732	98.833	-2.755	78.793
87	-24.057	-414.053	-359.710	0.0	-125.155	-2177.971	121.328	125.715	-3.313	100.586
88	-27.404	-472.203	-407.513	0.0	-192.458	-2622.772	153.594	159.731	-3.719	129.914
89	-26.783	-535.107	-461.922	0.0	-183.594	-3131.100	197.603	204.354	-3.582	174.480
90	-19.906	-558.996	-520.546	0.0	-219.177	-3710.191	258.135	270.453	-2.626	240.855

AGGREGATE STATISTICS

	X	F	FC	PI	PIDAR	PIPC	DPI	DPIR	DIPRA	WS	WR	RPI	POP	POPM	POPC	POPN
74	-0.003	-0.000	-0.000	-0.002	-0.001	-0.004	-0.003	-0.005	-0.002	-0.007	-0.004	0.008	0.0	0.0	0.0	0.0
75	-0.004	-0.000	-0.000	-0.006	-0.003	-0.008	-0.005	-0.008	-0.004	-0.006	-0.005	0.0	0.0	0.0	-0.000	0.0
76	-0.004	-0.000	-0.000	-0.009	-0.004	-0.012	-0.005	-0.009	-0.006	-0.006	-0.007	0.0	0.0	0.0	-0.000	0.0
77	-0.005	-0.001	-0.001	-0.010	-0.004	-0.008	-0.003	-0.012	-0.007	-0.007	-0.008	0.0	0.0	0.0	-0.001	0.0
78	20.106	1.505	1.505	30.862	13.310	21.596	5.406	51.171	22.069	34.927	26.776	-16.609	0.0	2.354	0.0	0.0
79	45.861	4.443	4.443	75.871	31.493	31.434	13.047	118.977	49.386	65.302	65.968	-37.340	0.0	6.212	0.0	0.0
80	112.178	10.815	10.815	192.855	77.051	56.785	22.603	293.972	117.426	134.528	168.183	-96.309	0.0	15.511	0.0	0.0
81	143.408	14.156	14.156	267.664	102.889	52.223	20.072	384.251	147.694	148.403	233.691	-131.445	0.0	22.681	0.0	0.0
82	149.474	14.841	14.841	255.383	102.255	-4.563	-1.687	413.426	152.916	127.410	258.293	-146.020	0.0	27.004	0.0	0.0
83	162.680	15.507	15.507	332.621	110.364	-67.297	-23.945	460.113	163.732	112.296	291.355	-169.051	0.0	31.818	0.0	0.0
84	184.566	17.908	17.908	391.820	134.215	-115.488	-39.563	533.258	182.663	107.403	343.770	-200.156	0.0	37.484	0.0	0.0
85	206.887	20.125	20.125	459.452	151.454	-166.090	-54.746	613.793	202.313	101.672	403.828	-233.191	0.0	43.360	0.0	0.0
86	236.508	22.957	22.957	549.855	174.420	-209.555	-66.465	716.180	227.166	99.560	484.078	-274.082	0.0	50.156	0.0	0.0
87	280.258	26.059	26.059	656.054	200.234	-253.547	-77.379	833.434	254.357	97.502	578.516	-318.730	0.0	57.427	0.0	0.0
88	308.137	29.058	29.058	792.926	232.894	-293.555	-86.223	977.027	286.968	97.867	700.328	-373.445	0.0	65.841	0.0	0.0
89	358.055	34.892	34.892	972.027	274.705	-323.961	-91.551	1156.477	326.832	100.603	859.883	-437.070	0.0	75.755	0.0	0.0
90	412.848	40.613	40.613	1187.219	322.077	-349.934	-95.168	1365.620	371.450	104.063	1051.052	-505.449	0.0	86.724	0.0	0.0

MAP POLICY APPLICATION: IMPACT OF BEAUFORT SEA LEASE SALE

The state of Alaska has recently proposed making a petroleum lease sale in the Beaufort Sea just north of Prudhoe Bay. Although not required by law to do so, the state has, in preparation for such a sale, prepared a draft environmental assessment of the impacts of the sale. As part of this environmental assessment (EA) the state estimated the economic impact that would be caused by the exploration, development and production in the Beaufort field. In the projection presented here, the MAP models are used to carry out somewhat more comprehensive analysis of the impact of the Beaufort lease sale.

The economic impact of the Beaufort Lease sale can be attributed to three different types of direct effects: (1) the bonus from the lease sale, (2) the recurrent state revenues due to production in the Beaufort field, and (3) the direct employment required to develop and operate the Beaufort field. The method of analysis used here is to make a projection based on a petroleum development scenario which excludes the Beaufort Lease sale. The petroleum development scenario is then expanded to include the Beaufort Lease sale, a second projection is made, and the results of the two projections are compared. Since the only difference in the input data for the two projections is the direct effect of the Beaufort Lease sale, the differences in the results are measures of the total impact of the lease sale.

The base from which the impacts are measured consist of a set of projections derived from the limited petroleum development scenario with two modifications: (1) the Beaufort Lease sale has been excluded from the

scenario and (2) petroleum revenues other than bonuses have been increased by an amount equal to the lease sale. The second modification is designed to reflect the existing situation in Alaska. Until the North Slope oil starts to flow, the state is confronted with a "fiscal gap"; that is state revenues are not sufficient to support current expenditure levels. Since it is unlikely that the state will cut back on spending, additional sources of revenues will have to be found to close the fiscal gap. The Beaufort Lease sale is one possible source of additional revenue. However, if the Beaufort Lease sale is not made, some alternative source of revenue will be necessary. In practice, the recently enacted tax on petroleum reserves is likely to provide the necessary gap-closing revenue. The assumption made here is that if the Beaufort Lease sale is not made, some alternative means of raising an equivalent amount of revenue will be found so that the net revenue impact of the bonus from the lease sale will be negligible.

In adding the Beaufort Lease sale to the petroleum development scenario, two different sets of estimates of employment and revenue impacts are used. The first set is the one that has been included in the MAP scenario and the second set is derived from the state EA. Both sets of estimates are shown in the attached table. In general, the direct impact as estimated by the EA is substantially larger than the direct impact included in the MAP scenario.

The Beaufort Lease sale impacts on employment and population as projected by the MAP model are shown in the attached figures. The figures also show estimates of the total impacts which were included in the EA itself.

The total impact of the Beaufort Lease sale as estimated by the EA is very low despite the fact that the EA includes high estimates of direct employment and revenue. There are two reasons underlying the seemingly contradictory results. First, the analysis in the EA looks only at short-run impacts, it does not take into account the cumulative long-run growth effects of the Beaufort Lease sale. Second, the EA ignores the effects of the revenues generated by production in the Beaufort area. The MAP models do, of course, take into account the long-run growth effects and the effects of the additional revenues.

When the MAP models are used in conjunction with the state's estimates of direct employment and revenue, the Beaufort Lease sale is projected to increase Alaska's 1990 employment by 14 thousand persons and population by 30 thousand persons. In contrast the MAP estimates of direct employment and revenues produce projected impacts of just 8.2 thousand and 16.5 thousand respectively. However, even the lower impacts are several times as large as the total impacts shown in the EA.

BEAUFORT LEASE SALE:

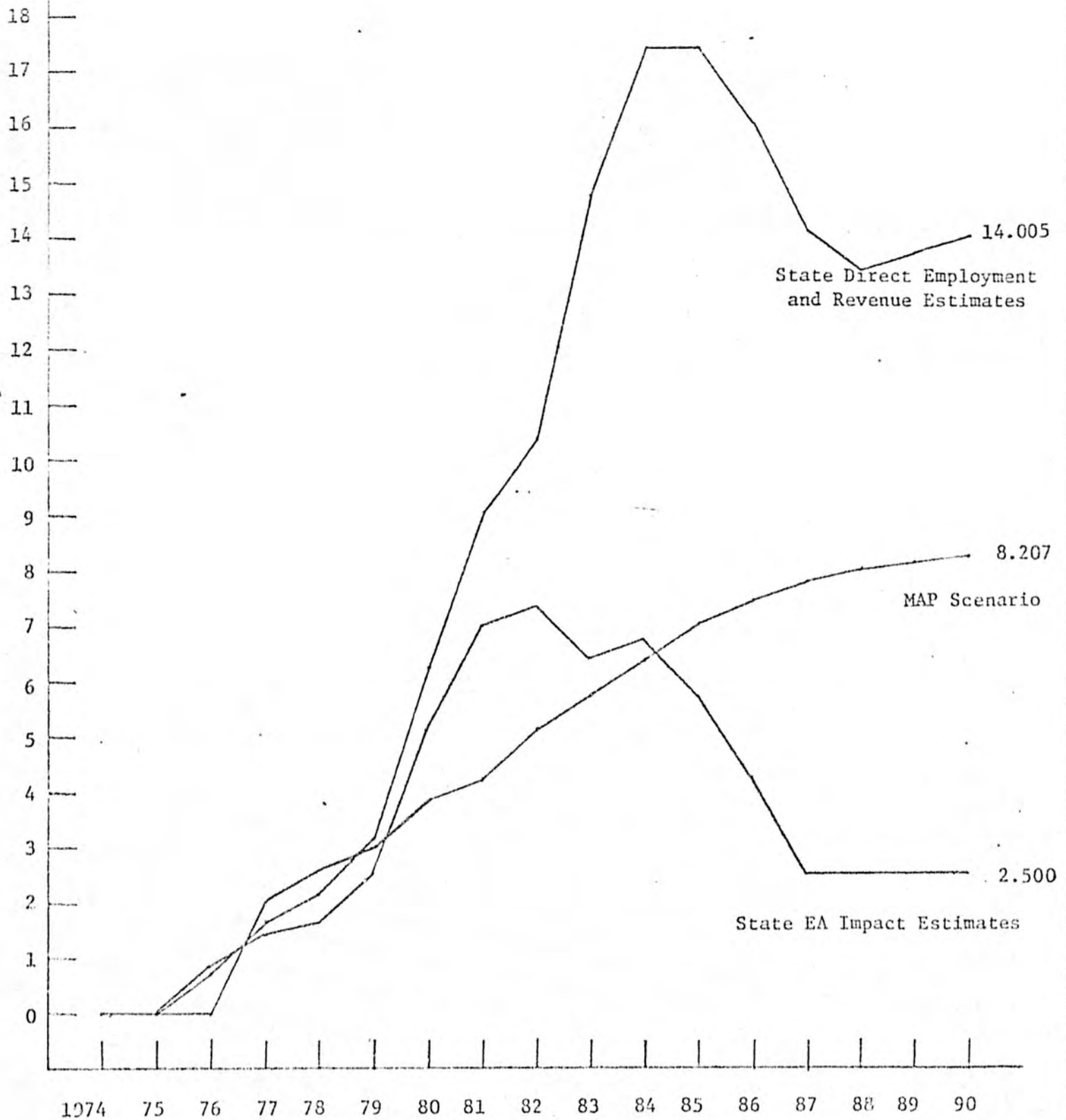
DIRECT EMPLOYMENT AND REVENUE IMPACTS

	<u>Petroleum Construction and Mining Employment</u>		<u>Recurrent Revenues</u>	
	<u>EA</u>	<u>MAP</u>	<u>EA</u>	<u>MAP</u>
1976	0.3	0	----	----
1977	0.6	0.8	----	----
1978	0.7	0.8	----	----
1979	1.0	0.9	----	----
1980	2.1	0.9	1.4	13.0
1981	2.8	0.7	1.6	40.0
1982	3.0	0.6	166.2	77.1
1983	2.6	0.4	175.8	107.9
1984	2.8	0.4	185.0	123.4
1985	2.3	0.4	195.0	138.8
1986	1.7	0.3	205.0	154.2
1987	1.0	0.3	205.0	154.2
1988	1.0	0.3	205.0	154.2
1989	1.0	0.3	205.0	154.2
1990	1.0	0.3	205.0	154.2

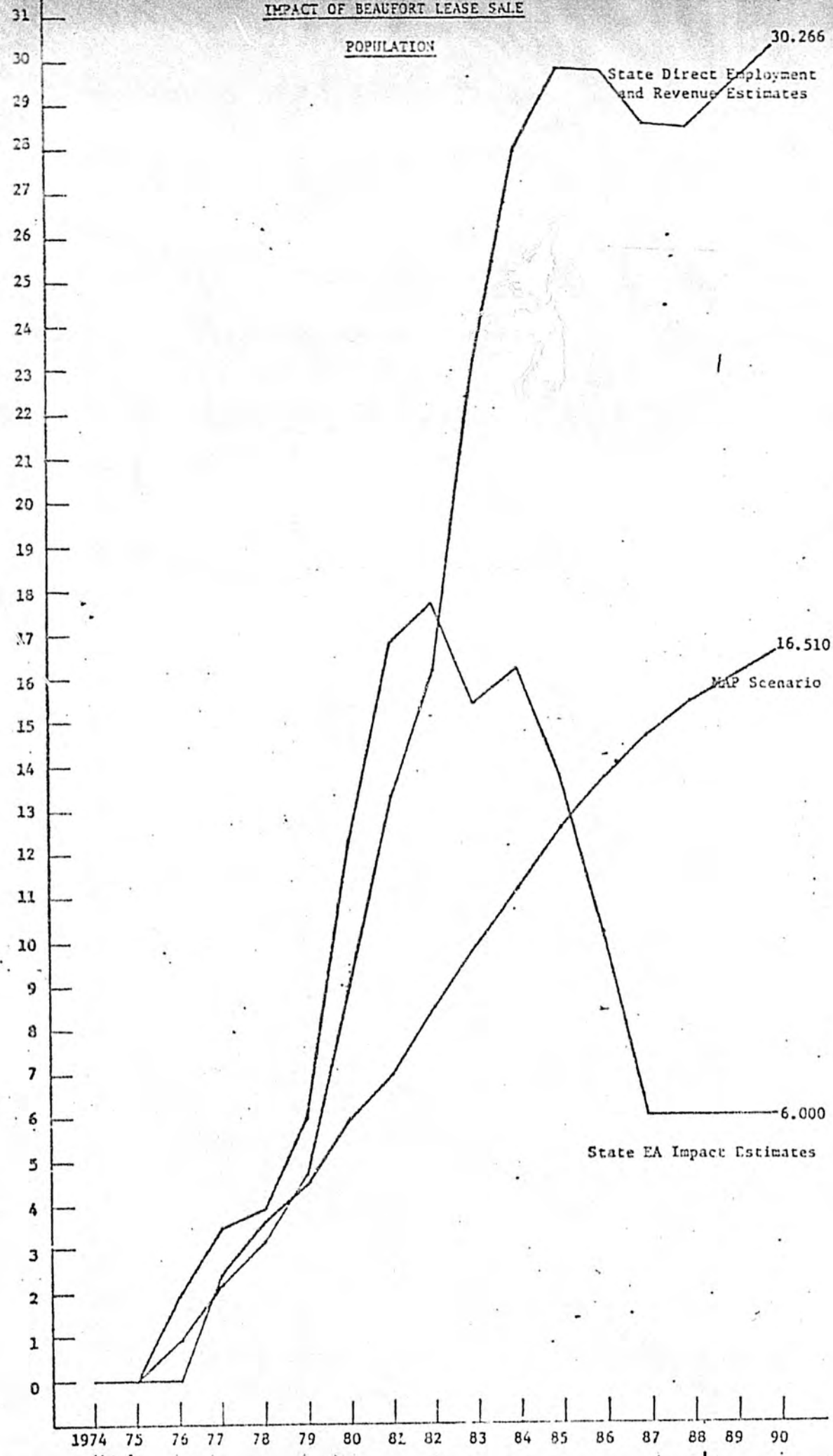
IMPACT OF BEAUFORT LEASE SALE

EMPLOYMENT

Thousands
of Persons)



IMPACT OF BEAUFORT LEASE SALE



MAP POLICY APPLICATION: IMPACTS OF ALTERNATIVE GAS PIPELINE ROUTES
ON THE ALASKAN ECONOMY

There are at present two principal proposed systems for transporting natural gas from Alaska's North Slope to the continental United States. The first system, proposed by the Arctic Gas consortium, would be an all-land pipeline leading from Prudhoe Bay through Canada to the midwestern United States. The second system, proposed by the El Paso Alaska Company, would consist of a trans-Alaska pipeline and then shipment by LNG tanker to the U.S. West Coast.

Clearly, the alternative proposed gas transportation systems would have significantly different impacts on the Alaskan economy. The MAP regional economic-demographic model makes it possible to evaluate the economic impact on Alaska in terms of the induced change in total employment, industrial production, population, wages, personal income, and government revenues for each region and the state as a whole. The estimates of the differing impacts can be made in the context of the overall growth and development of the Alaska economy.

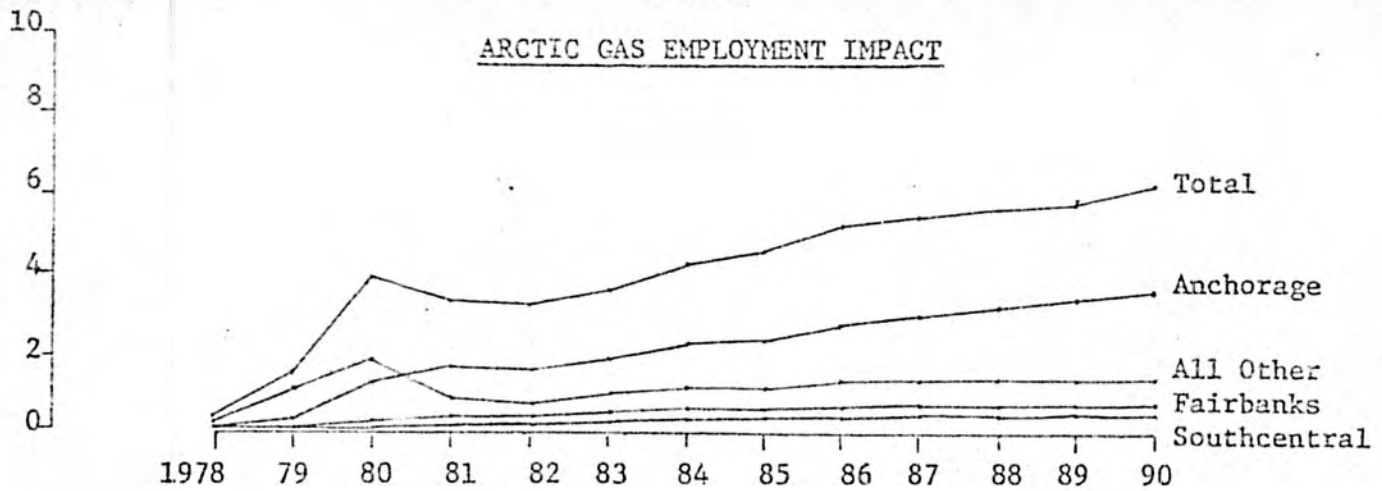
Figures 1 and 2, and Table 1 show the differing regional and state impacts of the El Paso and Arctic pipelines for population, employment, and wages and salaries. Because of its much larger magnitude, the impact of the El Paso project is much greater in all regions than is the impact of the Arctic Gas project. Perhaps the most notable feature of the regional projections is that the bulk of the impact occurs in Anchorage, even though neither project passes through Anchorage itself. This emphasizes just how important Anchorage is as the commercial center of Alaska.

Except during the peak of the El Paso boom, well over half of the total impact is concentrated in the Anchorage region. In terms of population, the El Paso proposal would increase Anchorage's 1990 population by almost 17 thousand persons, and the Arctic Gas proposal would increase the population by 7 thousand persons. As shown in Figure 4-1, the El Paso Anchorage employment impact peaks at 7 thousand persons in 1981, declines to 5 thousand persons in 1984, and then rise gradually as the Alaskan economy grows. Although these changes are not insignificant, they should be measured against projections of Anchorage's early 1980's population of 250,000, and a labor force above 100,000.

Both the absolute and relative magnitudes of the differences between the two gas pipeline proposals are much more significant in the Southcentral region. The construction of the El Paso facilities creates a boom-bust cycle in the Southcentral region, while the Arctic Gas project has almost no effect. During the peak construction year of 1980, the Southcentral employment impact of the El Paso project would be 10 thousand persons. This represents an increase of more than one-third in the regional labor force. This impact fall rapidly to just 1.6 thousand persons by 1983.

The projections and analysis presented here are just a few of the results reported in "Impact on the Alaska Economy of Alternative Gas Pipelines" by ISEGR. They demonstrate the applicability and utility of the MAP regional economic-demographic model.

Figure 1



EL PASO GAS EMPLOYMENT IMPACT

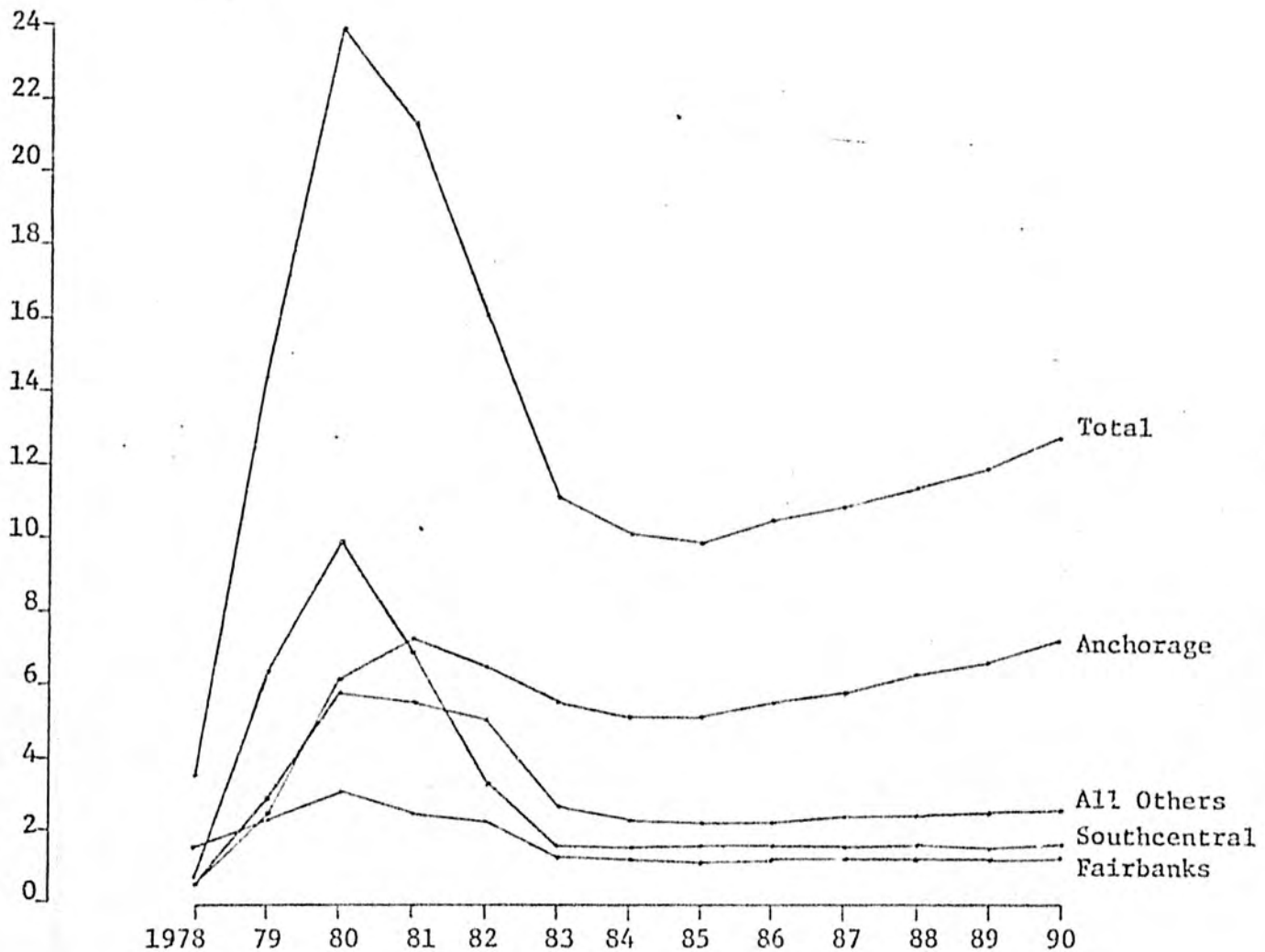
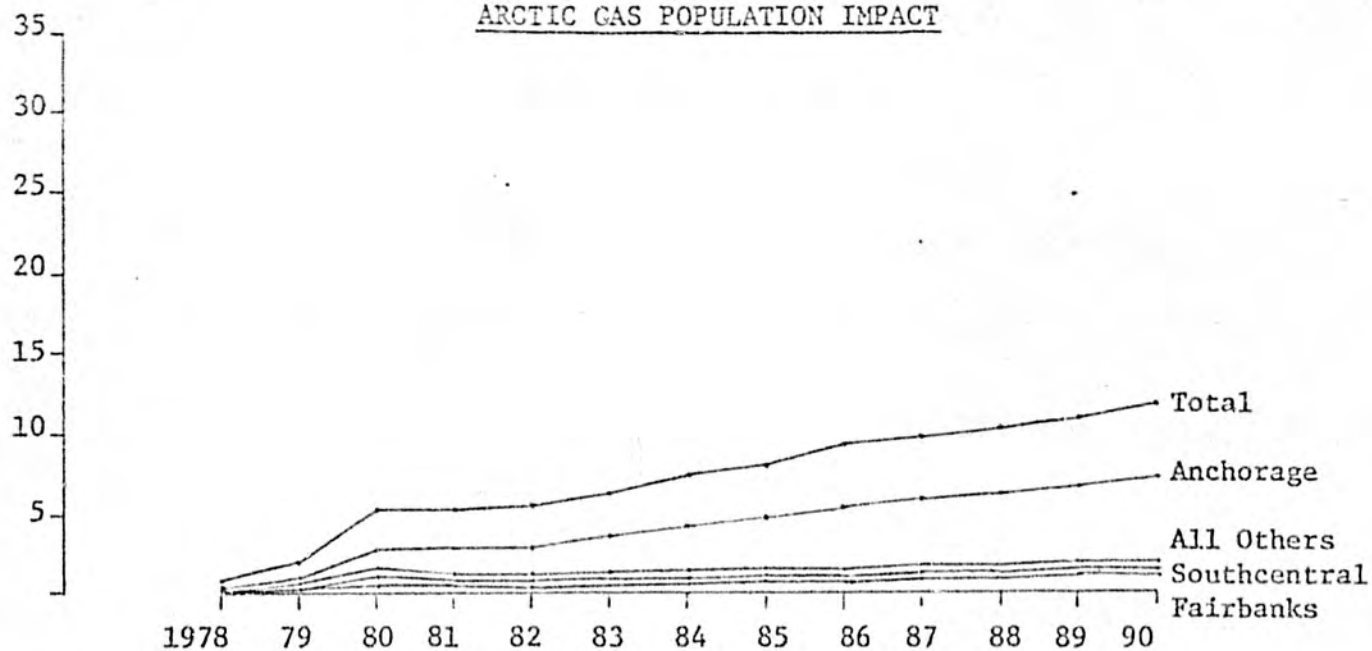


Figure 2

ARCTIC GAS POPULATION IMPACT



EL PASO GAS POPULATION IMPACT

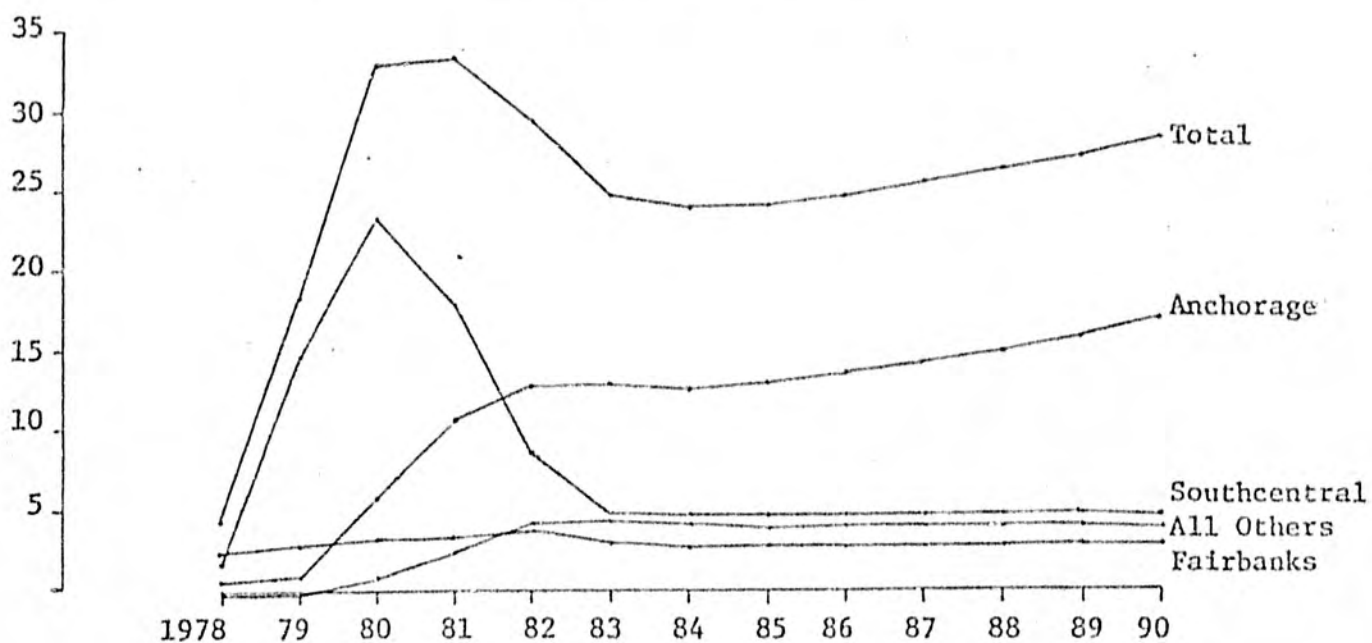


Table 1

REAL WAGES AND SALARIES
(Millions of 1958 Dollars)

	<u>Total</u>	<u>Anchorage</u>	<u>Southcentral</u>	<u>Fairbanks</u>	<u>All Other</u>
	<u>A R C T I C G A S</u>				
1978	3.7	0.7	0.1	0.1	2.8
1979	14.2	2.1	0.3	0.3	11.5
1980	32.0	9.6	1.8	2.2	18.4
1981	23.4	11.3	2.4	3.0	6.7
1982	23.1	11.2	2.4	2.9	6.6
1983	26.9	13.4	2.7	3.4	7.4
1984	31.8	16.1	3.2	3.9	8.6
1985	34.3	17.5	3.4	4.2	9.2
1986	32.9	20.6	3.8	4.7	10.1
1987	41.9	22.2	4.0	5.0	10.8
1988	44.2	23.7	4.2	5.2	11.1
1989	46.6	25.4	4.3	5.4	11.5
1990	49.7	27.6	4.5	5.7	11.9

	<u>E L P A S O</u>				
1978	29.6	4.0	6.5	13.2	5.9
1979	118.5	16.6	53.1	21.0	27.9
1980	194.0	41.7	83.5	26.0	42.8
1981	166.5	51.2	57.9	20.3	37.2
1982	124.2	45.9	26.7	18.8	32.8
1983	83.7	39.7	12.8	11.2	20.0
1984	76.7	36.7	12.1	10.1	17.8
1985	76.7	37.0	12.1	10.1	15.5
1986	82.7	40.9	12.6	10.7	18.5
1987	87.2	43.7	13.0	11.1	19.4
1988	92.1	47.1	13.4	11.5	20.1
1989	98.2	51.1	13.9	12.0	21.2
1990	105.5	56.2	14.4	12.7	22.2

M E M O R A N D U M

TO: Members of the Joint Gas Pipeline Impact Committee

FROM: Gregg Erickson, Special Consultant

SUBJ: Analysis and recommendations resulting from work conducted 18 August through 3 September.

SUMMARY

I review the present status of Alaska Natural Gas Transportation issues and suggest that it is not yet certain that construction on any transportation system to remove natural gas from Alaska will be initiated within the next five years. If such a system is built, the choice of route could be influenced at the margin by the actions of the Alaska Legislature. Judging strictly on the basis of economics, the C.A.A.G.S. Trans-Canada Proposal is probably most cost effective, but the certainty of delay and environmental problems on this route means that a decision to go ahead as soon as possible with construction of a system will favor the Alaska route.

There are a number of circumstances under which Alaska could conceivably benefit from a delay in the production and export of the North Slope natural gas, such as a low price, a route choice that denies the state ancillary economic benefits, and/or collateral loss of oil production. It is important that Alaska establish its natural gas policy in stature at an early date so that that policy can be included in national economic calculations.

The El Paso Proposal lacks credibility but the state might be able to take certain actions to remedy this. The dedication of Alaska's royalty gas is not recommended at this time, however.

A number of recommendations are offered including:

*A suggestion that the committee take testimony from public and private experts on the Prudhoe Bay gas reservoir to determine how much, if any oil will be lost as a consequence of gas production.

*A proposal that the committee to retain outside legal consultants for the purpose of determining the state's options with respect to control over natural gas production and export.

*A suggestion that the committee attend the Congressional Oversight Hearings on Alaska Natural Gas Transportation issues

scheduled for October 9th.

THE FUNDAMENTAL NATIONAL ISSUE:

The appearance within a single month of the Interior Department's Title III 'Study of Alaskan Natural Gas Transportation Systems (prepared by the Aerospace Corporation), the draft impact statement on the Arctic Gas Project (including an approximately 600 page analysis of alternative Trans-Alaska routes), and the University of Alaska's study of the economic impact of the alternative routes on Alaska, has raised a host of new questions and provided a framework within which these issues can usefully be explored. None of these reports, however, offers any unambiguous indication of which way and/or when the gas will be removed.

The available evidence, however, including representations made by both Arctic Gas and El Paso, strongly support the proposition that a decision to build a system to transport Alaska gas to the south 48 constitutes an implicit decision to substitute relatively high cost Alaska natural gas for relatively less expensive imported oil in the period during which the pipeline is in operation. Delivered costs of Alaska gas to the burner tip in the North Central U.S. are likely to exceed \$3.00/MMBTU (approximately equal to one Mcf).

The only plausible rational for such a decision is the Project Independence rational. The question of whether or not to build a system to bring Alaska gas to the south 48 States thus becomes a question of (1) how much capital the nation is willing

to commit to attain a given degree of independence, and (2) whether or not this project is the most cost-effective approach to that goal.

Even if these questions are answered positively, the method by which the massive investment will be subsidized raises important issues of equity and public policy that have not yet been, but must eventually be, addressed at the national level. The Arctic Gas people have told us that in order to obtain financing for their project they will require guarantees from the FPC that the interstate pipeline companies contracting to take gas from the system will be allowed to pass on to their rate payers the costs of the project according to a schedule that commences with the start of construction and continues even if the systems completion should be delayed, and without regard to the actual quantities of natural gas transported or the eventual cost of the project.

The effect of such a guarantee will be to remove the project risk from the investors and place it squarely on the shoulders of the residential and small commercial ratepayers. Moreover, it insures that those same ratepayers will bear the extra costs of providing secure domestic energy for industrial users of gas who would -- absent the Alaska system -- be required to shift to more expensive (and less secure) imported fuel oil.

I don't raise these points for the purpose of arguing that the Arctic gas resource should not be developed expeditiously, but simply to emphasize the stark reality of the situation we face: OUR NATURAL GAS SIMPLY DOESN'T HAVE A VERY SUBSTANTIAL ECONOMIC VALUE AT THE PRESENT TIME. The nation does, however, seem willing

to pay a price for the political benefits of energy independence. If Alaska begins to receive within the next five years substantial direct income from gas exports to the rest of the U.S., that income will almost represent a payment for that non-economic benefit.

Maximizing the state's benefits under these circumstances will require a different sort of strategy than was appropriate in the case of our oil development. Legal and political factors must be given much greater weight in the present circumstances, and our ability to obtain substantial benefits for Alaska will depend even more importantly on the perception by others such as the FPC and Congress of Alaska's strength in these areas, the extent of our resolve in making use of those strengths, and our willingness to risk substantial loss in order to obtain a "better deal".

THE WELL HEAD PRICE:

According to the Aerospace Corporation's cost-benefit analysis of alternative routes, the oil companies owning the North Slope natural gas will not find it economically feasible to sell their gas unless they themselves can receive a net revenue of 47¢ per Mcf. Considering royalties and present tax rates, the well head price would need to be in the neighborhood of 57¢ per Mcf in order to make production for export economically feasible, if the Aerospace Study is to be believed. (The engineering-economic analysis of the Prudhoe Bay Field from which these figures were derived was done by H.J. Gruy and Associates, Inc. of Dallas, Texas, and has not yet been made available for review.)

This figure is far more than most observers had previously suspected, and if accepted, casts further doubt on the economic (but not political) viability of either project. These doubts are emphasized by the fact that sponsors of both projects have admitted that they cannot hope to obtain private financing in the absence of some sort of government guarantee or subsidy. Such a guarantee would most likely take the form of an undertaking by the FPC insuring that the prospective consumers of Alaskan gas would service the debt incurred to finance the project, regardless of the eventual cost of the facilities or any delay in completion.

Since there is an upper limit to what even residential and high value consumers would be willing to pay for gas, the FPC could conceivably find it difficult to fulfill that guarantee. If the difference between the well head price and the maximum the final consumption markets will bear is not sufficient to cover the debt service, or even if the FPC simply perceives that there is a risk of such a shortfall, the commission would have a stronger than usual incentive to reduce the price of Alaska gas.

Since the commission has regulatory authority over the well head price of interstate natural gas, they might be able to reduce that price, down to the point at which the producers no longer find it profitable to produce the gas. After the investment in field development for natural gas production has been made by the producers, the minimum price at which they would be substantially lower than the price they would have to expect in order to initiate that investment.

The net result of this would be that the oil production would end up subsidizing the gas production, and that the state's revenue from gas royalties and severance taxes would be very low indeed.

Even if the authority of the FPC would have to be stretched pretty far or legislatively expanded to accomplish such price adjustments, it is clear that the push, from a national point of view, will be for a low well head price for Natural gas, even to the extent that this forces the producers to subsidize the gas production.

Clearly the state has an interest in preventing events from unfolding in this manner. If the state were to legislatively establish a minimum well head price, or a cents-per-Mcf tax on natural gas, it could certainly guarantee its revenue.

Unfortunately, these seemingly simple solutions are fraught with problems and uncertainties. Would a cents-per-Mcf tax have to be applied statewide, and if so, how would it affect the production of gas for consumption in Alaska? Does the state have any legal authority to say to the people of the United States and the FPC "we won't allow this gas to be provided unless it's value on production exceeds a certain level?"

What ever course of action Alaska decides to take it is probably important that it move fairly quickly. For example, if the natural gas severance tax is allowed to remain at its present level the FPC and Congress may be expected to make their calculations of the economic and political feasibility of Alaska gas transportation systems based on that rate of taxation. Obviously there is a strong imperative to make a prophesy self-fulfilling

once a policy has been based on it.

The Aerospace Report also states that removal of gas from the North Slope fields will result in a 400 million barrel loss of recoverable oil over the life of the field. At present prices, tax and royalty rates, the income to the state on this production would amount to about \$800 million over the life of the field. The compensating direct revenue from the gas (at 16 1/2% of 50¢/Mcf) would be only about \$2 billion through 1990, according to the University of Alaska Study on the alternative gas pipeline impacts.

It is not clear from any of the studies now available, whether the postponement of gas production would allow the projected oil loss to be decreased or eliminated, but this is clearly an option that should not be discarded out of hand. If the transportation system most likely to be approved by Federal authorities is not viewed as most beneficial by the state, and if the value of the gas at the well head is expected to rise as time passes, then there may be very strong arguments in favor of reserving the gas, or at least the state's share of it for export at a later date, when economic conditions will presumably be more favorable.

ALASKA VS. CANADA:

In speaking of the implications of the Aerospace Study, Assistant secretary of Interior Carlson indicated that he believed any substantial (1 year or more) increase in the projected time to completion of either project would substantially reduce the "net economic benefits" assigned to that project, and would pro-

portionately increase the relative attractiveness of the other. The economic reasoning behind such a statement is faulty, but it points up the significance assigned, at least in the Interior Department, to the consequences of delay.

The Aerospace Study does indicate the various construction risks inherent in the trans-Canada project are slightly higher than those involved in the trans-Alaska gas system. The study does not assess, however, the political and legal factors that would increase the risk of non-completion or delay. These--it is almost certain--must be greater for the trans-Canada route. Furthermore, the actions of the state, were it so inclined, could easily increase the number of potential political and legal road blocks, though not without risk to the state. The possibility of the state simply re-injecting its royalty share of the gas has already been raised. This, of course, would reduce the attractiveness of either project.

Many of the arguments advanced in favor of an all Alaska gas pipeline, however, are extremely weak and simply don't substantially advance the project by being pushed so hard. Among these are those that focus on the alledged unreliability of Canada as a trans-shipper of American gas. Even without a treaty, the Canadians will be far more dependent on energy crossing U.S. territory than the U.S. will ever be on fuels transiting Canada. The much discussed curtailment of Canadian gas flowing to the Pacific Northwest from British Columbia is certainly not an analogous situation and cannot be compared with the situation that would pertain if the Arctic Gas proposal were to be implemented. Neither does the prospect of possible provincial taxation of the pipeline

or the product itself seem to present much of an argument against the project since the preponderance of informed legal opinion on this complex issue favors the view that any such taxation must be non-discriminatory.

By far the strongest arguments against the trans-Canadian line relate (in no particular order) to the environmental impact on the Arctic National Wildlife Refuge, the potential for delay inherent in the need to settle the Canadian Native Land Claims, the potential for obstructive legal or political action by elements in Canada opposed to the line for economic, environmental or nationalistic reasons and the potentially obstructive legal action that an opposed Alaska State Government might be able to mount. It would seem to me that any attempt to promote the Alaska route should focus on these issues.

One concrete action, that the state could take in this direction would be to push for the inclusion of the Arctic Wildlife Refuge in the national wilderness system, though this would naturally have implications far beyond the pipeline question.

The ability of the state to influence the choice of a gas pipeline route will probably always be marginal. Never the less the decision at the national level may arise out of an interplay of relatively well balanced forces, in a situation where the interjection of Alaska's relatively modest influence or effort could be decisive.

Naturally there are significant hazards in taking an activist role for the state, in that certain types of pressure on national decision-makers could be counter productive. Alaska and

its prospective great wealth have been given prominent play of late in the national media.

As a conservative, it will be very difficult of generate sympathy for the hardship a trans-Canada routing may impose on the state with respect to unemployment or state revenue. By the same token, heavy handed action by the state could produce a significant backlash, especially in Congress.

THE EL PASO PROPOSALS:

The recent statements by the El Paso group with respect to their need for a commitment of Alaska's royalty share of the gas (worth billions) are somewhat incredible coming from a Firm that is unwilling to commit the few million dollars necessary to have the Interior Department prepare a draft environmental impact statement. This emphasizes the fact that as yet at least, El Paso has not clearly demonstrated that it is a serious and credible applicant for the right to develop an Alaska gas transportation system. The fact that El Paso has not undertaken to sell its position to national leaders and the public with anywhere near the vigor that has marked the CAAGS efforts contributes to this impression.

In the absence of this kind of commitment, and perhaps even if it should be forthcoming, Alaska would certainly, in my view, be taking a great risk to make the kind of dedication of reserves that has been urged upon it by El Paso.

If the state is anxious to see that the all Alaska route is considered on an equal basis with the other proposal, it would

certainly seem worth a relatively small investment to assure that the Interior Department moves forward as fast as possible on the draft environmental impact statement precedent to issuance of right of way permit. Now the state might accomplish this may be a subject that the committee will want to explore in some detail. Without necessarily recommending any specific course of action, some of the options that might be considered are the actual contribution by the state of the funds necessary to prepare the impact statement, with some sort of quid-pro-quo on the part of El Paso, an attempt by the state to acquire the right-of-way in its own name, or simply trying to persuade El Paso to make the commitment of funds necessary.

RECOMMENDATIONS:

1. Since it is clear that there may be significant differences of opinion among experts and interested parties with respect to the amount of oil (in any) that will be sacrificed to enable gas to be produced for export, and since this will certainly be an important factor in determining the minimum well head gas price acceptable to the state, I would recommend that the Committee call and question witnesses who may be able to lend some light on this matter. Such witnesses should probably include:

- (1) State Oil and Gas Division officials
- (2) The specific persons responsible for preparing the reservoir analysis for each of the oil companies owning major shares of the Prudhoe reserves.
- (3) The State's outside consultants in Reservoir analysis; and
- (4) The Aerospace Subcontractor on gas supply, H.R. Gruy and Associates, Inc. of Dallas, Texas

In the case of the various consultants, I would expect that it would be appropriate for the Committee to cover the usual fees and expenses. If the Committee chooses to do this we would probably want to prepare an issue paper, both for the use of the Committee, and to give the prospective witnesses a clear understanding of the scope of the Committee's interest.

2. The State's authority to use its proprietary interests in the land needed for pipeline rights of way, and/or its police power with respect to oil and gas conservation, in ways that might directly or indirectly influence the choice of a pipeline route, or the conditions under which gas is removed, are legal questions which should almost certainly be explored. No realistic listing of options is possible without an investigation of these issues. I would strongly recommend that the Committee consider retaining two separate legal consultants to obtain opinions on these matters. I would expect on the basis of the cost of the Consultants' legal services to the Joint Pipeline Impact Committee in 1972, that we might be thinking of an appropriation of between \$15,000 and \$30,000 for each.

The reason I recommend two independent opinions is simply that in situations where your entire legislative effort is likely to stand or fall on the basis of some unknown Judge's opinion issued at some future date, and where the legal issues are complex, it is false economy to skimp on legal expertise. Also, the knowledge that your statutes are based on sound legal reasoning is likely to stiffen the resolve of a possibly reluctant Administration when the time comes to defend the Legislation in Court.

With respect to the choice of consultants, should the Committee choose to go this route, I have no specific names to put forward. I would note, however, that there are several lawyers in Alaska with specialized knowledge in the area of oil and gas conservation gained either in state service, private practice or both. In addition, there would appear to be some advantage to having the views of both Alaskan and "outside" consultants.

If the Committee decided to follow through on this proposal, I would suggest that you take the opportunity of this meeting to review your budget, and determine at as early a date as possible whether or not a supplemental appropriation request should be considered.

3. The Senate Interior Committee had planned to hold hearings on Alaska natural gas transportation issues, but as yet these have not been scheduled. However, the Public Lands Subcommittee of the House Interior Committee plans to hold an Oversight Hearing on this same subject on Thursday, October 9. Witnesses are expected to appear representing the Interior Department, the Federal Power Commission, and the State Department. The Hearings will attempt to focus on the procedure issues that surround the current FPC proceedings and the Interior Department's outlook for disposition of the Arctic gas right-of-way application. No attempt will be made to get into the relative merits of the two competing proposals.

A great deal could be gained by the members of the Committee attending this hearing. If some or all of you were able to attend,

I would take the opportunity to arrange briefings with key people at the Interior Department, F.P.C., Congress, possibly the Department of State, the Canadian Embassy, and any other groups you might consider it useful to meet. (We could even try to arrange a meeting with the new Secretary of the Interior designate.)

The advantages of such a visit EN MASS to Washington are not only in terms of the better understanding you will gain of the issues and the climate in which they are being considered; in addition, the presence of a large group of Alaskan Legislators at the Hearing can not help but have some impact on the Congressman, and--perhaps more significantly--on the witnesses.

Should you decide to make this trip I would suggest that as many of you as possible arrive on Tuesday evening (October 7) so that we can meet the prospective witnesses or their staff people and the Congressional delegation on the following day, Friday, the 10th, could be used for other briefings and those who wish to spend some time of their own in D.C. could do so on Saturday and Sunday. Because of the time difference and airline schedule the trip to D.C. usually kills a day, so the trip back could be done in a long evening.

4. I would strongly recommend that the Committee take an indepth look at the economic question raised earlier in this memo. As a full time Consultant to the Committee, I would have hoped to concentrate on these areas and have prepared for you by the middle of December a fairly comprehensive look at the policy issues. With my new responsibilities as Director of Re-

search Services, I naturally won't be able to give the same amount of attention to these issues as I would have otherwise been able. However, there is no other area, in which I would rather wish to remain involved in actual research. I would therefore suggest that for the present I continue to work personally on these matters, but that you not foreclose the possibility of bringing another person on board at some time in the future.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

GAS PIPELINE IMPACT COMMITTEE

Meeting of September 23, 1975, 10:30 a.m.
425 G Street, Suite 750
Anchorage, AK 99501

Meeting came to order at 10:30 a.m.

Present: Senators Poland, Huber, Miller, Rodey, Tillion
Representatives Anderson, Bowman, Gruening,
Kelley, Specking

Absent: Senators Croft, Ferguson, Rader
Representatives Bradner, Cowper, Hackney

Roll Call: 10 present, 6 absent

BOWMAN: Copies of the minutes of the previous meeting are in each of your folders. Are there any changes or corrections that you want to note? If not the minutes will stand approved as read. And the second item on your agenda deals with the office space. We have secured this office for the rental fee of four hundred and fifty five dollars (455.00) a month for four months, until January 1, when we will be moving down to Juneau with the Legislature I presume, unless we have a special session, at which time that would not interfere with the committee anyway. We have rented the tables and chairs for three or four months which will save us money, rather than having to rent a place to hold our meetings whenever we meet. It cost us at the last meeting at the Westward, One hundred and some dollars. On the basis of that, we have saved money by renting and we will have a space to meet here rather than renting a space whenever we meet. It also gives our staff a space to work.

TILLION: The staff will occupy this space every day of the week during normal working hours, then?

BOWMAN: Oh, yes.

GRUENING: Can we go back to the minutes of last meeting?
I want to show myself as present as I came late.

BOWMAN: Let the minutes of the last meeting of July 21, show Clark Gruening as present.

The office is open every day from 8:30 a.m. to 5:00 p.m. Cathy Barrett is the secretary and will be here and Gregg will be here also every day when he comes on board permanently.

And, up to this point, we are running an account of our budget. We will supply that next time because Legislative Council and Legislative Affairs has been in a change over. At this point we haven't been audited. I'm trying to get Jay Hogan to work on it, but haven't finalized that. I would hope that by the next meeting we will be able to bring you up to date as to every penny spent...Are there any questions regarding budget or office space?

Then we will move on to Gregg's Summary: Memorandum of October 18th or rather September 18th on "Renewed Consideration of Alaska Highway Route" We sent it out, but there is also a copy in your folder with a cover slip on it. At this time, Gregg, you can expand on that.

GREGG: I don't think I need to go over the Memorandum in detail and I'd be happy to answer any questions. There are two things I'd like to emphasize: the central thrust of the Memo: that is the situation that Alaska faces as I see it, in Washington, is very different from the one that we face with respect to our oil and that we still face. The oil that Alaska is going to be producing has a very high economic value. The question, in respect to the oil, is how that pie is going to be shared among the oil companies, the Federal Government, the consumers and the people of Alaska. The fact of the economics of gas is that the economic value of the gas is very low. There will be strong incentive on the part of the National government and other states to see that that gas is removed from Alaska without a substantial or perhaps even any payment to the state of Alaska. This is clearly the scenario that the Committee, I would expect, be anxious to examine and see that it doesn't develop that way. The FPC and Congress are looking at a situation in which energy independence is a policy that is being debated. If it is decided that Alaskan gas is going to be part of that policy, there will be difficulty in bringing it down to the U.S. at prices consumers can pay and the easiest way to make that possible is to cut the state's share of the revenue from that gas. I can't emphasize strongly enough the need to know very carefully what the state can do and cannot do to prevent this from happening. This is regardless of which route the gas goes out.

The other point is one I didn't really cover in the Memo which is really developed in the last couple weeks. That is that there has been renewed consideration or I should say discussion in Washington of the possibility of bringing the gas south toward or to Fairbanks and down the Alaska highway. I think that this is partially a result of the environmentalists increasing concern over penetration of the Arctic Wildlife Refuge and I think it is also recognition of the great problems that are likely to be encountered in, with respect to Canadian and Native land claims, environmental problems in northern Canada; problems which would be greatly mitigated if the pipeline were to follow the Alaska highway route.

This discussion has been very informal and I am not completely clear as to how far it has gone, but I do know that the people in F.E.A. have discussed it and the Canadians themselves, at the embassy, have been discussing it with increasing frequency. Those are the two points that I really like to make I guess and the first point, I think is the most important. I would be happy to answer any questions you might have on the Memo. I have some specific recommendations and we can cover those at the Chairman's pleasure as we go along on the agenda.

HUBER: Just one small question. The changes in the Memo, I wonder if you would highlight those because I notice that the one that I read didn't have the material on it?

GREGG: The only changes I made were filistic or typographic, I don't think I made any other changes.

HUBER: There isn't any content changes then? So if we read the draft copy we've got the gist of this one?

GREGG: Yes.

HUBER: Thank you.

BOWMAN: Are there any questions of Gregg to this point on the two points?

GRUENING: A question on the Memo. There may be a situation with the F.P.C. controls price because there will be a point at which they no longer can pass the cost off to the consumer and there will be a set price which will have a definite impact on the revenue to the state. Isn't that true?

GREGG: Well, whether or not we have the regulation of natural gas in the United States, there is a maximum price at which you can sell natural gas to any given consumer and that price is established by that consumers alternatives. In the short run those alternatives may be very restricted and in the longer run the consumer has more choices that he can make, to shift to oil, coal, electricity or what have you. Oil is being imported to the U.S. at twelve (12.00) dollars a barrel, that is about equivalent to two dollars an Mcf natural gas. Presumably over the long run the consumer will not pay more than two dollars an Mcf for natural gas because he will have twelve dollar oil available. Other things being equal there's certain form value in gas which may make the consumer willing to pay 2.50 for gas, but at some point he's going to say "No" "It's better for me to switch" That puts an upper limit on the price that the F.P.C. can sell that gas for, the companies that are regulated by the F.P.C. Thus the cost of bringing the gas to market are going to have to be met within that level of revenue.

GRUENING: What deals with that projection, has there been any indepth analysis of whether costs do exceed that?

GREGG: There have been a couple of analyses and there are a couple on their way right now. The title three study contains one such analysis. The analysis that Dr. Tussing did for the state of Alaska contains another such analysis. The F.P.C. is conducting in its investigation of the El Paso and Arctic Gas proposals another such investigation and presumably theirs would be the most complete. There is pretty much agreement, I think, that these upper limits on what you can sell that gas for.....its very ironic that if natural gas is deregulated in the U.S. the price at which consumers will be willing to pay will actually decline because they will then be allowed to bid away the supplies of natural gas that are now being diverted to industrial uses or power generation and being sold at relatively artificially low prices to these other low value uses. Another thing that I think is important to understand is that deregulation is going to make the Alaska gas transportation system less economically attractive. As it stands right now, even given the numbers in the Title III study, it's clear that if deregulation goes through, and if the price of oil doesn't climb substantially above what it is at right now, it doesn't seem possible that you could build the system and have it pay for itself and have anything left over for Alaska. It doesn't look like you'd have anything left over for the oil companies either. In such a situation, the oil companies would end up subsidizing the gas production out of their oil production--which means we'd get hit both ways. The oil pie, in effect, would become smaller....not that there isn't any gas pie for us to share.

I don't want to be excessively grim. I think there are other factors on the other side which may make the State come out of this pretty well. I don't think there has been enough emphasis in the press at least, in public discussion of the real problems that we have. Perhaps it is good that these things have not been widely circulated. In a way, it may help our position in being better off, if people aren't aware publicly of how weak our position is economically. This is sort of a rambling answer to your question, Clark.

GRUENING: At what point do we know whether we're actually taking the right course by backing any pipeline? We may be in a position where we can't hold back our gas.

GREGG: The gas doesn't do anybody any good if it stays in the ground forever, obviously. So the question, then, becomes when, and other things being equal, if it's going to produce benefits and if there aren't going to change substantially over a time, you're better off to pro-

duce it sooner rather than later. There's no great crystal ball that will tell us whether we're doing the right thing or not.

SPECKING: It appears to me, that the gas is inexorably tied to the price of oil, an alternate energy source and I think that this is one of the most important things we're going to have to examine in this Committee. It does sound grim. It appears that when faced with the tremendous increase in the price of energy--with people driving their cars with 75¢ gas. It appears that in an energy short nation, these values can change. For example, I know absolutely nothing about the relationship of the small consumer verses the industrial consumer. This might be where the answer lays, I don't know. This sort of data is the thing we're going to have to have in order to understand whether we want to pursue a pipeline. And, of course, we do and want Alaska to come out as a winner.

GREGG: I don't think there is any doubt that Alaska's gas is going to increase in the future. The question is how much are we going to get for it if it goes out, and under what conditions is it going to go out and if we know the conditions and what is its value to us under those conditions given all employment impact, the direct revenue impact and so on. Is it better to take that value now or wait under those circumstances to some future date when we're fairly confident that it will be higher. I think you're right, things will change...no doubt that Alaska's gas will be utilized eventually in my mind. That's why I specifically say in the Memo the question of whether it's going to go out right now, not eventually.

TILLION: I don't think this group prognosis is new, we knew this quite awhile back...that our gas was going to be almost worthless and that we had to make a decision...you have to move the gas that comes up with the oil that's not needed to pressurize the field. What we have to do is to make decisions or do we want to see areas of high gas potential and low oil potential even leased. Things will change, it will be worth more. If it's worthless now, it's bound to be worth more in the future, it can't be worth less.

GRUENING: We don't know that as a fact yet. If it's pretty much what you said, there's strong indications that it may not be all that much benefit, but no one has come to that conclusion. At least the FPC has another year to work on it.

GREGG: I don't think the FPC is going to make the decision for you as to whether it's going to be beneficial for the state of Alaska. The parameters you work with will be dependent on what the FPC decides. Also the gas that comes up with the oil can and is planned to be reinjected.

SPECKING: Right along with this, I think you touched on the thing. You're facing the dual problem of natural gas that will flow through the gas line and the gas that's going to flow through the oil pipeline. Some where or another the legal determinations of who really has the responsibility for setting the price on the wet gas...and the ownership and the whole gambit of problems relating to those two have to be separated, too. In other words, you're going to have a certain amount of gas flowing through the oil pipeline.

GREGG: I think these are natural gas liquids that are going to be stripped from the gas.

SPECKING: At what point do they lose their identity as gas? I'm not sure yet who has control--whether it's FPC problems.

GREGG: No, they're not.

BOWMAN: If they're in the oil line, that's all part of the oil, isn't it? until they strip it?

GREGG: The FPC doesn't or hasn't asserted regulatory jurisdiction over gas that is not in interstate commerce. In almost all cases they strip those liquids out of the gas before it goes in interstate commerce. I don't know at least in the states, that this has become a problem of defining jurisdiction. Maybe there are circumstances that are different in Alaska.

HUBER: We kind of getting back into the area of my favorite of research. It's obvious to me, if we should convert the natural gas to a product on the North Slope, it would no longer be in interstate commerce by the FPC or the ICC either one as a product as I understand it.

GREGG: Well, that's an option that we could very well explore.

HUBER: There's several questions connected with that. When natural gas is used as a feed stock for fertilizer. Is the fertilizer realized as a by-product of that or is it actually a conversion of a chemical conversion of the natural gas components to fertilizer.

GREGG: It's a chemical conversion of the carbon in fixing the nitrogen in the air, using the energy that is available in the natural gas. So you're using both the molecules and also the energy.

HUBER: So you're using the energy, too, then. That takes care of that one. Now, has anything more been

done on figuring...I noticed you mentioned that the gas is \$2.00 Mcf. That's about all it's worth at the market. Therefore the costs of transporting it take away from that to the point where we may not have a very valuable item. How does it stand... what is it's value as feed stock for methynol conversion--considering we're going to use methynol as a gasoline substitute or gasoline additive. I think you and I are both aware of some of the things that can be done in that way. I'd like you to expound a little, maybe where we can get more information. Maybe it's worth more as a feed stock to make gasoline substitute methynol out of then it is any other way--in which case we'd be fools to let it go in to interstate commerce when we can convert it to a product and sell it and ship it as methynol. Some of those various things/

GREGG: I don't know the answer to your question in respect to what the value is, I think we're facing similar economic problems with respect to the utilization for fields that aren't regulated by the government. The economic problem is really independent of government regulation in a sense. The government regulation may actually make it possible for us to circumvent the economic problem in certain ways. How much the gas is worth, as used as a feed stock or as used to produce another product is a very uncertain area, because, (1) we don't know what the competition of that will be, because we don't know what the situation on deregulation is going to be in the states, (2) We don't know whether we'll be able to export it from this country which is a very important factor.

HUBER: We don't know whether we'll be able to export it do to what?

GREGG: The President has authority to stop exports of just about anything you want at any time.

HUBER: You mean to a foreign country?

GREGG: ...to a foreign country, yes.

HUBER: We're assuming there is ^{no} market for it in the U.S.?

GREGG: No, you're talking about an awful lot of material and it may very well be locations specific, in the sense that it's very costly to transport it by land. I don't know the answer to your question, John... I don't think there is an immediate opportunity to seize on here. I do agree with you that it something that needs to be examined. Frankly, I don't...part of the problem is that there is so much gas there, that if we do try to do that in any given area, like fertilizer or methynol, we almost

immediately saturate the market and drive the price way down again. I don't think there is any way that we could try to maintain...we could try to sell a little bit of that gas for fertilizer--and maybe get 75¢ Mcf for it. If we try to sell it all as fertilizer, and if there is any way we could prevent the oil companies from marketing their share in that market if that is the most profitable thing to do with it, the price is going to go down to zero just the way it was in the case of gas.

HUBER: But methynol as a gasoline additive...there's practically an unlimited market there, isn't there?

GREGG: You've got the same problem there with a net back situation, you lose a substantial part of the gas energy when you revert to conversion.

HUBER: Do you know where we can get the information on that? I understood that it was a very simple chemical conversion as far as energy is concerned, because it's a change from CH_4 to CH_3OH which is the addition of an oxygen molecule.

GREGG: I seem to recall sending you a copy of a report.

HUBER: The report was practically worthless for the direction I wanted to go into. Because the report was made by gas companies, apparently, who had a great interest in putting the methynol back into natural gas and putting it into distribution lines and making sure it became a home heating and industrial natural gas product. I'm interested in removing it entirely from the field that natural gas is normally used for. Converting it to a product that has a ready sale or should have a ready sale, gasoline or gasoline substitute.

BOWMAN: Are you speaking about, John, if I may ask, just our portion of it or the entire field?

HUBER: Well, if we should be able with our portion of it, uncommitted, to attract the necessary industry to build the methynol conversion plant on the North Slope. It's a cinch--look at the costs of energy as quoted here--that if we can get into that 75 to dollar region, which it looks like we can, considering what gasoline sells for, that we can probably attract it so that the company can get all that they want by buying from the oil companies in addition to our 12 1/2%, because it will probably be worth, judging from Gregg's economic study here, many times as much in making it into methynol as it will be to putting it into that pipeline.

GREGG: I don't know the answer to your question. I'll be glad to look and see if I can find some source

material for you.

HUBER: While we're at it, do you know if there is any other names of organizations or anything other than the source material that you have presently supplied.

GREGG: I haven't read through the entire draft DIS, and it maybe that there is an alternative there, as they've considered just about everything else.

KAY: Gregg, I don't know anything about petrochemicals, except the little I've read. I do know that this sort of thing (the table) is made out of natural gas, and with the lumber shortages that there are in the world today, would it be possible for the State of Alaska to use some of their gas or any gas in that type of thing and gain economically.

GREGG: It might be, I don't know the answer to that. It's the same sort of question that John was asking. I do know that the oil companies don't seem to be very interested in pursuing that. If there was a profitable outlet for their gas, I would think that it would be-- but that is no reason not to go into it. I think it is worth looking into.

TILLION: ...you're poly-propylene ropes and all that stuff have to be manufactured at a dispersement center to make it work--to make it competitive. Some of our gas --when moved on a trans-Alaska gas line, and move it down liquified, say to southern California and relieve that pressure, releasing other sources that can go to the factory in the Mid-west. It's all tied together this stuff flowing from the Mid-west or from Texas. You just don't send it there. But, as far as the moving up and setting up plants in Alaska, the economics just aren't there, cost of shipping. I'm not saying that they won't be there in twenty years. Right now, there are those who have looked at it and a number have, have just backed off to the freight costs.

GREGG: I could look at this in a preliminary way, and determine if it would be feasible for the Committee to go into a more formal study of this. Obviously, I wouldn't be the person to do it. I think you need to spend quite a bit of money to get a professional analysis of this question, even in a very superficial way. I'd be glad to look into it and see what might be feasible in a way of a study of this sort of thing and what you'd likely to get on a short term basis.

SPECKING: I for one would like to have Gregg to pursue that, at least preliminarily, to see whether or not we want to look further.

HUBER: Another comment, if I could make it in this area,

we're talking about the same products, about converting natural gas to something else, I was pretty well heated up about this methynol--as it appears to be an unusual market for it because of the shortage of gasoline everywhere. I've tried to find out some and Gregg has tried to find out some, too. Now, Judy Whitney visited Stanford REsearch while she was outside on the West coast on the way back from the trip we made East on another committee. Stanford Research had published a paper, and I think Clem saw that.

TILLION: I don't know about that, but I went to Stanford And looked it over and also to the University of Miami and looked at methynol engines and there are some...it's not all as good as they say it is, but...

HUBER: The research we received on the blending quality and so on...

TILLION: You can make it out of pine trees, all sorts of things. It does have some...methynol is more liable to be rather than a certainty.

HUBER: This research that they had done, that they had made the blurb on during the session...That's what I tried to have checked on, and they told her that that was done for a private organization and they could not give her any more data on that. Unfortunately, she didn't get the name of the organization that it was done for because they might be commercially interested in doing.

TILLION: I can get all that for you. The fellow that they did it for serves on the Presidential Commission.

HUBER: I wonder if you can get it for me by the first of the month or so.

TILLION: To Stanford? That will be different. They won't give you much, I could send back for that stuff on methynol...It's like listening to the Trans-Alaska or trans-Canada pipeline stuff. You don't know which to believe--it's so diversified.

GRUENING: I'm kind of interested in proposals that Gregg suggested as to immediate action by the Committee. I'm wondering, aside from the overall problems we have of economics, regardless of which route is taken, what advantages, other than the spin-off construction and so forth, is there at this point in backing a trans-Alaska pipeline? Is there any advantages in that area of economics to the State, that you see, other than the spin-offs? How does that relate to any immediate action of direction that we should be taking?

GREGG: Well, a very good analysis of that question has

been conducted by the University of Alaska--it doesn't answer all the questions, but their input to the Aerospace Study is now available. I have one copy of it and would be glad to let anyone xerox a copy. I think that outlines what is expected to happen in terms of employment, in terms of state revenue, in terms of additional costs of services and so on. Whether these are in a net way beneficial to the State or not, is a decision that has to be made on a political basis--you folks. I'm not certainly prepared to give an opinion on that--at least not at this point.

It's clear that the El Paso route will have much more profound impact on the State. It's also clear, that the big drop off in employment, which will occur as the oil pipeline winds down would be mitigated substantially by the initiation of construction on the Alaska route. It's a pretty important thing, obviously, to a lot of people.

TILLION: How many people will leave Alaska, if we don't have it...that's a plus. That's one of the things seriously, you have to take into consideration. If you produce a massive amount of employment right at the end of the trans-Alaska oil line, you'll have a great deal of people you'll be caught with at the end of the construction of the gas line, that you may not have gotten caught with otherwise. It's going to be impact as the gas line winds down. Then you're going to have another project to face you. Booms have their advantages, people don't stay after them as much.

BOWMAN: The way it looks now, most Alaskans are selling out and moving out..... to cover your point somewhat, Clark, Gregg has certain proposals we can get into that further down. Maybe we ought to start moving in that direction. So if there is no objection. Unless someone has another question on these two proposals that he made in number three, we'll move on to the next one.

The fourth item is proposed attendance at the October 9th hearings at the House Interior Subcommittee on Public Lands, and briefings in Washington D. C. If you'll go to the page on Greggs Memo, Page 17, under number three. It states that the "Public Lands Subcommittee of the House Interior Committee plans to hold an Oversight Hearing on this same subject on Thursday, October 9th. Witnesses are expected to appear representing the Interior Department, FPC, and the State Department. The hearing will attempt to focus on the procedural issues that surround the current FPC proceedings and the Interior Departments outlook for disposition of the Arctic gas right-of-way application. No attempt will be made to get into the relative merits of the two competing proposals.

A great deal could be gained by the members of the

committee attending this hearing. If some or all of you were able to attend, I would take the opportunity to arrange briefings with key people at the Interior Department, FPC, Congress, possibly the Department of State, the Canadian Embassy and any other groups you might consider it useful to meet. We could even try to arrange a meeting with the new Secretary of the Interior designate."

The advantages of such a visit En Masse to Washington are not only in terms of the better understanding you will gain of the issues and the climate in which they are being considered; in addition the presence of a large group of Alaskan Legislators at the hearing cannot help but have some impact on the Congressman and, perhaps more significantly, on the witnesses.

Should you decide to make this trip I would suggest that as many of you as possible arrive on Tuesday evening (October 7) so that we can meet the prospective witnesses or their staff people and the congressional delegation on the following day. Friday, the 10th, could be used for other briefings and those who wish to spend some time of their own in D.C. could do so on Saturday and Sunday. Because of the time difference and airline schedule, the trip to D.C. usually kills a day, so the trip back could be done in a long evening."

Do you want to expand on any of the reasons why you want to go there?

GREGG: I think it's pretty straightforward, that Washington is going to be the arena in which these issues are going to be played out. Like it or not. It may be useful to you to have a first hand perception of what's going on. When I was with the Pipeline Impact Committee in 1972, the committee made a trip to Washington similar to this. At the time, I didn't think it was a useful thing for the committee to do, but Chancy overruled me and I think he was correct. I think it turned out to be a useful thing. I've already talked with Congressman Melcher's staff director and the Congressman would be very glad to have the committee or members of it attend the hearing and would like to meet the committee.

I'm sure we can arrange something also with the Canadian Embassy. They would be happy to talk with you. I'm sure there would be a lot of people who would be quite willing to take the time to brief you as you wish.

BOWMAN: I personally feel that maybe we should, for various reasons, especially Gregg's. A group of legislators from Alaska will certainly have some impact. You'll be meeting people from FPC, Senate and House Interior Committees and others.

GREGG: I talked with the staffs of the delegations and they will do whatever they can to make your trip useful if you choose to come.

BOWMAN: The problem in my opinion is, there should be more than one or two. If the committee, of some consequence, goes there, I think that (1) we can get some input from what is happening there, (2) and give some. Any others?

GRUENING: The input part, at this point, wouldn't the committee be hard put to come up with any one uniform input? It seems that even philosophically, at this point, we're divergent. Maybe the differences aren't so great when the facts are on the table.

GREGG: I don't think it's important that you should take a single position. I don't think it's necessary or desirable that you hammer out a position that you all go there and lay on the table for various people you talk to. A more important point is, the people who are testifying to the people you're going to talk to are going to realize that Alaskans are vitally concerned with these issues. The fact that you don't all come with one single, monolithic, idea is advantageous in showing Alaskans as thoughtful people who are looking at these questions in a rational way. It's surprising how much impact that has.

HUBER: I was partly on the same track that Clark was on about questioning. I like the idea and I think it will have some impact. I wonder if this is the time, how the committee stands now. I wonder if there is another opportunity. I noticed you mentioned that the Senate would be meeting. I wonder if there is another opportunity to be meeting in the near future.

GREGG: I'm sure there will be additional opportunities. How near they will be, I don't know. The Senate Interior Committee has planned to hold hearings, but I've withdrawn from participating in the planning of any of Alaskan activities to avoid a conflict of interest because of the work I'm doing for you folks. Since I've withdrawn, no one has followed up on that. Also, it's perceived among the (Senator) Jackson people to be a politically sensitive issue. They're not sure whether they want to get involved in it right now. I think there's a good possibility that the Senate Interior Committee may indefinitely hold off on these. Obviously, the law says that the committees of Congress must review and approve the right-of-way of any pipeline that is approved above a certain size, so, it will be back in Congress eventually, when that will be--very shortly or a long, long time.

BOWMAN: To carry it a little furthur, John, I think we have to be somewhat realistic in the sense that if we have a Special Session and it looks as though we may. We also have some heavy work within this Committee to come up with some type of proposals legislatively by January. Along these lines, getting out of Juneau after the session has started and going to Washington D.C. would be almost impossible. So, any input that we intend to get or make has to be down now.

HUBER: I was thinking of another reason in regard to that. Maybe we could spread ourselves at more than one hearing, I don't know. There are members of this committee on Legislative Council also. Within throwing distance of here, during the 7th, 8th, 9th, and 10th of October, many of us will be in Philadelphia. I noticed that this is mentioned for the 9th. I consider that these hearing are taking place on the 9th, that I could pull a day off from this conference in Philadelphia and maybe other members attending the conference as well as dual members and have a fair showing in Washington D.C. Then maybe we could plan another one even later to where the committee could appear En Masse. If this main business is confined to the 9th, I doubt that there is a member of the Legislative Council down there that wouldn't be glad to make it part of their business.... to swell the ranks of those going. Either if we go as a group or some of us go now and try to have another one later.

BOWMAN: I think we would all approve and heartily applaud those who are on the council to change their trip to the council and.....

SPECKING: I think it's important for all members to know what others they're going to do. I don't want to go as a two-member delegation.... if there is going to be some sort of participation committee-wise, I certainly want to attend.

BOWMAN: How many here could attend? O.K.; that's the majority of us. Clark, you don't know?

GRUENING: I don't know if I can make that date.

BOWMAN: Other than Clark, most of us would be there.

GREGG: The hearing is on the 9th, that's a Thursday at 10:30 a.m.

SPECKING: It appears that alot of the value there is going to be at the formal hearing, but what about the briefings? What do you think about that Gregg?

GREGG: I think you're correct. I think we could work in a lot of the congressional briefings on the 9th, probably meeting with Melcher and oter members of his committee. Some of them could be worked on the 9th, you're correct. The impact of having a large

number is significant.

BOWMAN: That would be the following day, the 10th, a Friday.

HUBER: Those are the days that interfere with the Legislative Conference.

BOWMAN: Could we go into other things you would hope to accompoish at the hearings and briefings? What do you propose for the briefings? I know that you outlined it in your Memo. Between now and then, you sill be setting those up....when we get to Washington, where will we meet?

GREGG: You have a large choice of accomodations. Those who want reservations, I'll make them. At the bottom of the hill, they're building a Hiatt House or Quality Inn.

SPECKING: It would be of value to be in a group, even though some of us have friends. I expect to meet with the President informaly and personally. In any event, there is a value to being together.

BOWMAN: What we will need is a list of those goint to Washington and those wanting reservations.

HUBER: What day for the briefings?

GREGG: Briefings on the day preceding the hearings on the 8th and day following, on the 10th and such briefings on the hill that we could arrange.

HUBER: Those of us attending in Philadelphia could easily come over on the 9th. We would miss part of the program, but what of the importance of the briefings.

TILLION: The Land Use is on the 9th, there would still be five or six of us that would be at the hearings.

Break for lunch.

BOWMAN: We more or less concluded item number four which was proposed attendance at the October 9th hearings in Washington D.C. We'll move on to item number five, proposal to retain legal consultants; a draft " Request for Proposal" is attached.

GREGG: The recommendations, number two, on page 16 of the Memo. It seems to me that one of the most important group of questions is just what the states authority is with respect to it's proprietary interests and oil and gas leases; proprietary interest in the lands needed for pipeline reght-of-way; powers with respect to oil and gas conservation.

How can the state act to control, how, when, where, under what conditions the gas is produced, sold, or exported or utilized for the state? There are a great many unanswered legal questions about this. It's clear that this is the kind of issue that's going to depend much more so than in the case of the oil or what kind of answers we develop to these questions. I've outlined the rationale that I think argues for retaining at least two separate studies of what these options are. I also suggested it might be advantageous for you to consider getting an opinion from an Alaskan group and an opinion from an outside group.

MILLER: Gregg, hasn't most of this ground already been plowed with the legislation on the right-of-way leasing act and the pipeline commission?

GREGG: I don't think so.

MILLER: Why not?

GREGG: The differences are that the regulatory regime under which we are operating is completely different. ICC is a more mundane agency. There is very little case law existant as to what the powers of the ICC are verses the state.

The second area of difference is, the extent to which our conservation power may be necessary, it's something we didn't consider at all in the Right-of-Way leasing act in 1972 legislation. We really don't know what the limits of state power are, at least I don't. I think that this issue is going to be resolved on the basis of whether or not the state has those powers. I'm not a lawyer, so it's a little difficult for me to explain in detail what the legal aspects of the study are. It's clear that the relationship between the state government and the FPC, and the pre-emption of the FPC is quite different from that we faced with respect to the ICC. There's also the international implications that didn't intrude in the same way with respect to the oil pipeline.

HUBER: I'd like to ask that we have consideration in choosing the people with expertise in the area of whether changing the form or changing it to the product will bring us out from under certain regulations and put us under other ones or what it will do.

BOWMAN: If they have expertise in that, or look at it?

HUBER: If they have expertise at least in the area and also to look at it.

BOWMAN: There's a difference John, when you say have expertise. I'm not an attorney either. I was wondering if you were saying "have" expertise in changing the end product.

HUBER: No, not in changing the end product, as we're talking about legal people here. I'm talking about the people who have expertise in the legal implications of where we stand if we don't take it out as gas, if we take it out as methynol or take it out as fertilizer; or any of the other things we might try to do here. Also where do we stand on the state saying "no, we withhold our gas. We're going to make fertilizer or methynol or something else out of it and you can't take it away from us. Things like that.

GRUENING: I think again, as Gregg mentioned, that area would be encompassed by an attorney who dealt exclusively with the FPC and with the state's positions with the FPC and I think when we go back to Washington, that area is logically where we're going to find more expertise. I would like to see someone from Alaska involved. I don't know who does FPC work here, I think it's a relatively new field up here.

GREGG: We do know of attorneys in Alaska who have a lot of experience in oil and gas conservation and have gained that experience here but elsewhere. People with degrees in reservoir engineering or geology and law. That's one area where our power is uncertain. Can we say we will not allow the gas to be produced if it results in a waste of oil, as apparently the Title 3 study says? What is our power with respect to that? There is a large body of case law in that area that's one sort of separate study. The FPC study is something Alaska attorneys haven't been involved with. I'm not certain as there may be someone here who has had experience elsewhere.

BOWMAN: Our first question is, of course, do we follow with this proposal, to get the in-state and outer-state comments regarding our authority and the legal opinions handed to that, which is what the proposal is, I'm not so sure we do have the information available, even though there are a lot of studies being done. Pulling them together, would be part of the responsibility of these consultants to that point.

ANDERSON: Terry, do you think it has all been gone over already in previous work, or what?

MILLER: I suspect some of it has, but I also suspect that Gregg has raised, particularly the federal interface as it applies to the FPC, rather than the ICC, is probably pretty valid and ought to be looked at.

POLLAND: No matter what opinions we'd get, if we hired fifty lawyers we'd get fifty different opinions. They're not going to mean anything until the thing goes to court.

BOWMAN: Wasn't that the '73 special session?

TILLION: Remember, there were a number of us who spoke to change it. It did come out at that time, the difference between the jurisdictions, FPC, ICC. There's a good body of law on that. You just have to first make the decision, I think before you hire your counsel, on what you're going to do with the information when it comes in. I agree with you, we shouldn't hire two counsels, because we can't stand the confusing information. I think you can get a good deal of this put together. Gregg should write some questions on the difference and hire counsel on the answering of those questions. Just hire to have the questions answered to the best of their ability, and then get rid of them.

GREGG: That was the thrust of the proposal. I assumed, though, that once you had the study in hand, that the program committees in considering legislation, would probably want to call these people back.... as Witherspoon was cacked back.

TILLION: The big problem you're going to find is, there won't be any clear cut answer as to what we ought to do.

GREGG: I think you're right.

TILLION: I remember from past years, just which way to go after you have all the information.

HUBER: I just wanted to express concern.....we mentioned "outside" and "Alaskan" expertise here.... Though I like the general trend of that, I haven't noticed any starving lawyers in Alaska. I would hope that we wouldn't tie ourselves with any particular thing. Say we're going to get some of this from an Alaskan here and some of it from a non-Alaskan, fine, if not, maybe we'll have to look somewhere else. I didn't want you tied with that millstone around your neck.

GREGG: My proposal was to solicit, just a suggestion as I say, from attorneys both in Alaska and outside and look then over and see what you've got and make a decision on that basis.

MILLER: As a matter of form, is this definite enough or do you need to go one step further, as Clem suggested, and actually outline some of the issues and legal questions?

GREGG: I say here, that this information on a possible scope of the study in a form of an issue paper is available from that office. I've been working on one right now in a draft form. I quite agree with you, we need something more concrete.

MILLER: How do you intend to circulate this solicitation?

GREGG: That would be a matter for you to decide. I had thought of publishing in the Anchorage papers to get circulation here in Alaska. Undoubtedly, an informal method would be necessary in the states. It's up to you.

TILLION: I would recommend that we get the questions, say a dozen questions. Then I think you'd be far better off to locate a lawyer, expert in that area, probably in Washington D.C. and just contract him to answer those questions. And then, somebody else can argue over his answers at a later date.

GREGG: That was my proposal; to have it contracted out to have it done.

TILLION: I certainly wouldn't advertise, as that would cause that much dissatisfaction for those who put in a proposal and didn't get the job. I think you should just shop around and find the best you can by asking a few questions and go to that person and say, "Will you do this study?"

MILLER: I think the area of greatest interest to me, is the first question of the FPC jurisdiction. I think you'll have to go to Washington D.C. to find the expertise.

BOWMAN: I know if we spend time advertising for some submittal of proposals, we're going to lose an awful lot of time. I would just as soon have the committee authorize us to move on it as we'll be just dead in the water if we don't.

SPECKING: Last year there was another gas pipeline committee, and they explored this. This came out in a study. I've never seen the final copy of it. Bob Hartig had the control of the preparation of the thing, but they explored the options of getting some people in Washington. There might be some valuable data in that thing. I'm sure a copy of it could be obtained from Hartig.

GREGG: I'll make sure I contact him.

MILLER: I think we may be chasing our tails on this. I agree with Clem, you can't get much further until you have specific questions and issues to find. It would appear to me, however, that what you're shopping around for is expertise in the area, and not expertise as to specific questions. Maybe we ought to authorize the consultant to begin that search. Most probably it will be centered in Washington and when we arrive there, you'll have it narrowed down to two or three firms which you think the majority of the committee would approve and could meet with them there.

TILLION: But, you need a few basic questions to present to the people while you're shopping around.

MILLER: I think we ought to go that far and then interview some of these people when we get to Washington.

BOWMAN: You're not at this time interested in the weighing of whatever we do between having a consultant here in Alaska and Washington. You don't think that is a valid argument? What he says here.....the reason I recommend two independent opinions is simply that in situations where your entire legislative effort is likely to stand or fall on the basis of some unknown judges' opinion issued at some future date. Where the legal issues are complex, it is false economy to skimp on legal expertise. Also, the knowledge that your statutes are based on sound legal reasoning is likely to stiffen the resolve of possible reluctant administration. When the time comes to defend the legislation in court, which we never got to before. Are we throwing that out entirely?

TILLION: I would throw it out, because I think we ought to get the basic questions, pick a counsel, answer them, and it will just be like hiring counsel when you bring the answers to those questions back and people start shooting out....

GREGG: I have no objection to that approach.

GRUENING: I think ultimately, what we want is a yes answer. Whatever we decide to do, we want an attorney to draft something that works. Whoever we pick should be also skilled in drafting legislation or at least can look at legislation and can guide us to the result that we want. It isn't the trouble of having two people; of one saying "No, you can't do it" and the other saying "Yes, you can." We want "Yes, you can." We want to find the limits of state power. Logically, you would take it to this extreme. You want to use what power you have to get the best possible result. By making one attorney responsible, rather than having someone say no, it wouldn't work. The other consultant would then, when trying to produce a piece of legislation, you would have everyone on one side of the fence or the other.

SPECKING: There may be some merit in making that decision now; but keeping open the idea of retaining some local legal counsel that could give us some interpretation or advice on matters that may come down to us from Washington people. We do have some people that are skilled with particular problems in Alaska in that oil and gas thing. I think it's premature to say we'll get one of each.

GRUENING: I think it's true that even in the conservation area, again we go back to the FPC, whether that makes any difference in their rulings. You've got to have an expert in that area, to some degree.

BOWMAN: The chair would entertain a motion to implement that point.

GREGG: The motion then would be for me to make preliminary examinations and narrow down the field of Washington attorneys that may be able to do this kind of work and prepare a set of questions or issue paper that will define the issues more precisely and have these people available for you to review when you get to Washington.

ANDERSON: I ask unanimous consent.

BOWMAN: Unanimous consent has been asked for. Opposed? Hearing none, motion passes.

Let's move to item 6; technical factors involved in gas productions, specifically suggests 400 million barrels less of oil. Authorization to pay witness expense. That is on page 15.

HUBER: Does this mean we'd set this up for the next meeting? We'd need authority to pay the witnesses' expenses.

BOWMAN: No, not for the next meeting. Well, yes, for our next meeting. On page 15, Gregg has outlined some of the arguments or opinions among experts as to what actually is or is not the case. Here again, we're still arguing what the case is.

GREGG: There are some other questions, too. One is, how much gas is there; the other, how fast it can be produced. These are all the same sort of questions. I think that the recommendations are pretty self-explanatory.

BOWMAN: I agree to the one point. The first one being the state and oil and gas division officials. I saw in the paper the day before or so, that the new division is already in operation. I forget the name of the person heading it, now. They're going out by January. We'll be evaluating the taxation on the various fields. However, we need to know how they're going to go about their taxation methods. Also, the oil companies, the state's outside consultants, and reservoir analysis and aerospace subcontracts on gas supply, Mr. Grey.

GREGG: This study says that Alaska is going to lose 400 million barrels of oil to produce the gas.

It also says that the oil companies are going to have to receive the net of all the state's taxes and royalties.....47 cents Mcf, otherwise, they won't find it economically feasible to produce the gas. These are kind of, if not shocking, at least, surprising figures. I think they differ substantially from what other people have been saying up to now. I would expect you might want to look into that.

It was decided that the Department of Interior would be asked to study possible methods of removing gas from Alaska and to report back to congress within two years of the day of the act. That two years expires Nov. 16, 1975. The interior Department decided as a first step in making their report to congress, they would commission a study. This aerospace study is the draft of that study.

MILLER: You're suggesting that we have a public hearing?

GREGG: One could ask for written responses to questions, my suggestion was for a public hearing, yes.

BOWMAN: ...which should be at our next meeting. We haven't set it, yet.

TILLION: We could set it after Washington.

BOWMAN: We have to consider that we may have a Special Session. If we do, we could always hold it in Juneau.

MILLER: How much time do you need?

GREGG: I would think that the oil companies and the consultants would need at least three weeks and possibly a month to get their material together in a way that would be most useful to us.

MILLER: Why don't we schedule a hearing in Juneau--and if there's a Special Session, we'll go around it. If there isn't, we could just meet in Juneau.

BOWMAN: Would most of our people be here?

GREGG: I think the oil company people would more likely be here, than in Juneau...You don't have to determine the place right now.

B OWMAN: Is the 10th of November agreeable to everyone?

MILLER: I move we hold the meeting and hearing on Nov. 10th at 10 a.m.

ANDERSON: I object.

BOWMAN: The motion is carried. We didn't cover the authorization to cover witnesses expenses...The state's outside consultants, the Aerospace subcontractor...Are we calling all those people before us?

TILLION: A lot of this will depend...on counsel to get your answers before we haul a bunch of consultants before us--shouldn't we? ...so that you can ask these consultants that you bring, these questions and have some background to be able to do it. I don't think we should have all the consultants in til after we have something prepared--so we know what to ask them.

MILLER: Gregg, is there that much dispute among the experts as to how much oil is going to be used in this process or is it pretty standardized.

GREGG: I don't think it's a matter of how much it's going to be used in terms of consumption. The production of the gas means that that gas is not available for reinjection, which means there's a need for an artificial water drive...and that is less efficient than gas injection and therefore oil would remain in the reservoir that wouldn't otherwise remain in the reservoir. There is definitely a dispute about that. I've discussed this with the BP people and they say the Aerospace consultants are just plain wrong. I have no idea who is right or wrong. I have no idea who is right or whether there is misunderstanding, but it is clearly an issue of importance of public policy.

MILLER: If we can invite, for example, the Division of Oil and Gas people--who should have a handle on that. Maybe someone to represent some outside expertise ...I suspect if we make those producers on the Slope aware of the information we want, I'm sure that they'll pay their own witnesses...

GREGG: Oh, yes. I think there is some misunderstanding. I'm simply suggesting we not retain these other consultants to do a study for us. We simply ask them, as having done the study for the Title III Study and the study for the state to come back up here and explain their study that they've already done.

MILLER: Wouldn't one be enough?

GREGG: Well, I think, definitely, you're going to have to get the Title III people and maybe the state's consultants don't need to come--maybe the state's engineers can answer those questions.

SPECKING: Of the state's consultants, who are we talking about?

GREGG: The reservoir consultants... These are technical consultants answering technical questions.

SPECKING: What sort of retainer are they on?

GREGG: I think we're talking about at most \$100/day and they will be testifying for one day and then their airline ticket. That's the magnitude.

TILLION: The airline ticket is the big cost.

GREGG: ...if they come up from Houston. To tell you the truth, I would suggest asking them to come up and not offer to pay their ticket.

HUBER: Could I make the suggestion that we authorize the Chairman to pay the Consultants and fees--such ones as he deems necessary.

SPECKING: I think that is unfair to the Chair.

GREGG: I think that is a lot of money... If you'd like to restrict it to Gruy and Associates--they are the ones I have the most important questions for. They have come out of the blue stating we're going to lose 400 million barrels of oil.

HUBER: I don't want to restrict it to them. If the Chair feels there is someone...

TILLION: It's so nebulous, because they are guessing as to world factors on price and use.

GREGG: That's a non-economic evaluation. It's a technical engineering constraint only.

MILLER: If it's a state consultant working for the Division of Oil and Gas, I think we ought to invite the Division of Oil and Gas to testify--if they feel it's necessary to bring their consultants, let them do so.

We ought to invite industries who have reserves on the Slope to come. If you feel we need this Dallas firm, let's invite them. Let the State make the decision as they are the Division's consultants.

BOWMAN: The Aerospace people?

MILLER: No, we ought to invite them specifically, if Gregg feels it is necessary.

BOWMAN: If they are of value, do we pay them?

MILLER: I would suspect so, yes, but in terms of the Divisions consultants, let them make the decision as to whether they want to come.

HUBER: Mr. Chairman, I would like the Chair to note the presence of Mr. Shelley from Mobil Oil who has been quite helpful with such thing as this in the past--and maybe he'll take it back to his people--that maybe we want to hear something in this line, too.

BOWMAN: The motion before the Committee is in essence, of what John has stated: Everyone will be invited as our consultant and the Chair feels should be.

And the Aerospace subcontractor will be paid if he asks for Consultants' fees for the hearing. That's the basis of it, the rest of them will be invited on the basis of their being State and Oil Division people and consultants for the State.

GREGG: Do you have supoena power?

BOWMAN: Yes, the Committee has supoena powers.

GRUENING: It may be good to send the Division of Oil and Gas a copy of this report and ask them to come up with a written comment prior to the meeting--so we can ask them questions on the basis of their response to this.

GREGG: That's a good idea.

TILLION: That's good--because if they can punch holes in it, even if they're not successful...

GREGG: What we really need is the report that underlies that, and I will get that.

GRUENING: I imagine they have enough expertise to go ahead and say--well, this couldn't possibly be--based on their conclusion.

TILLION: They can at least explain to us the difference between the way they figured it and the way the others figured it. Right now, we're on the blind on that/

BOWMAN: Are you ready for the question?

HUBER: I think the motion included that you weren't tied down to that one. If you found that there was somebody else you wanted to pay for. Unless the Chair is refusing that.

BOWMAN: The Chair would feel that the Committee would be recognized if problems come up in the Interim that somebody else should be invited. We would probable do it.

HUBER: I ask for unanimous consent.

BOWMAN: Unanimous consent has been asked for. Hearing no objection, so ordered. Let's move on to item number seven. Gregg, you want to explain that one?

GREGG: Item number seven is explained in detail and is probably the least firm of these recommendations. It's a suggestion you might want to consider. On page 13 I say, discuss the El Paso proposal. As yet, El Paso has not clearly demonstrated itself as a serious and credible applicant for the right to develop an Alaskan gas transportation system. Largely because of the fact, that they haven't been willing to pay for the necessary draft DIS-- associated with the right-of-way permit. There are some things that the state could do if it wanted to get that right-of-way application underway. I mentioned some of them, but it seems to me, that if the Committee wanted to go that route--the first thing to do would be to talk to El Paso and ask them number (1) why they haven't done it, (2) do they intend to do it in the near future, (3) how much it would cost and so on.

SPECKING: What you're saying now is that this is a cloud on their credibility?

GREGG: They 've requested it, but they refused.

SPECKING: ...I think some of the others have heard John Bennett on this subject. I think, it has been explained and I'm vague on the explanation, I wasn't particularly unhappy with it. I wouldn't mind listening to it again. I think it does wash the thing out publicly if we ask the question.

GREGG: What I'm saying, and this really depends on the direction the Committee wants to go. Sometime in the future, you might want to consider the State getting involved in this.

TILLION: If I might disagree with my older brother, I do object to listening to El Paso again and would prefer to have it in written form in something under 12 pages. I don't want any pictures...I think that would be satisfactory and I wouldn't have to listen to another presentation, I'm all burned out.

HUBER: I disagree, I would like to have them answer as Gregg has suggested. I would also suggest that we

put it on the agenda for the second day of the meeting that we have set for the 10th. Those that don't want to listen can go home. I think Gregg has some viable ideas and we do have to clear the air as far as El Paso is concerned. It's a case of either them eating the roast or pushing the pan around to the next one, if you know what I mean. The state may want to do something.

TILLION: John, I'm not opposed to asking the questions, I think we should. I would just prefer to have it in writing in a short presentation that we could read and crank in without a long drawn out discussion that eats up all the time. If there are other questions, we just might want to call them in at a later date and have those specific questions ready on a person-to-person basis. I don't think we're that far along now.

HUBER: I didn't want to go too deep into that. It's obvious, that my opinion falls in the same place as Jerry's does in this area. I think El Paso, with all the publicity going on, is saying that Alaska is at fault because we haven't committed to them. I think El Paso, is at the present time, trying to get us to commit our gas to them. They haven't done anything to assure us that it is going to go through Alaska, even the first step. It would certainly be a big thing, if they could get it for 10¢ Mcf. Later on, then, they'd say, we just couldn't get a permit, so we'll sell it to Arctic Gas Consortium for a \$1.50 Mcf. Unavoidably we've made \$1.40 profit on something like that. We tried our best shot. We just couldn't get it through Alaska. I have backed them right along. I believe now that their credibility is lacking. I'd like to hear from them--if their credibility isn't lacking, I'd like to apologize to them.

SPECKING: I have all the faith in the world in the Chairman being able to control whether they put on a dog and pony show or whether they answer the question. He's got a large gavel... I think he could be mean about it, if he chose to. I think if the Committee feels like they want to say to the Chairman--we don't want to listen to El Paso all day, we'd like to get this question answered. That's the way it will be.

BOWMAN: Keith, you said you had heard them defend their position as to why they had not applied for the permit?

SPECKING: I'm somewhat vague on that, Mr. Chairman.

TILLION: I think they had a valid reason.

BOWMAN: Does anyone have any idea why they haven't, other than the money?

KAY: I could possibly be confused, but I swear that within the last week, I saw a small article in the paper saying that they were going to apply to make the environmental impact statement.

TILLION: They intend to make another by now anyway. Someone would have requested to make a change.

GREGG: I think there was something on the FPC--their assertion that the FPC EIS would be sufficient. I saw an item of that nature in the last week. They think they can build the pipeline on the basis of their FPC certification and need of right-of-way. They'll have to get a separate EIS for that.

SPECKING: My vague recollection is that there are discussions centered around the idea of the EIS thing would be forth coming after the permit position, if they go it. They couldn't see them spending the money, and others spending the money to plow the same ground. I'm certain that if you went back and researched the Anchorage Times during the period when this oil and gas thing--that you'd find the answer.

HUBER: I also recall some long hearings with EL Paso a year or so ago, along with grafts they had. I ran into some photographs of those grafts that dealt with the displacement of gas going back East--by displacement through the West coast lines and so forth and I see that Jerry called to our attention, that the same lines are now apparently leased to move oil East. I just think that their credibility is lacking. Now at the last minute, they want to get their hands on the ownership of the state's royalty gas and they say we're so sorry we couldn't build the line, because they're apparently leased or sold the lines that they were going to get this Alaska gas into the East by displacement.

BOWMAN: The question, then, is still whether we want them to appear before us to answer this question--maybe in writing previous to that or any question we might have at that time or however you want to handle it. The Chair is open to a motion to that extent.

SPECKING: I would move and ask unanimous consent that we call on EL Paso to answer to that specific question and not give us a dog and pony show and sort of a controlled answer.

BOWMAN: You've heard the motion, any discussion? Unanimous consent has been asked for, hearing no objections, motion carries unanimously.

Item number eight, is summary of projected committee expen-

ditures. We can give you a rough estimate of what it is.

GREGG: Our total expenditures to date are less than than \$10,000. The obligations we have now, we estimate about \$7000.00 for the Committee's trip to Washington, probably less than that. The consultants you may or may not hire in Washington for the legal questions, I would estimate the cost at \$30-50,000 or so. It could be more or less, depending on what you choose. My payroll will not come out of the Committee's budget, I'll be paid by Legislative Affairs--I think you're budget is in pretty good shape.

BOWMAN: Are there any questions? We will have at the next meeting a print out of our expenses. Other business, Bev would you like to speak. Bev Isenson from OMAR,

BEV: On October 6, here in Anchorage, will be three people from Louisiana who have had experience with problems of their state's control and use of their oil and gas and their problems that we may wind up having and they will have some bearing on some of the things you've discussed today.

The three who are coming are, John Kamp who is a Louisiana Attorney, Ray Sutton who is the Commissioner of Conservation for Louisiana and conservation means something very different there. They're talking about getting every last drop of oil and gas out of the fields. The third person is Harry Borsch, Harry is a Louisiana attorney who now practices in Washington D.C. He's with the firm of Patton and Boggs. Boggs being Hale Boggs, Jr. and also in that firm is Bill Foster who was one of the chief lobbyist on the Alyeska oil line. Some of you may remember Bill from years ago, He worked for the Alaska Legislature Affairs Agency back in the early days. He went to Washington to work for Senator Bartlett and he has never come back.

BOWMAN: Oh, He comes back every year.

BEV: Well, to visit. Alyeska is still a client of that firm. Mr. Borsch has a considerable amount of experience in dealing with the FPC and we thought that it would be useful to bring these gentlemen up here and have a seminar. SO, sometime during the day, October 6th, we hope you will all attend. We'll be sending you the details on that as soon as we get them worked out. We're doing this in concert with the Anchorage Chamber of Commerce. We had originally anticipated coming to this Committee for money, however, we had to make a decision quickly and so we decided to guarantee their funds. These gentlemen are not being paid. We are reimbursing them for their expenses, their ticket and hotel and so on, but they have agreed to come up here at no cost. We hope that this will give us the benefit of the experience Louisiana has had. We hope that you will be able to take the time to come

to come to the meeting. It will be here in Anchorage.

HUBER: Bev, you mentioned conservation; you mean Conservation in the sense of conservation of an oil pool as its used by petroleum geologists?

BEV: That's the way we understand it.

BOWMAN: So, you will be sending out information as to where it will be and all that?

BEV: Right.

TILLION: Is this going to be a Chamber of Commerce Luncheon?

BEV: No, it's going to be more than a luncheon.

TILLION: Well, it's going to be the whole ballroom.

BEV: Right, but it will go on, either, start in the morning and continue through lunch or start with lunch and continue through the afternoon.

HUBER: ...on the 26th?

BEV: ...on the 6th of October.

HUBER: This Committee will be traveling?

BEV: ... Depending on what you schedule--it may be possible to leave Tuesday morning and get to Washington D.C. Tuesday night and then be briefed on Wednesday, hearings on Thursday.

GREGG: Does Borsch have an office in Washington?

BEV: Patton and Boggs.

GREGG: He's there though?

BEV: Yes, he is there. I would like to make one comment.

When you were discussing refining the natural gas in the state and therefore keeping it out of FPC jurisdiction. I thought you would be interested in knowing that there has been a study undertaken of whether or not there is a real need in the state to use the royalty gas. The study was undertaken by a consultant to the FPC. The consultant is the RESOURCE Planning Associates, in Cambridge. They did a study on two aspects of information that the FPC wanted. One being the socio-economic impact of a line coming through the state, either down the rail belt or along purposed EL Paso route; or going through the wildlife range or going to Fairbanks and down the Alaskan highway. The second aspect of the study relates to whether

the state has a real need for its royalty gas and so in undertaking their study, this firm started calling around Alaska to find out if there was anyone willing to step forward and say--yes, I want to use that royalty gas to use to do this, that, or the other thing. Of, course, at this point, there isn't anyone willing to say, I want to take that royalty gas and use it for fertilizer or even heating. So, we're very concerned that the recommendations of that FPC consultant--will be that the state has absolutely no need for its royalty gas. Therefore, it should all be ordered into Interstate Commerce.

HUBER: What consultant is this?

BEV: Resource Planning Associates--they're a consultant to the FPC.

HUBER: That's a loaded question to ask that of a non-industrialized area...Do you have a plan to use it when you don't have industry here--that now that the gas is here, the industry comes where the resource is. So, they're asking a loaded question...There's just no way that you can compare - is there an interest in that gas in Alaska? at this time? For many people who have money, there is no interest... For people who have no money, and no facilities in, we have a lot of interest in that.

GREGG: Did you talk to these people, Bev, when you were in Washington?

BEV: They called us and unfortunately, we didn't have anything concrete to give them. We couldn't send them to a company that was going to open a factory of any sort doing anything with the gas.

GREGG: There are two separate studies you're talking about?

BEV: Right, on the socio-economic aspects, we sent them a copy of the state's job forecasts. The state Department of Labor had a consultant doing a job forecast on construction manpower--so we sent that to them--and sent this information on our past experience with them.

GREGG: What is the projected date of the study by Resource Planning Associates?

BEV: September 20th.

GREGG: I'll write a letter over Senator Jackson's signature asking for a copy and see what happens.

BOWMAN: One other point, sometime in the last few weeks

or so, Bev and OMAR people requested of us some assistance in paying for a group of Alaskans going down to some hearings in Washington. I said at the time that I wasn't too sure we were able to do this. Anyway, I called Berrier at LAA, to do the research of whether we could pay out of the funds that we have allocations to help defray the costs of private groups. This is the answer from Berrier--until I received this, I was not in any position until the Committee met to say we could assist them in any way. As I understand it, you were down there last week, Bev?

BEV: Yes, and we had many profitable meetings. I'd like to share the information with Gregg.

BOWMAN: It seems, though, that we would be able to do anything on that. I just need confirmation from or Legislative sources.

HUBER: We have the authority now and the question is how much money do we want to expend and for what purpose, right?

BOWMAN: Yes, if there is one. I presume the need is still there. Were you able to get your money, Bev?

BEV: Yes, we took care of it.

BOWMAN: Are there other questions or business to come before the Committee? Keith?

SPECKING: Mr. Chairman, I'm wondering if it would be possible for Gregg to let us know in advance of this Washington thing. Where are we first meeting? There could be a little confusion there.

BOWMAN: Yes. Where is our assembly point?

GREGG: I'll send you confirmation of your hotel reservations to the address that Cathy has unless there's some other address that I should send it to. What the tentative schedule will be--I'll work it up in the next week or so.

SPECKING: Yes, in the event we don't get together that night before, we'd know where in the morning.

HUBER: Am I the only one that will be joining the group on the morning of the 9th and for the 10th.?

BOWMAN: I don't know.

HUBER: Everybody else wants to get in on the 7th, is that right? We start on the 7th over in Philadelphia.

BOWMAN: We don't know where Pat Rodey, Mike Bradner, and Chancy Croft is going to be. There will probably be others.

ANDERSON: Has the OMAR made a proposal for assistance?

BOWMAN: They make a request about three weeks ago when they were trying to get the moneys together to send a group down.

ANDERSON: My objection to OMAR, as noted in the previous minutes, still stands, unless OMAR takes a look at our labor force...and makes it one of their objectives. I don't really think I can support a request for using our funds. But, I'm sure that they will come up with a way so that the inconsistency will be resolved where you're asking people to help you then turning around and saying, well, you can't work on it.

HUBER: Of interest to the Committee; our xerox operator on the second floor of the Capitol, Bob Chy, who was out for a cancer operation last year. I ran into him in Fairbanks and he complained very bitterly to me that he's been in Fairbanks 13 weeks as an Alaskan trying to get out on the line and he hasn't been able to make it yet.

BOWMAN: I agree and I get a lot of calls like that but you have to really get down into each one and search it out to verify a lot of information. I don't know of too many, I'm sure there are a lot of them, but I don't know of too many people. They might not have gotten the job they wanted or the position out in the Union, but I don't know of too many people.

HUBER: Bob is with the teamsters...

BOWMAN: He's with the teamsters and wasn't able to get out?

HUBER: That's what he volunteers. All of you fellows here know Bob, so you know that he's a competent man and a worker.

BOWMAN: I also want to take notice of Senator Meland her. Senator, would you have some instructions for the committee?

MELAND: Mr. Chairman, I don't have any instructions for you. I certainly am very impressed with the type of rapport that you have in your meeting. Seems like you have accomplished an awful lot and in good humor, thank you.

BOWMAN: Well, it's always a pleasure for us Senator, to have you sit in with us.

Are there any other items you want to bring up? If not, the meeting will stand adjourned. I appreciate all of you coming on the notice we had. We will be sending out the minutes and other documents, as soon as we can get them together. Thank you.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

ANCHORAGE CHAMBER OF COMMERCE
SYMPOSIUM

WITH
Louisiana attorney John Camp

October 6, 1975

Croft's introductory remarks are not included because the tape-recorder was located too far away from the speaker.

I came to Alaska to talk on an intrastate gas line and how it would relate to Louisiana. The problem with your gas going into the intrastate line on a contract that would permit you to pull that gas out at some later date and if you have an FPC approval on this--how safe would you be?

I would be gravely concerned if I was an Alaskan...I also posed the same question to Don Smith and another member of the FPC and to Russ Moody who just left the FPC. I go back to my suggestion that I've no doubt in my mind with the proper contract and proper certification to doing...I think you have to go much further than that, as the philosophy and political and economic realities on the further end of the pipeline are really going to go on what happens to your gas.

Now, circumstances that make it more difficult is when people take your gas when you need it. It would seem to us that legislation would give you your best protection--even legislation can be changed, however. I'll I'm doing is giving you thoughts I have--I'm certainly not qualified to go further than that. With assurance, your deal to protect Alaska is going to be made before that gas starts moving. If you don't protect yourself in the absolute maximum degree...control of your producer share of the gas in your leases, taxes with a refund to those people using gas in your state--everything you can do must make it more economically feasible to keep the gas here--more difficult to move.

If you can get in a position where it's a question of a pipeline running from the North Slope to the Midwest or California or some place else. What you're trying to do is take some of your gas out of that line. Let's assume the line is full to Anchorage and you want to take some of that gas out and use it here..I'll say you have your work cut out for you in the future. The shortages will be greater, the politics will be tougher. Every practical circumstance I can think of mitigates against favorable decisions in your favor down the road.

People are going to do the right thing as they see it. The right thing is to protect the home folks. I'm just giving you thoughts

that I had run into on how this works. I may not be absolutely correct on my facts as I've only run through this and I'm subject to correction.

My understanding is as the lower end of El Paso's line or rather in the California users off of El Paso that the format normally is interruptable industrial contracts, meaning you pay a low price, you intend that your gas may have been interrupted as various problems arose. It's interruptable. Over into New Mexico and Arizona and other areas from which a part of El Paso's gas is received, the general type of contract, according to the information, is a confirmed contract.

You want the gas, you make a confirmed contract--getting the gas over a period of so many years on a regular basis. The FPC now construes the firm contracts and the interruptable contracts on virtue of the same basis and that same rule is being repeated in key legislation now before the Congress. What I'm saying is that a guy in New Mexico who made a firm contract built his plant and did not put in alternate fuel capacity. A man in Los Angeles has perhaps alternate fuel capacity but, he has an interruptable contract. There's no difference in the way they're now being considered. There was a time -- but this has been building up for the past several years, it's all over. I point out a couple salient facts--the interruptable contracts are where the people are and the votes are. The interruptable contracts are on the East coast--they're on United gas pipeline climb, they're on the El Paso climb. It's not a question of whose land they are on but where they are. They are where the votes are, the people are, and the jobs. The Firm contracts, by and large, are in New Mexico and Louisiana and in any other place where we don't have any people and no votes.

Now back to my personal feelings--better make your deals now and get your protection there. If it were me, just me, not the state of Louisiana, I would keep my gas in the ground--I'm not talking about royalty gas--I'm talking about my producer's gas in the ground until I have something worked out. I don't see you keeping it in the ground ten years...the circumstances are so desperate that that's not going to happen. If it were me, it might take another six months--but it will take some period of time. I say it will stay in the ground til we get fair treatment assured to us under the best approach.

I can't over emphasize to you how little knowledge and how distorted the knowledge is in the Congress and federal agencies on the gas problem. I'm not saying they're stupid, I'm saying that you don't have very many people in Congress who have been involved or next to the oil and gas business. The fact that you're from Louisiana or Texas or Oklahoma doesn't mean you're an instant oil and gas expert. You run into this every day. From an oil state

you'll be lucky that you got a couple or three people in Congress who know anything about the oil and gas business. Whatever the reason you just don't have that much expertise and you are very fortunate in Alaska for I know three people you have down here --I'm not up here to elect them, I'm just telling you that they have a good grasp on this problem. You don't need to lobby them --you need to lobby the guy from New Jersey, New York, Iowa and other places. In my own state of Louisiana, we've had people tell us: I don't know anything about oil and gas, I don't have anyone on my staff that knows, so figure this out for us--that's what you're here for. We have found particularly congressmen, from basic producing states who were elected on the platform to get prices down--reduce prices and cut depletion allowance...

Before I get into that I have an editorial from the Washington Post which I will tell you (one of the newspapers in the country that doesn't reflect the views of Louisiana). The Washington Post says Texas, Louisiana, Oklahoma are subsidizing the fuel costs of Washington D.C. and the East coast and heavily populated areas of the country. I'm convinced, but didn't know they were. I met with the Governor of Oklahoma last week on the problem in Washington. He was very frustrated because the deeper the gas reserves in Oklahoma, that haven't been produced, and believed to be there below 15,000 ft.--you could absolutely not produce that gas at the current price rate. It's a question of no gas or cheap prices--it just can't be done. I said to the governor, I'll answer your problem for you, as I've been through this, I can give you the staff people on one of the key committees that we had a real battle with. I was telling one of the senators that you have to have a price to drill the deep sands and so on and on. So his answer was, I didn't understand the problem--that the averages would take care of it. He said, look, you don't understand that if you drill an 8000 ft. well and you make a lot of money on it and drill a 15,000 ft. well and lose a lot of money on it--the average will be all right.

Now, I read in daily gas reports what the prices are for synthetic natural gas. So when we say our prices are too high when compared to what? Coal? Synthetic gas? LNG from outside? when compared to what? It doesn't have any value. When we proposed our legislation to our legislature, we made a presentation along this line. The reason we have the problem is that the gas is so cheap. We talked to them about a plant in West Virginia at the mouth of a coal mine that converted to gas because it was cleaner, cheaper and so on. It should never have been converted to gas if gas had been where it should have been. As long as we have these cheap prices, we increase the demand and so on. Again, I go back to where the votes are and how it's done. I re-emphasize to you that when we talk to people from these other areas and sit down and get acquainted with them over a period of time...

I remember visiting with a congressman from Kansas. He said, you represent big oil companies, we don't have anything in common with your state. I said, did you ever have any schools closed because of gas shortages. Yes, he said, schools in my town closed two weeks in the middle of last winter because of gas shortages.

I said, I thought you had some gas. He said, we do, we have the biggest dry gas field in the world. All it took was that visit. All I had to say was, where is your gas going? We found that gas was going into underground storage under a different set of priorities from which it was taken out. Again, I go back to this Commissioner, he said, Where in the hell have you people been? Don't you know what's happening to you?...

QUESTIONS:

Q: What about deregulation? Is that in the cards politically? How would you put price of gas on an economic basis. What would that do to the local supply of Louisiana?

A: Deregulation of gas, we feel is good for the nation, as it would create gas. It would be bad for Louisiana, because it means that people who cannot bid for our short supply will then be in a position to bid for it. Governor Edwards has taken a position that it is so critical for the nation in having increased gas supplies that you could get with more prices, deeper drilling and that sort of thing. He's taken a position even though it's prejudicial to the interests of the state of Louisiana. It's such a national problem, we've got to go with it--so our position has been with the deregulation. We expect deregulation to come about under some kind of compromised formula, maybe, but it has got to come. I was there last week with our people and we were very pleased with the vote. Our senators have met with some of the "border states" on the problem. I'll I did was give just an earthy explanation of what this was all about. It was no gas, or get the price up so we can drill for some of the deep gas. One senator said, I don't understand it that way--I'm for cheap gas. I said, well, fine. How are you going to get the money to drill for deep gas you can't produce for the present time. He said, I didn't understand it that way, but I'll go with you. I'm convinced that we're going to get deregulation--whether it will be 100%, I don't know.

It seems to me that if the price is competitive, then they would just sell it to the highest bidder ...

That's true, but the thing about it is, You've got so many reserves known and believed to exist, that you can't drill it and produce it for the current permitted prices. In other words this won't stay in the ground.

Now let me go back to my staff problem. I was meeting with staff members a year or so ago. One of the three top committees, he was saying that we should have a national price for gas. Maybe you can help me with the problem I have right now. I'm representing some clients of North Louisiana that are trying to sell gas where the wells cost \$30,000

to drill and it's very low production. We're also trying to buy that gas. We're trying to sell gas out of the well of one of our clients that cost three million dollars and went down 20,000 feet. Now can you tell me how you can have a price that will really work out across the border on this. We'll make some adjustments they said--no understanding of the problem at all.

Q: Mr. Camp, the lands of Louisiana, who owns or controls those lands where gas was found. Did the state of Louisiana receive any percentage of that as a royalty gas and if so, what are you doing with it.

A: The substantial part of the gas produced in Louisiana is produced from state owned land. Up until three or four years ago, leases would not provide that we take state royalty gas. We are not in fact having to take state royalty gas at this moment. We have a critical need, we call in the people around the table, ...we need some gas, and we need it now.

Q: Would you have a certain amount given to the state of the production of that field as your right as a royalty or do you want it all.

A: We have a royalty on it. All of our new leases provide that if you bring in new gas well, that is not previously committed, If you get a new lease, and you discover gas you have to first offer that and sell it intrastate. If you can't sell it, have the state offer to sell it. What we're trying to do is keep it in the state. So we can pull our royalty share, we can also tell the producer we want him to sell his share intrastate.

Q: Our problem is a little different here--we sold the right to our gas quite a few years ago. However, the state retains one eighth to twelve and a half percent of that production of that field as our royalty. Our problem is control of where the gas goes, how it yields, as it basically belongs to others. Louisiana gas primarily comes from state owned leases.

A: Under our old state-owned lease, we do not have the right to get at the producer's share, only the new leases. We have our royalty right the same as you do. What I'm suggesting is that your lease form for new leases--I understood you had a lot of state lands that were not leased.

Q: We do, but all of Prudhoe Bay is on state land...We've got our royalty with the option to take it...

A: Well, Senator, do you have a lot of state owned lands that are yet to be leased for development? Would there be any problem in putting in those new leases yet to be granted--provisions that would give you some control over what happens to the producer share.

Q: The non-royalty share?

A: That's correct. We do that in Louisiana and it's a new statute in Texas. I'll be glad to give you copies.

Q: Mr. Camp, does the state of Louisiana take any of its royalty gas for the use of the state?

A: No, we have the right to own recent leases. I'm saying that what actually happened in that we've had a need to call on state royalty gas. What we've done is call on the holders of various state leases and suggested to them that we have that right and that wouldn't it be much better if they worked it out for us and gave the man some gas so we didn't really have to get involved in all sorts of bidding problems. Incidentally, on that same point, at our recent Legislature, we passed a law that permits our mineral board to sell gas by negotiation rather than bids. Of course, the first problem is what looks like a bunch of crooks trying to get the state's gas. My point was this, there is legislation in Congress that could make every intrastate gas line a common carrier. There are some bills that will have the same effect. So I said any time that the town of Elizabeth (e.g.) wants to bid for gas against the city of Chicago, Elizabeth will lose. We've got little towns that don't have much money and we've got bidders over the country whose prices are totally inelastic. So on a bid basis, we figure that most of the gas available in Louisiana might well be lost. So what we did was pass a law that set all kinds of guidelines and standards and says that if mineral board decides to negotiate for the sale of state royalty gas, the contract must go back to our natural resources committee in the House and Senate and everybody else for approval. What it does is give us the right to negotiate the sale of gas to the people in Louisiana whereas if we had an open bid, the chances are, we would lose to somebody else....(end of tape)

...I brought eight states with me--that's the thing you might possibly be missing, I don't know, but it has been most effective for us--and we can get out and hassle these other states to have similar interests with us. We had meetings in Washington, we invited the governors people up, all the state people up, the legislature. Even seven or eight members of the New Mexico legislature came up. What we had found was this, that most state levels, I'm speaking here of people I've worked with like Mississippi, Arkansas, Kansas, Wyoming, Texas, and New Mexico and a number of others. At the state level, they tell me to find what's going on by reading the newspapers. Frequently, we've been able to take what a committee is doing .. five major committees meeting the same day--so if you don't have a staff to do it, you can't do it. We find out what's happening, what is being proposed--maybe we say, boy, this is hitting New Mexico and then get a hold of New Mexico people

and tell them this is what they are trying to do to you. We've worked great with the New Mexico senators and representatives. It's a question of what's happening. I don't know a single senator or congressman whose staff did not fully occupy themselves with taking care of the home folks' problems. There's no way they can find out what's happening in five or six of these major committees. I tell you that people against your interests would know.

Q: Mr. Camp, I understood you to say that we ought to build our own pipeline for our own gas. Do you mean by that then that it wouldn't really matter to the state of Alaska or if a major interstate pipeline went through Alaska or whether it went through Canada, if we built our own pipeline for our own royalty gas down from Prudhoe Bay. Is that what you meant?

A: No, not exactly as I also said, that if your gas supply is moved from the North Slope to the lower 48 in such a fashion that the pipeline does not cross the part of Alaska where you would need gas or industry. What I am saying, if you built the pipeline from the North Slope across Canada--then you'd never have any of these problems, because you'd never even get a crack at the gas. First, I personally believe a pipeline of Alaska is preferable and secondly, if you're going to have an interstate line, for god sakes have it at a place where you can always argue about it and at least try to get some of the gas out.

Q: Were you also suggesting that we wouldn't have this problem of the gas being commandeered outside from an interstate line if we had our own pipeline from Prudhoe Bay that didn't have anything to do with the industry.

A: What I was really trying to say was that it would be possible if it would be possible that you could build a pipeline from Prudhoe Bay to Valdez or whatever big enough or pipelines big enough to handle your gas--hopefully all of your gas is moving through Alaskan lines. Then you would be in a much better position than if one or more of those lines were an interstate line running through Alaska to Chicago.

Q: What would be considered interstate if it's liquified and taken out.

A: What my understanding is at the present time, is that it wouldn't be considered intrastate, I tell you that this is subject to change when in a tight spot--these rules can change. As long as you have your pipeline and your gas and you're not connected with anyone else, you've got your best hope. Of course, if you build your own pipeline, not necessarily the state building it, and you financed that

line with the guarantee from the people who were going to build it--then I don't see any real financial risks there for Alaska.'

Q: We've heard you say, then, that if the proposed gas line goes through from Prudhoe to Valdez--that it will be liquified there and shipped out. Then there is the twelve and a half percent royalty gas--you suggest that it go where the population is going to go. Now, it just so happens that the Prudhoe-Valdez area is not going to be the area where all the people are going to be located. Are you suggesting that you would build a state-pipeline carrying a 12 and a half percent royalty in a location other than the one established.

A: I'm not sure I'm suggesting that, but it sounds like a good idea for the economics that go with it. You may have to find some producer's gas--you ran a new lease, and in that lease you can keep a call on that gas--you can require it in your lease to be run through your pipeline. You've got the muscle.

Q: Recently a report was published by Getty which was not supposed to be published. Getty reported an estimated deregulation that the price of gas would go to 2.25 per Mcf. Do you believe that is correct?

A: Our experience in Louisiana would tell us not. We have a free market in Louisiana and in Texas. I talked with the chairman of the Railroad Commission a week ago--and he told me there had been a few isolated sales of \$2.00 but really sales are much lower than that on the average. An average during the past year has been about \$1.40.

Q: Let's assume Getty's prices of \$2.25, the lowest estimate so far coming out of here by BLM and the studies they have had done or some that other people had done run from \$2.50 to \$3.00 -- that's in the same area of competition. Do you believe that we could continue to compete with that kind of gas?

A: Yes, let's go back and talk about the gas in the lower 48. Remember the facts on Louisiana, the export as much as all the other states put together? Our drilling was up about 20% and production down about 12 or 13%. The production decline has been doubling every year... there is a significant decline in production in Louisiana even though there is a significant number of new wells being drilled. At the prices you're quoting, somewhere around two dollars. It's cleaner and easier in handling at a flat even delivered price, you're still better off.

Q: The price I was talking about was city gate price..Do you think our gas would be competitive?

A: I read some figures the other day in New York city and I'm

not sure I can quote them to you correctly, but it seems to me that for a unit of gas it was \$2.25. The price of gas just isn't that big. This is a political football and if you take the delivered price of gas in most instances, the actual well-head cost of the gas is not the biggest part of the cost. If the gas delivered turns out to be \$2.00, I think it would be considered a bargain. Maybe I don't know that much about that, I don't think you have much of a problem. I have in my briefcase an analysis of all the price afforded within a given quarter recently--there are a bunch of prices in that--\$5.00 is one. You've got a lot of uses...My own feeling is that at \$2 or \$2.50, you have not reached the point where you have a surplus of unsalable gas...

Q: Do you see any hope of what I call this ridiculous FPC regulation that says when gas....will the regulation ever be changed?

A: Oh, no. The only way that will be changed is through pure transportation agreements of the FPC...The real hope we have is that some of our strongest...are running out of gas. If we just don't let them have the rest of the gas until they've got something that's reasonable, we'll get it.

Q: The reserves are presently estimated at 26 trillion, I think most of that has been committed with the leases of the North Slope. We have a right to 12 and a half percent. There's a real fear that once this gets into any gas line--whether it be trans-Canada or trans-Alaska, that it will be treated as interstate commerce and lose the right to use it in whatever we desire it for. If I understand your advice that we have a commitment for the use of that 12 and a half percent. It behooves us to have a commitment and probably have an interstate line if it's economically feasible to use.

A: You should do all those things and get your gas. Let me give you three examples where contracts just didn't mean very much. At Lake Charles, we have... they made a deal with Pennico to buy and drill some off shore reserves. The deal was that Pennico would take half the gas for its interstate line, Connico and the ... would take the other half. Pennico got it's half, the other two applied and nothing happened--nothing happened for so long that Pennico came in and said that half the gas is gone, let's shut the valves off--because the other two own the other half. FPC said that it didn't matter that Connico didn't sell their gas interstate, you cannot abandon--keep delivering the gas. There is another case involving south bound...royalties where there was a 50 year lease (I think Gulf was the company) and it expired so that the owners at that point had never contracted with anybody. The owners at that time wanted to sell the gas to somebody else intrastate--I think for \$1.90. The FPC said 'no. It doesn't matter that the owners of the mineral rights never involved itself in the sale of its gas--it is committed interstate and you cannot stop deliverance unless the FPC approves. There are some others like that.

Q: Has that ever been challenged?

A: Oh, yes. Connico often worked out some small percentage. There are a number of recent cases--

Q: Do you have any examples of the kind of manufactures involved?

A: Louisiana is filled with petrochemical plants and so is East Texas. Natural gas is used to make every kind of synthetic fiber and materials and all sorts of sophisticated products. I personally know of major companies, I know of two right now who are making a major survey of the world's locations to attempt to determine where some major new petrochemical plants must be located--in order to be located at the base of natural gas. They're looking at the mid-East, at various areas outside the U.S.

Q: We here have one petrochemical plant that manufactures--that's the urea-ammonia, which uses about 50 million cubic feet of gas. I guess we can presume that the pressure on fertilizer is going to be a future. Because these are base products and not packaged in the consumer goods where your freight is high. I would suppose that we should go into that very vigorously--if it's not already being done. Do you think so?

A: Absolutely, I really would encourage you to do that if it's not already being done. Again, in preparation to the trip up here, I talked to some of the Washington representatives of an organization, I don't know the name, made up of all the other companies, the Duponts, etc. involved in this kind of endeavor. I think it sounds like a good idea even though the economics may not be with it.

The petrochemical group has a prominent organization. Before I came up here, as I said, was to talk to their Washington representatives about whether or not this was a good suggestion. I made the suggestion based on conversations I had already had with people in that organization.

Q: If it's going to cost 11 or 12 million to build the pipeline Maybe we should produce fertilizer in Prudhoe Bay and then ship it out.

A: As I understand it, some of the estimates are like a billion and nine to build the gas line from the North Slope down to Valdez--all the rest of that money goes into liquification plants. That's not that much money in terms of

Q: Alaskans are a little bit concerned over the possibility that maybe the final decision as to whether the pipeline will go across Canada or Alaska may not be a decision of the FPC but in Congress. Do you have any feel for that at all?