

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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1 and we included it to make the terms uniform.

2 SENATOR RADER: Any further question of any members, or
3 Senator Poland?

4 COMMISSIONER MARTIN: Senator Rader.

5 SENATOR RADER: Yes, did you wish to sum up?

6 COMMISSIONER MARTIN: Senator, I don't want to make a lengthy
7 summary. I just want to go back a little bit, and I'm
8 not going to review all the points I made this morning
9 but I don't want to leave the committee without trying
10 to stress again that there's no question that the center-
11 piece, or the most important aspect, or the most important
12 aspect of these contracts now relates to the fact that we
13 can get whatever support, political or substantive or
14 otherwise comes to us on the gas line route issue.
15 This is the only time it's important. It may have been
16 important somewhat earlier. It won't be important again.

17 But I do want to add to that that the other
18 provisions in this contract, whether they come from the
19 13-B argument, or Mr. Moody's theory of last year, or
20 the fact that we've negotiated a very good price term,
21 or the fact that we've negotiated good terms for take-back,
22 are extremely important aspects of this contract, and I
23 think the committee must take very seriously the possi-
24 bility that certain of these terms cannot be renegotiated
25 and put in a new contract. I do not think that, as your

1 negotiator you can act with absolute certainty that those
2 terms are going to come our way every time we sit down
3 to negotiate gas contracts. I'm not saying we can't
4 accomplish them again; we'll certainly try to. But I
5 do not want to leave the committee with the impression
6 that they are automatically to be included in any con-
7 tract, or that they can be protected in any subsequent
8 contract at a later time. They came hard and we had some
9 very difficult negotiations to get there.

10 Let me indicate just very briefly, at least on
11 a couple of those points, just to give you an idea of
12 why I think that it may be difficult in the future.
13 If you consider the situation that we'll be in later,
14 there are several factors that deal with the issue of
15 price. One is, of course, the fact that I tried to bring
16 up of the institutional constraints that we have on
17 royalty gas contracting.

18 If we are caught in a crunch where the State
19 does not have a position and does not have a contract,
20 yet we get caught in a situation where perhaps Arctic
21 is certified, if we lose support and if this is a fact,
22 we're losing support and Arctic is certified, we are
23 then under a time pressure that we are not now under and
24 our buyers will know that. They will know that our
25 alternatives are limited and they will know that they

1 have us much more at their mercy than they do at the
2 present time. I'm not saying that will happen, but it
3 could put us in a bargaining position we're not in now.

4 At the same time, if the State is the last
5 one-eighth to sell, if the producers go ahead and sell,
6 consider the alternatives that we face. By selling now
7 and including the term that gives us the best price,
8 we automatically benefit by the very best deal that any
9 producer makes.

10 If we wait and we are one of the last eighths,
11 or we're the last eighth or the last percentage to sell
12 it could very well be the case that one of the producers
13 has made an extraordinarily good deal. It will then be
14 our job to try to make a better deal than they made, and
15 I should point out that that will be a good deal more
16 difficult to equal or surpass than it would be by simply
17 taking advantage of it right now.

18 At the same time, I think that once in-State uses
19 are developed and the present period of uncertainty is
20 past, so that we know what it is we're going to use our
21 royalty gas for, we can offer less to buyers. Under
22 the present circumstances, our buyers think they're going
23 to get most of our gas and we think we're going to use
24 most of it. But as we continue to develop in-State uses
25 they're going to know that they're going to get less.

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1 And in the case of a company like Tenneco, they're
2 interested in fairly substantial volumes of gas. They
3 have other alternatives, as to other gas companies such
4 as Algerian projects, Russian projects or other large
5 fields, and as the amount that they know they will get
6 from us diminishes, I think our field of negotiation
7 diminishes somewhat also.

8 I might also indicate, if there is any action --
9 we've been dealing in these hearings on many occasions
10 with possible but unlikely situations and I've been, I
11 think, fairly frank in admitting what is possible in
12 trying to give you an idea of what is probable. One of
13 the things that may well happen if we wait, and this
14 goes to the idea of future negotiations, is that if
15 Congress is likely to take any action with regard to
16 controlling gas in the future, my guess is that they
17 will take it with respect to uncommitted gas. There is
18 no reason that Congress should reward people who are
19 presently withholding their gas from the market.
20 If I were a Congressman, I would not lean heavily toward
21 the position of favoring the producers who are now
22 dickering with the FPC. I would lean toward favoring
23 the individuals who have committed their gas and attempted
24 to make it known how they're going to put it into the
25 national consumer supply.

1 So I think that all of these factors added up
2 provide extremely cogent reasons for considering that
3 some of these terms may be difficult to immediately
4 recapture. As I say, I'm not saying it can't be done,
5 but I'm saying that it's difficult and we ought to
6 acknowledge those factors. It's a calculated risk
7 that has to be considered. I think the Legislature has
8 to consider it as it considers these contracts.

9 SENATOR RADER: Representative Gruening.

10 REP. GRUENING: That raises a question. You mentioned the
11 disadvantage we might be at in terms of just selling it
12 for the price, for a certain price if the Arctic route
13 is certified. Rush Moody's testimony was that our
14 one-eighth is very crucial to the financing of that line.
15 He, frankly, didn't see under present economics how it
16 could be financed without the eight-eighths. Wouldn't
17 that make you conclude that our one-eighth share would
18 have some leverage in dealing with somebody in selling
19 our gas?

20 COMMISSIONER MARTIN: Yes, but we'll have exactly the same
21 leverage in that regard whether or not we've gone into
22 these contracts. If Arctic is certified it will have to
23 be with the knowledge that it will not have state royalty
24 gas. Whether or not we sign these contracts, that will
25 be the case. There will be, of course, the strong feeling

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1 that they will get our gas one way or the other, but as
2 I see it that argument doesn't go to whether or not these
3 contracts should be approved.

4 REP. GRUENING: And conversely, if El Paso is selected and
5 we don't go into these contracts, do you see any reason
6 to believe that we would be at any disadvantage in dealing
7 with El Paso or anybody else that is building an all
8 Alaska line?

9 COMMISSIONER MARTIN: For some of the reasons I just
10 explained, yes, I think we would be at a greater dis-
11 advantage than we are now, particularly if all of the
12 other buyers have sold or are in the process of selling
13 and that one or more of them have driven a particularly
14 excellent bargain. Under these contracts we have the
15 benefit of that bargain. Without these contracts we
16 would have the duty of trying to come up to it or surpass
17 it and, depending on what that is, it might be a very
18 difficult task.

19 REP. GRUENING: Given the fact that we might know better
20 what our in-State uses are, we may only wish to sell a
21 portion of it; isn't a spot sale, or a sale of a smaller
22 amount, sometimes not able to bring a higher price?

23 COMMISSIONER MARTIN: Mr. Gruening, that's one of the reasons
24 that I've focused on something that I don't think people
25 are too interested in, and that is the institutional

1 constraints under which we operate. To be very frank
2 with you, I don't think our system is set up to do a good
3 job of spot selling of royalty oil or gas and I don't
4 think it will be so long as we have to negotiate with
5 somebody and then go through a Royalty Board and the
6 Legislature. It simply asks the buyer to do too much.
7 It asks them to have the State assess its position,
8 negotiate with them, and then wait for a period of months
9 while economic conditions change, to have it approved.
10 So I think that spot selling, while it's a possibility,
11 represents a dim possibility for ever being a major
12 policy of the State.

13 REP. GRUENING: I might suggest, Commissioner, that one
14 of the reasons this hearing process has been maybe a
15 little longer than it might be is because the contracts
16 are being offered for other than for money return; they're
17 being offered for political purposes.

18 COMMISSIONER MARTIN: Absolutely.

19 REP. GRUENING: They are, as you admit, quite unique, probably
20 very unique.

21 COMMISSIONER MARTIN: That's right.

22 REP. GRUENING: But anyway, I do want to nail down exactly
23 what was behind this report. Could you identify for the
24 record exactly -- this is the report upon which you feel
25 that you're in compliance with this 38.05.184(d), I guess.

1 COMMISSIONER MARTIN: Yes, in the document cited therein.

2 But also we filed, Mr. Gruening, this report here,
3 which is the more formidable statement. The blue document
4 is actually a summary of this one. But it also references
5 all the other documents that are a part of the analysis.

6 REP. GRUENING: So you're saying that all the references
7 on page eleven of this January 7, 1977, report are
8 included as constituting a report showing the immediate
9 and long-range gas needs?

10 COMMISSIONER MARTIN: That's right.

11 REP. GRUENING: This morning it was just the one report, and
12 now it's the whole ---

13 COMMISSIONER MARTIN: No, I think I mentioned the reference
14 reports, Mr. Chairman.

15 REP. GRUENING: Oh, the entire list of references would be
16 included?

17 COMMISSIONER MARTIN: Yes.

18 SENATOR RADER: Do you have anything further? Any further
19 questions of the Commissioner or Mr. Boness? Thank you,
20 gentlemen, both very much.

21 We have the Lt. Governor with us, who said that
22 he would like to make a very, very brief statement.

23 COMMISSIONER MARTIN: Mr. Chairman, I take it the committee
24 is aware of the relative schedules of Mr. Boness and
25 myself; that's been communicated to the committee?

1 SENATOR RADER: I have a schedule and I believe Mr. Gruening
2 has a schedule. Yes, we both have your schedules.

3 I don't know whether Senator Poland has a schedule.

4 SENATOR POLAND: I do.

5 SENATOR RADER: You do.

6 SENATOR POLAND: Yes.

7 SENATOR RADER: And I assume Senator Sackett. Commissioner,
8 I did not give Mr. Sackett a schedule.

9 COMMISSIONER MARTIN: I sent him one.

10 SENATOR RADER: All right, fine.

11 LT. GOVERNOR THOMAS: Mr. Chairman.

12 SENATOR RADER: Lt. Governor.

13 LT. GOVERNOR THOMAS: Thank you very much. I'll be very brief,
14 Members of the Joint Committee. I wanted to just say a
15 word or two regarding the other than monetary aspects of
16 this contract, going to the political, public information,
17 generally gaining support in the rest of the nation for
18 the route, that most of us, I think eighty-five percent
19 of Alaskans, wish to see win out.

20 I just received a copy of a Resolution that has
21 been passed by both Houses of the State of Alabama, and
22 I'd like to turn that over to you, Mr. Chairman. I'll
23 read only the last Whereas and the first Resolve clause.

24 "WHEREAS, this contract must be approved by the
25 legislature of the State of Alaska; now therefore

1 "BE IT RESOLVED BY THE LEGISLATURE OF ALABAMA,
2 BOTH HOUSES THEREOF CONCURRING, That the State of Alabama
3 urges the Legislature of our sister state, the State of
4 Alaska, to lend its approval to this contract and to take
5 the necessary steps to the end that the contract will
6 be ratified and the natural gas can be expeditiously
7 transported for use by our citizens and industries."

8 Mr. Chairman, that I think, in conjunction with
9 a letter that you all have received a copy of, the letter
10 from Jerry Beasley, Lt. Governor of Alabama, indicates
11 the kind of friends and allies and support that this
12 contract we're dealing with, our surplus royalty gas,
13 can engender.

14 I have one other point I would like to make,
15 and this is from the point of view of one who expects
16 to go out and do a selling job, radio and television,
17 wherever possible, as I've done before, and that is to
18 say that with the passage of this contract, your endorsement
19 of this contract, we will have an awful lot more horse-
20 power, the ground will be well laid for us to go on.

21 I would say that it's probably not so important
22 that it pass as that it would be very detrimental if it
23 did not pass because our opponents would quickly get
24 the word around the country that the Legislature of Alaska
25 saw fit not to endorse this proposal, and it would be

1 interpreted, I'm sure, and I see really no easy way or
2 any way at all overcome the interpretation that this
3 would show "Alaskans really don't care which way the
4 gas flows." So from that point of view, I would urge
5 you to be as hasty as possible, while at the same time
6 taking plenty of time to deliberate, and having sat
7 where you are I understand that you're moving as rapidly
8 as you possibly can right now; but I think it would be
9 a great assist to all of us who will be out, and our
10 allies such as the people in these other states, in
11 trying to gain approval in Washington of the all-American
12 delivery system.

13 That's all I have to say, Mr. Chairman.

14 SENATOR RADER: Mr. Lt. Governor, can we enter Exhibit 31,
15 the Resolution to which you just made reference?

16 LT. GOVERNOR THOMAS: Yes, sir. I'll leave it right here.

17 SENATOR RADER: That will be Exhibit No. 31 according to my
18 numbering system. Is that correct?

19 MRS. SANDERS: Yes.

20 (Whereupon Exhibit 31 was duly marked.)

21 SENATOR RADER: Just a second. Do you have any questions of
22 the Lt. Governor, or did you wish to submit to questions
23 here?

24 LT. GOVERNOR THOMAS: I'd be happy to, but I'm not the
25 technician regarding the contract.

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SENATOR RADER: Does anybody have any questions of the Lt.
Governor? Thank you very much, sir.

LT. GOVERNOR THOMAS: Thank you.

SENATOR RADER: Are there any other persons who desire to be
heard on the subject that we've been discussing and
hearing so much about the last three or four days?

Under the circumstances, these joint hearings
are adjourned with no intention to reconvene.

(Whereupon the hearing was concluded
at 4:00 p.m.)

11 SENATOR RADER: The committee will take that up at a later
12 date. Commissioner Martin called me and asked if he
13 might take the stand for a few moments this morning to
14 clarify testimony given yesterday or make additional
15 points. Commissioner, glad to have you back.

16 COMMISSIONER MARTIN: Senator, thank you. Then I will be
17 very brief. I know the schedule you have. I really
18 had two purposes. The first I see has been taken care
19 of after coming down. I was concerned -- as you said
20 yesterday, I don't think -- notwithstanding some remarks
21 that were in an adversary proceeding, we want to share
22 everything with the committee. I wanted to bring down
23 the press release from the Federal Power Commission but
24 I see that the committee got it about the same time we
25 did. It was probably a bonanza for the telephone company

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1 this morning, as I think it was telecopied about three
2 different ways. In any case, I have several extra copies
3 of it here and I also have one copy, Senator Rader,
4 of something we're doing now, and that is we're tele-
5 copying up what we think at least are pages that have
6 something to do with the State in the four hundred and
7 thirty-three page or four hundred and thirty page decision.
8 We're making arrangements to have the opinion itself
9 flown up, but it looks like the best we're going to be
10 able to do, even with good weather, is to get it up
11 here on the first plane tomorrow morning from Seattle,
12 which means 9:00 or 10:00 o'clock, as I understand it.
13 We'll take a look at it immediately and try to give you
14 the best summary we can late in your hearings tomorrow
15 afternoon, if that's acceptable to the committee, and
16 try to duplicate copies for everyone as a part of that.

17 I might just say that in looking through the
18 decision, just very briefly, Senator, for those -- has
19 it been distributed? Well, I'll be glad to make these
20 copies available to the committee. I didn't bring
21 enough for everyone, but let me pass them around. I
22 understood that the committee had been distributed
23 copies but ---

24 SENATOR RADER: I don't know whether all the committee has.
25 I see that this area here though all has copies.

1 COMMISSIONER MARTIN: Just very briefly and I don't intend
2 to summarize this at all, Senator Rader. The decision
3 is extremely heavily weighted in favor of Arctic Gas,
4 substantially more weighted than we had expected or I
5 think most had expected. It takes up most of the
6 opinion really dealing with the benefits of Arctic
7 Natural Gas' proposal which is regarded by the judge
8 as superior on most -- on every ground for the permit.

9 And then on page nine near the bottom there is
10 a short summary paragraph dealing with El Paso, which
11 the judge says that, "if Arctic Gas is unable to accept
12 a certificate, El Paso's proposal, with modifications,
13 would also meet the public convenience and necessity."
14 He goes on to call it a "viable" proposal and then
15 criticizes it on a number of grounds following. A short
16 summary of the Alcan route follows on page ten of the
17 lengthy memorandum in which he says, "As to Alcan, Judge
18 Litt said the record does not support even the possibility
19 that a certificate could be granted it. Its design is
20 clearly neither efficient nor economic since the pipeline
21 is undersized." And then goes on to criticize it on a
22 number of other grounds, putting it sort of in a third
23 position in his release. So, I think at the very minimum
24 we can regard both of the choices that we favor as
25 possibilities for Alaska taking a very substantial blow

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1 in this Hearing Judge's opinion this morning, probably
2 Alcan slightly more than El Paso.

3 I also will give you the first five pages of
4 approximately twenty pages we hoped to telecopy yesterday.
5 I don't have copies of these, Senator, which seem to
6 affect the State. And there is some good news and some
7 bad news. I might say in view of the recent letter that
8 you just read from Farmland that there is at least some
9 disagreement on that because, contrary to their assertions
10 that the State is opposed to the economic development,
11 Judge Litt finds that we are so much in favor of it that
12 he finds it irresponsible. So, it's a can't win situation.
13 He thinks we are going too far and Farmland, apparently,
14 not far enough.

15 With very quick reference to that, let me say
16 that so far as I'm aware, we have opened our files one
17 hundred percent to the committee and that communication
18 that Senator Huber talked to has been, so far as I know,
19 either forwarded to the committee or made available to
20 it along with all the other information. I don't want
21 to take the time of other witnesses now to respond to
22 that, but I assure you I'll be more than pleased to do so
23 at an appropriate time.

24 Two very quick points, Senator. First -- and they
25 both relate to what I think were factual misrepresentations

1 based on testimony given yesterday that may have been
2 either members' misunderstandings or my failure to explain
3 myself properly. First, I understand that it was indicated
4 last night in some news reports that people couldn't
5 understand how the state would oppose the treaty. I
6 specifically said yesterday, that without actually seeing
7 the treaty I couldn't take a final position on it, but
8 the state in no way intends to oppose the treaty and
9 in fact supports the enhanced relationship with Canada
10 on all matters including energy matters. And, I want to
11 be very clear about that now. We simply -- I'm not going
12 to say we absolutely won't until I read the words and I
13 don't think you'd expect me to. But I see no chance that
14 we would and we don't want to and we don't intend to. So
15 let that be well understood.

16 Secondly, there apparently was some substantial
17 misunderstanding about whether or not the state could
18 take the gas off under this contract in the state, use it
19 for a petrochemical plant and then export the results
20 of that process. The answer to that is unquestionably
21 "yes". There is no qualification at all that the state
22 must then subsequently utilize all the products from such
23 a process in the state. We have the total right to take
24 the gas off under this contract so long as it is used in
25 the state for some process except liquefaction for export.

1 And there is no limitation on that in terms of utilization
2 of the product.

3 One final very quick matter and that is on the
4 matter of price. We do disagree with some of the
5 characterizations about the state not getting the best
6 price. We do believe that we have gotten the best price
7 under the circumstances and tomorrow, as I indicated,
8 after hearing the testimony of some of your consultants,
9 Senator, we'll be prepared to respond to that at the end
10 of the hearings as the committee sees fit.

11 SENATOR RADER: Are there any questions of the Commissioner?

12 SENATOR HUBER: One quick one.

13 SENATOR RADER: Senator Huber?

14 SENATOR HUBER: Mr. Commissioner, you might ask the judge
15 there when he is finished with his crystal ball, knowing
16 what's in the structure down there, to send it up to you
17 so you can give it to your Department of Oil and Gas
18 so we can get on with determining what we should be
19 taking up there.

20 COMMISSIONER MARTIN: We'll ask them that, Senator.

21 SENATOR RADER: Representative Chatterton?

22 REP. CHATTERTON: Mr. Chairman, Mr. Commissioner, in view of
23 this much stronger position of Judge Litt than what you
24 anticipated yesterday, are you now possibly willing to
25 give reconsideration in exchanging taxpayer's gas for

1 lobbying rights?

2 COMMISSIONER MARTIN: No, sir. We believe the contracts are
3 still a viable and important alternative. This morning
4 I made the comment after seeing the opinion that maybe
5 those yesterday who leaned toward the Alcan route and
6 wanted us to regard the decision as very, very crucial,
7 and we said we think this decision is only a part of the
8 process may now change and say this decision is deter-
9 minative. We still think this decision is an important
10 part but hardly determinative in the final outcome and
11 that the contracts we're advancing may be possibly a
12 little more important by virtue of it, rather than less.

13 REP. CHATTERTON: Thank you.

14 SENATOR RADER: Any further questions of the Commissioner?
15 Senator Croft?

16 SENATOR CROFT: Commissioner, just so I understand it, because
17 I heard your testimony yesterday, did I understand you to
18 say that you testified yesterday that the unequivocal
19 answer is "yes" that we can export those products after
20 they are used in a petrochemical facility? Because I
21 understood you yesterday to say --

22 COMMISSIONER MARTIN: Apparently that was misunderstood and I
23 talked to several people. Most people understood it the
24 way I expressed it a second ago rather than your way,
25 Senator Croft, but I wanted to clear it up today. There

1 is no question under the contract, in my view, that we
2 have the right to take the gas off, to utilize it in
3 Alaska for any purpose except liquefaction for export
4 and then to export the products that are made therefrom.

5 SENATOR CROFT: And can we then export the LNG under the
6 contract?

7 COMMISSIONER MARTIN: No, sir. If we take it --

8 SENATOR CROFT: Does it all have to be used in the state?

9 COMMISSIONER MARTIN: That's what I made clear yesterday.

10 But we can liquefy gas so long as the LNG is being used
11 in the state, so we even have the flexibility to go through
12 liquefaction and then tanker that around and use it in
13 other communities on the coast.

14 SENATOR CROFT: One final question. If -- and this didn't
15 originate with me but somebody else asked me to ask it.
16 If the primary purpose of these contracts is to gain
17 additional support for the El Paso route, why did the
18 state contract with El Paso to give them twenty-five
19 percent of the Prudhoe Bay --

20 COMMISSIONER MARTIN: That is a very good question and I think
21 the answer to it goes very much to the reason that these
22 contracts are a little misleading in terms of totally
23 construing them as pure political support. The fact is
24 that El Paso can benefit just as much from telling its
25 citizens that it has an opportunity to own gas pursuant

1 to its success as any other company. As it was before,
2 El Paso was a sponsor of the gas line which was very
3 much in the state's interest but without any ownership
4 of gas and only a prospective chance of getting it.
5 But under these contracts they too could say that they
6 have an opportunity to supply gas to their constituents
7 where they couldn't have said that before.

8 SENATOR RADER: Any further questions of the Commissioner?
9 Mr. Swanson?

10 REP. SWANSON: Yes. If we lose both these battles, both
11 the El Paso and the Alcan will you switch your support
12 now to Arctic or Tenneco?

13 COMMISSIONER MARTIN: No, sir. The state's position, I think,
14 on that by all its findings is very clear. We believe
15 that the Arctic offers very little benefit to the state
16 and would be a last choice. We have testified to that
17 extensively in the FPC.

18 SENATOR RADER: Any further questions, Mr. Swanson? Mr.
19 Gruening?

20 REP. GRUENING: Yesterday I think a questions was asked by
21 Representative Meekins if a commitment of royalty gas
22 prior to construction, let's say the petrochemical
23 facility in Alaska would not be considered an in-state
24 use. It's a commitment on an arrangement where the gas
25 went out of the state but that was part of the contract

1 under which this construction --

2 COMMISSIONER MARTIN: Yes, sir. I responded to Mr. Meekins
3 that that is the item that we have committed, the export
4 of gas -- of surplus gas is the thing that we have sold
5 under this contract and that kind of a negotiated deal
6 would not be possible.

7 REP. GRUENING: Regardless of whether it was part of a contract
8 to build a petrochemical facility?

9 COMMISSIONER MARTIN: That's right, because that gas would
10 not be used in Alaska. It would be used as an enticement
11 to come. That in fact is the sort of deal that Farmland
12 International offered and it's one of the reasons why
13 it was unacceptable.

14 SENATOR RADER: Representative Chatterton?

15 REP. CHATTERTON: Mr. Chairman, I'm sorry. Commissioner, in
16 answer to a question that you gave here just a moment
17 ago, I think I have got to ask you another question. You
18 answered a question as to whether you would switch your
19 support in any way, in any shape or form to the Arctic
20 Gas proposal and you answered that "no", I believe.

21 COMMISSIONER MARTIN: Yes.

22 REP. CHATTERTON: So, in effect you're really saying -- or
23 reconfirming that the only reason for these gas sales
24 contracts are to gain or buy additional lobbying effort
25 for one or two choices. There is no other advantage to

1 the contracts, is that right?

2 COMMISSIONER MARTIN: No. I think I made it clear yesterday
3 in great detail that I thought there were several advantages
4 to the contract of which that one may very well be the
5 principal one. But the contracts would be, I think,
6 valuable under any circumstances. I think Mr. Swanson's
7 question, does the state intend to switch its support to
8 Arctic in certain circumstances, my answer was "no". The
9 present Arctic proposal would be of very little benefit
10 to the state.

11 REP. CHATTERTON: Thank you, Commissioner.

12 SENATOR RADER: Senator Huber? Incidentally, I want to invite
13 legislators in the audience to seat themselves at vacant
14 places at the table if you desire, with the understanding
15 that if committee members come in that you will relinquish
16 your seat to them. But if you wish to participate, it's a
17 little bit easier and more convenient, you are certainly
18 welcome. There are two seats here and there is one over
19 here to take advantage of that. Senator Huber?

20 SENATOR HUBER: Mr. Chairman, Commissioner, I want to clear
21 up something that looked like, from press reports and so
22 forth last night, it kind of sounded like from the meeting
23 the amendment that was gotten in Congress by our delegation
24 to allow us to withdraw our gas, it seemed like the
25 testimony was such to make one believe that we had no

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1 choice other than that and I think that's what is
2 causing part of the confusion about the Arctic Gas.

3 And would you reaffirm if we never --

4 COMMISSIONER MARTIN: Oh, I understand.

5 SENATOR HUBER: If we never commit our gas, say the Arctic
6 route is chosen and the State of Alaska never commits
7 any of its gas thereby not allowing any of it to flow --
8 to start flowing to the South 48, that it is still our
9 gas under current laws in Congress -- previous laws or
10 current laws, we can't have it confiscated on us until --

11 COMMISSIONER MARTIN: I understand the question now, Senator.

12 I think that is a good question if that is the way you
13 are going. I think that the committee could very well
14 conclude, based on the utilization of Section 13(b) or
15 the theory that Mr. Moody advanced last year, that there
16 might be enough benefits in these contracts to consider
17 going ahead with them or something very much like them
18 under any circumstances. But, as I understood Mr.
19 Swanson's question, he asked if we would switch our
20 support to Arctic and I took it in terms of just an
21 evaluation of the route, my answer would be "no". But
22 yes, I think that it would be a legitimate consideration,
23 given the other benefits of this contract, to at least
24 consider utilizing either the contracts or the format
25 to try to gain the same kinds of protection.

1 I might add that Judge Litt's decision is ap-
2 parently going to be very sobering in that regard because
3 he specifically recommends the repeal of 13(b) and makes
4 it plenty clear that as far as he is concerned, unless
5 there is something like that, the FPC will have no
6 intention whatever of approving any state off take.
7 It's a decision highly influenced by strong national
8 interest.

9 SENATOR HUBER: And, Mr. Chairman, even if 13(b) is repealed,
10 the State of Alaska if it wants to ever use any of this
11 gas, the only choice we would have would be never to
12 commit it in the first place thereby depriving the people
13 of the Southern 48 states of having any portion of it
14 because there is no law that says they can confiscate
15 our gas.

16 COMMISSIONER MARTIN: Well, Senator, that's not the only
17 alternative we would have because as you know, the terms
18 of this contract provide that should the arrangement for
19 off take not be approved by the federal government, the
20 contracts fail. In other words, we are then back to
21 ground zero and have whatever alternatives we might have
22 minus the loss of time which is inherent in attempting to
23 get that approval.

24 SENATOR HUBER: I wanted it clear that the FPC can't just
25 assert our royalty share of gas. It requires us to have

1 committed it in the first place and allowed it to flow
2 before they can assert it even without 13(b)?

3 COMMISSIONER MARTIN: Yes, but not through the contract. It
4 means allowing it to flow, it is different from committing
5 it. It is the first flow of the gas which we believe is
6 the most substantial problem. And so, in the event that
7 these contracts were approved, but not subsequently
8 approved to the federal level in terms of the off-take
9 provisions, we would then be back in the situation where
10 we would have to act before the gas first started to
11 flow to look at our other alternatives. The other
12 alternatives being in-state pipelines or other alternatives.

13 SENATOR HUBER: That's why it would seem that the judge's
14 strong decision for Arctic Gas, as he made it, didn't
15 take into consideration the fact that if he allows Alaska
16 no use of their gas and you may very well get to the
17 point where Alaska says "you don't get our gas then."
18 We certainly haven't taken that stance.

19 COMMISSIONER MARTIN: We haven't taken that position. We
20 think that is not a good position to take in the national
21 decision process at this time, Senator Huber, although
22 I can understand your sentiment in perhaps wanting to
23 get there. We have not taken that tack, attempting to
24 carve out a way to utilize the gas on a cooperative way
25 rather than doing it through confrontation.

1 SENATOR HUBER: That is why I'm disappointed in his deter-
2 mination.

3 COMMISSIONER MARTIN: He incidentally has searched, as you'll
4 see from the release and then later from the decision,
5 substantial state jurisdiction, including the ability
6 for the FPC to allocate and take the gas. So I think that
7 while this doesn't speak to the FPC or to the federal
8 decision making process, there are a number of things of
9 great concern to the state in this contract -- or in
10 this decision.

11 SENATOR HUBER: Thank you, Mr. Commissioner.

12 SENATOR RADER: Any further questions?

13 REP. CHATTERTON: Yes, Mr. Chairman.

14 SENATOR RADER: Mr. Chatterton?

15 REP. CHATTERTON: Mr. Commissioner, if we initially take our
16 royalty gas in value instead of in-kind, do we keep all
17 options open for intrastate usage?

18 COMMISSIONER MARTIN: Mr. Chatterton, rather than whether it
19 is taken in value or kind, the point you must operate
20 from is the point that gas first flows through the pipe-
21 line and if at the time it first flows through the pipe-
22 line and is merged in the interstate stream, we are
23 allowing our gas to flow without any arrangement to take
24 it off -- any approved federal arrangement to take it off.
25 That is the risk of loss of the gas, if at that time we

1 have not taken in-kind and protected it, then the
2 problem would attach.

3 SENATOR RADER: Mr. Parr?

4 REP. PARR: Mr. Commissioner, in this press release on page
5 four, the second paragraph, Judge Litt finds that "The
6 Commission clearly has full jurisdiction over producer
7 wellhead sales in interstate commerce, transport of the
8 gas within Alaska, and transport and sale within the
9 lower 48 states". Now at that second clause, does that
10 mean in the judge's opinion that if we built our own
11 pipeline, let's say from Prudhoe Bay to Anchorage, that
12 the FPC would still have jurisdiction?

13 COMMISSIONER MARTIN: Yes, sir.

14 REP. PARR: Even if it never got into the interstate pipeline?
15 Intrastate pipelines are not regulated by the FPC.

16 COMMISSIONER MARTIN: We're giving you the present state of
17 the law. The judge is apparently making a somewhat
18 extended statement regarding it.

19 REP. PARR: Under existing law, as far as you know, intrastate
20 pipelines are not regulated by FPC?

21 COMMISSIONER MARTIN: Yes.

22 REP. PARR: Is that correct?

23 COMMISSIONER MARTIN: That's right.

24 REP. PARR: And so what the judge is doing is either trying
25 to change it by his statement or interpreting it different

1 than you?

2 COMMISSIONER MARTIN: He has made a number of very extreme
3 statements, obviously taking a very strong position in
4 the case, Mr. Parr.

5 REP. PARR: Thank you.

6 SENATOR RADER: Any further questions of the Commissioner?
7 Thank you very much, Commissioner.

8 COMMISSIONER MARTIN: Thank you for your courtesy. I
9 thought it would be helpful, Mr. Chairman.

10 SENATOR RADER: We appreciate it.

11 COMMISSIONER MARTIN: We will give you additional copies
12 of this today as they come in that are out of the
13 decision. Those are just miscellaneous pages.

14 SENATOR RADER: Well, I think that we will probably rely
15 upon your analysis of this tomorrow rather than our
16 hour by hour report here.

17 COMMISSIONER MARTIN: Those are all out of context.

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SCMM 15:3
ROYALTY GAS SALES TESTIMONY!
~~BOOK II~~ (V.3 - V.6)

Royalty Gas Sales

TESTIMONY

Book II (v. 3-6)

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CATEGORY 1977

TITLE JOINT PUBLIC HEARINGS OF THE ALASKA STATE LEGISLATURE ON SCR 3, 4, 5 AND HCR 11, 12, 13, THE PROPOSED SALE OF ROYALTY GAS, JANUARY 31, 1977 - FEBRUARY 7, 1977, JUNEAU, ALASKA

PUBLISHER Legislature

PUB DATE 1977

SUBJECT oil; gas; SCR 3, 1977; SCR 4, 1977; SCR 5, 1977; HCR 11, 1977; HCR 12, 1977; HCR 13, 1977; contracts, contractors; pipeline; revenue

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JOINT PUBLIC HEARINGS
of the
ALASKA STATE LEGISLATURE
on

SCR 3, 4, 5 and HCR 11, 12, 13

"THE PROPOSED SALE OF ROYALTY GAS"

January 31, 1977 - February 7, 1977

Juneau, Alaska

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Transmission Co. and V.P. of Tenneco Alaska
with: Jared Carter, Bob Hartig, Bill Thornhill
- SOUTHERN (February 1, 1977) p. 101
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- EL PASO (February 2, 1977) p. 142
by: Michel C. Holland, Assistant to V.P. El Paso-
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with: Joseph Henri

2/1/77 - 2/2/77

February 1, 1977

18 SENATOR RADER: The next series of witnesses will be those
19 of the purchasers. Tenneco, I believe, is prepared to
20 go forward. Would you introduce yourself for the record,
21 and also your associates?

22 MR. THOMAS: Thank you, Mr. Chairman. I'm Robert C. Thomas
23 representing Tenneco Alaska, and joining me here at the
24 table is Gared Carter acting as a consultant to Tenneco,
25 and behind me, Mr. Bob Hardig working with Tenneco, and

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1 Mr. Bill Thornhill.

2 SENATOR RADER: I'm going to ask the reporter, is it pos-
3 sible for -- I hate to have people keep repeating their
4 names for purposes of the recorded record. I assume
5 that you will be able to identify in your recording of
6 it.

7 COURT REPORTER: Yes.

8 SENATOR RADER: Would you proceed, Mr. Thomas? Mr. Thomas,
9 the question of answers, would you prefer that you make
10 a presentation or that we ask you questions as you go
11 or what is your suggested method of operation?

12 MR. THOMAS: Mr. Chairman, I have about twelve or fourteen
13 minutes of comments at which time then I would be
14 available for questions afterward. I think that would
15 be the more convenient way to go, if that is satisfactory
16 with you.

17 SENATOR RADER: Yes, that is satisfactory with me. How
18 about the committee? That would be fine. Thank you
19 very much.

20 MR. THOMAS: Thank you, Mr. Chairman. By way of further
21 introduction, I'm a Senior Vice President of Tennessee
22 Gas Transmission Company and I have responsibility for
23 energy supply for all of Tenneco's interstate transmission
24 companies. I am also a Vice President of Tenneco Alaska,
25 an Alaskan corporation, which has entered into this

1 royalty agreement with the State.

2 My purposes in appearing before you today is to
3 urge your early approval of the Royalty Gas Sales
4 Agreements, to explain why we believe these interests
5 are in the best interests of Tenneco and the State, and
6 to answer your questions.

7 The State yesterday presented to you the terms
8 of the agreements and the benefits that would accrue to
9 the State. For that reason I would start with the reasons
10 that Tenneco has signed the agreement.

11 Each day, Tenneco's interstate system supplies
12 an average of 3.2 billion cubic feet of natural gas to
13 their customers. This volume is now insufficient to meet
14 demands. As customer demands are growing, our reserves
15 in our traditional supply area of the Gulf Coast are
16 declining.

17 To meet this supply/demand situation, Tenneco is
18 working in many different areas to secure energy supplies
19 from non-traditional sources. These sources include
20 liquefied natural gas from Algeria, Trinidad, Nigeria,
21 the USSR and several other countries. We are also
22 pursuing synthetic natural gas to be manufactured from
23 domestic coal deposits and we're also searching for
24 additional natural gas from the Canadian Arctic Islands.

25 We are vitally interested in purchasing natural

1 gas in Alaska, not only because of the large volumes of
2 currently proven reserves, but because we feel Alaska
3 will be the most active area in the United States for
4 the exploration for major new energy supplies during the
5 next twenty to thirty years. We want to be a part of
6 this future exploratory activity. And we also believe
7 that there are substantial advantages in purchasing
8 domestic, as opposed to foreign, gas.

9 Now these few facts tend to explain our needs
10 but as you are all aware, the fulfillment of needs,
11 inevitably encounters obstacles and I'll assure you that
12 the securing of natural gas supply from Alaska was no
13 exception to that.

14 Tenneco looked at the obstacles from the viewpoint
15 of the largest natural gas transmission system in the
16 United States that was uncommitted to any of the competing
17 proposals for the delivery of Prudhoe Bay gas to the
18 lower 48 states. We recognized at that time that we,
19 as well as any other purchaser in the lower 48, could
20 transmit this gas to our customers through any of the
21 systems proposed. The State, however, made it very
22 clear that the primary condition in any sales agreement
23 would be support for the Trans-Alaska delivery system.

24 We considered carefully three fundamental
25 questions before determining that we could undertake such

1 a commitment. First, we had to answer would there be
2 sufficient reserves available, either now or in the
3 future, to justify our efforts in this project.

4 Secondly, if we committed our resources of time,
5 money, and people to the project, was there a substantial
6 likelihood it would succeed.

7 And third, would such an effort adversely affect
8 Tenneco's substantial business interests in Canada which
9 we intend to maintain and to further.

10 Our analysis concluded that we could not only
11 agree to support the Trans-Alaska route but could also
12 agree to condition our right to purchase the royalty gas
13 upon the eventual designation of that route by the federal
14 government and these terms are in the agreement before
15 you.

16 Our conclusion was based upon the belief that
17 with a strong, responsible team supporting the Trans-
18 Alaska project and making the objective arguments in its
19 behalf, the federal decision makers, after extensive and
20 careful analysis, would conclude that the Trans-Alaska
21 system would get North Slope gas to the lower 48 at the
22 earliest possible date. While early delivery, we feel,
23 is the most important element of national interest, and
24 the other issues such as jobs and taxes also clearly
25 favor the Trans-Alaska route, in our opinion.

1 It has always been our firm opinion that federal
2 acceptance of the Trans-Alaska delivery system and there-
3 fore the benefits to both of the parties to the contract,
4 depends upon prompt approval of the royalty sales agree-
5 ment by this legislature.

6 A major factor crucial to your deliberations is
7 the strength that Tenneco can add to the team that is
8 dedicated to the securing of a Trans-Alaska route. So
9 let me give you a brief summary of our technical
10 capabilities. We maintain a staff of approximately one
11 hundred forty engineers in our pipeline headquarters in
12 Houston. This department not only supervised the con-
13 struction of our fifteen thousand plus miles of interstate
14 pipeline system, but was also involved in the construction
15 of the existing Trans-Canada pipeline of which we were a
16 part at that time in the mid-fifties. Our operations
17 people routinely run an interstate system transporting
18 in the range of five billion cubic feet per day on peak
19 days.

20 Tenneco is dedicated to the conduct of its
21 operations within the proper environmental framework. To
22 that end the corporation maintains its staff of ap-
23 proximately sixty environmentalists.

24 Tenneco maintains a staff of cryogenic, process,
25 and LNG systems engineers plus the services of numerous

1 consultants with expertise in LNG projects. We have
2 had a great deal of experience in the planning of major
3 LNG projects.

4 As a corporation, Tenneco has annual capital
5 expenditures in the range of Five Hundred Million Dollars.
6 In the thirty-four years of our existence, our assets
7 have grown from zero to approximately Seven Billion
8 Dollars. The strength and the financial experience that
9 we gained through this evolution, we feel, is invaluable
10 in the planning and execution of multi-billion dollar
11 energy projects.

12 All of these areas of expertise that I have
13 mentioned are now being readied in preparation for our
14 participation in the Trans-Alaska project.

15 There has been a great deal of reference through
16 the negotiations of this agreement and in the presentations
17 yesterday to the "political influence" to be contributed
18 by each party. It is unfortunate that this gives some
19 people the impression that the purchasers control specific
20 votes in the Congress or in the Executive Branch which
21 can be used on behalf of the Trans-Alaska project just as
22 soon as this agreement is ratified. And this, of course,
23 is not true.

24 There is no amount of narrow so-called political
25 clout or pressure going to determine the federal decision

1 on this matter. We are convinced that the decision will
2 be made on the merits of the issues. Neither we nor the
3 new Administration have incentive to proceed in any
4 other way. This approach is also assured by the detailed
5 and comprehensive provisions of the Alaska Natural Gas
6 Transportation Act of 1976.

7 For these reasons, we think, it is essential
8 that all of the issues involved be thoroughly discussed
9 at both the regional and national levels with all parties
10 having input into the final decision. This will present
11 a monumental job of planning and coordination to insure
12 that knowledgeable staff, both technical and nontechnical,
13 are made available to discuss all of these issues with
14 the people requiring the information.

15 From a regional standpoint, it is essential that
16 the issues be reviewed and analyzed as they effect dif-
17 ferent parts of the lower 48 states and Canada. The
18 perspective and the needs of these different regions
19 vary and their views must be analyzed and their questions
20 effectively answered.

21 We feel that we are best qualified to present the
22 Trans-Alaska merits in our market area. This market
23 area covers twenty-five states in the general area of
24 New England, New York-New Jersey, Appalachia and the
25 Upper Midwest. These states embrace sixty-five percent

1 of the U.S. population and much of its industrial capacity.

2 We feel that Southern and El Paso will be most
3 effective in their market areas. We also feel that all
4 three companies will be effective on the national scene.

5 The combined facilities of Tenneco, El Paso and
6 Southern with minor modifications could deliver gas to
7 at least forty-two of the lower 48 states. We feel it
8 improbable, and probably impossible, that any other
9 group of three or more companies presently uncommitted
10 to any pipeline route could equal this coverage.

11 El Paso has made and is continuing to make a
12 tremendous effort on behalf of the Trans-Alaska project.
13 We feel more help is needed and we are prepared to
14 provide this help.

15 We believe it is essential that the legislature
16 act promptly to approve these agreements. The time
17 available to make all necessary contacts is becoming
18 extremely short. As mentioned earlier, the U.S.-
19 Canadian pipeline treaty was signed last Friday. This
20 morning the presiding Administrative Law Judge of the
21 FPC issued his decision and had expected that this decision
22 would favor the Arctic Gas proposal. All of the par-
23 ticipants before the FPC, of which we are one, will be
24 permitted to file comments on his decision, however, by
25 March 1st.

1 The Alaskan Transportation Act provides that the
2 full FPC must submit its recommendations to the President
3 by May 1. Federal agencies are now preparing their
4 comments to the FPC and federal and state officers and
5 agencies may submit their comments to the President by
6 July 1. Our views must be made known to all of these
7 people as soon as possible in order to have any effect
8 on their comments. The President's decision is due
9 September 1 and the Congress has sixty days in which to
10 approve this decision.

11 We feel there is much to be done and the federal
12 timetable leaves no time for delay. In anticipation of
13 your approval of these agreements, Tenneco has already
14 taken substantial efforts in preparation for the support
15 of this project. We have had many meetings with
16 representatives of the states, El Paso and Southern to
17 insure a maximum cooperation, coordination and effective-
18 ness in our combined efforts.

19 El Paso has given our engineering, environmental,
20 LNG and financial experts several detailed reviews of
21 their plans. We intend to work very closely with them
22 toward assuring the best possible project and to answer
23 the questions that will be raised throughout the U.S. and
24 Canada concerning the physical, environmental and financial
25 integrity of this project.

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1 We have designated a project manager within
2 Tenneco with authority to call upon and coordinate the
3 activities of all of our interested departments.

4 We have retained counsel in Alaska and in
5 Washington to assist in the planning and the execution
6 of our overall plan to insure adoption of the Trans-
7 Alaska delivery system.

8 We have communicated to the State of California
9 our reasons for supporting the Trans-Alaska project and
10 I believe that was the letter that was introduced as an
11 exhibit earlier by the Chairman.

12 These efforts are, however, only a beginning.
13 Further efforts to implement a detailed plan to secure
14 adoption of a Trans-Alaska route, however, will not be
15 credible if the State of Alaska does not act promptly
16 to approve the agreement which provides the basis and
17 the reason for our support.

18 In summary, Mr. Chairman, Tenneco is prepared to
19 invest their time, their money and their people in a
20 maximum effort to secure a Trans-Alaska route. We are
21 prepared to begin as soon as the agreement with the state
22 is approved by this legislature.

23 The state has retained the ultimate assurance of
24 our performance. If the Trans-Alaska route is not ap-
25 proved, the state has the right to terminate the agreement.

1 Should that happen, we will have wasted our manpower and
2 our money and our people.

3 The state has assembled a strong team, the contest
4 is well underway and in progress and we are ready to
5 participate when we receive your approval.

6 Mr. Chairman, that concludes my prepared remarks.
7 With your permission I would like to make a few other
8 comments concerning a matter that has been indicated to
9 be of concern to the members of both committees, concerning
10 at item that appeared in some of the Alaska newspapers
11 entitled "Questionable or Sensitive Payments by Tenneco."
12 I would like to point out that this information came from
13 an Eight K report that was filed by Tenneco with the
14 Securities and Exchange Commission over a year ago in
15 January, 1976, and has been a matter of public record
16 since that date. Tenneco themselves submitted copies of
17 that report to all of their stockholders which number over
18 three hundred and fifty thousand.

19 There are several points, however, concerning the
20 report that I would like to emphasize for the benefit of
21 the members of the committee. First, the report was a
22 voluntary disclosure by Tenneco of information that was
23 obtained as a result of an investigation initiated and
24 authorized by our own Board of Directors. The investigation
25 was done by outside independent accounting and legal

1 organizations. The relevant information was made available
2 to both the FCC and the IRS. The company has adopted
3 detailed procedures to implement and monitor compliance
4 with their business ethics policy. These procedures have
5 been disseminated to all employees and to all consultants
6 representing the company regardless of the area.

7 The Royalty Board and the Department of Natural
8 Resources were made aware of this report after it had
9 been filed early last year.

10 To summarize the current status of this situation,
11 Tenneco considers its internal investigation as closed.
12 Federal grand juries are conducting investigations in
13 Washington, D.C., Milwaukee and New Orleans. They are
14 presumably investigating matters referred to in this
15 8-K report. To our knowledge, no action has been taken
16 by these grand juries. The matters referred to in the
17 8-K report were subsequently investigated by the SEC,
18 although the company has not been informed that this
19 investigation had been terminated, no request for additional
20 information or for further interviews by any of our people
21 have been received for several months.

22 The IRS initiated an investigation in early 1976.
23 Voluminous documentation has been furnished to the IRS
24 concerning the matter and numerous present and former
25 employees have been interviewed. To our knowledge this

1 investigation is continuing. There have been stockholder
2 suits filed as a result of this disclosure. The actions
3 that have been instituted in the state courts have been
4 stayed pending disposition of actions filed in federal
5 courts. The federal actions have been consolidated
6 recently in the U.S. District Court for Texas. No
7 discovery has commenced nor has a trial date been set.
8 So, Mr. Chairman, this represents the history and the
9 current status of the matter. The general counsel for
10 Tenneco has advised me that there is no significant matter
11 of the type disclosed in the 8-K report in which such
12 an investigation is now pending.

13 I have a copy of the 8-K report which I'll be
14 happy to submit for the record of your committees.

15 SENATOR RADER: I'm sorry, I don't understand that. 8-K?

16 MR. THOMAS: 8-K.

17 SENATOR RADER: 8-K.

18 MR. THOMAS: Just the number of the government report to the
19 Securities and Exchange Commission.

20 SENATOR RADER: Please would you just hand that to the reporter
21 there and it will be exhibit number 9.

22 MR. THOMAS: All right, sir.

23 (Whereupon Exhibit 9 was duly marked)

24 SENATOR HUBER: Can we get copies of that for the members?

25 SENATOR RADER: Sir, how long is the report?

1 MR. THOMAS: Oh, it's about six pages with a bunch of signature
2 pages and endorsements and authorizations and I guess
3 about nine pages.

4 SENATOR RADER: I am certain that we can have copies of that
5 made. I don't know whether we can have them immediately,
6 Senator, but all of this information is going to be
7 widely disseminated, I'm sure.

8 SENATOR HUBER: I'd like to have it sometime while we're
9 meeting so -- have it if necessary for questions we
10 might want to formulate.

11 SENATOR RADER: I'll ask the staff to see if they could make
12 copies and have them here maybe by 1:30 when we convene.
13 It might help in the questioning while the witnesses are
14 there. I think your point is well taken, Senator Huber.

15 It is, by my watch, approximately 12:00 o'clock.
16 I think this would be a good place to break. We will
17 reconvene promptly at 1:30. Thank you very much.

18 (Whereupon the hearing was recessed at
19 12:00 noon and reconvened at 1:30 p.m.)

20 SENATOR RADER: The committee will come to order. I want
21 to again invite all legislators, if you wish, to take a
22 place at the table with the understanding that when a --
23 if a committee member shows up, that you will relinquish
24 your seat without a hassle to them.

25 Dr. Carl Swanson of Jensen Associates was hired

1 by the committee to give us an independent advice on this
2 matter. He has prepared two questions which he thinks
3 should be asked of the purchasers. If there is no
4 objection, I'll start off with those two questions.
5 Do you purchasers agree that Section 6.5 which provides
6 for annual redetermination of the price under deregulation
7 applies to Section 6.3 when deregulation occurs, before
8 first deliveries of gas, as well as to Section 6.4 which
9 applies when deregulation occurs after first deliveries?

10 MR. THOMAS: Mr. Chairman, I believe that was the intent at
11 the time that we negotiated contracts, so the answer is
12 yes.

13 SENATOR RADER: Now, what is the significance of that question
14 and your answer?

15 MR. THOMAS: The significance of the question is if under
16 the terms of the contract the section that applies to
17 deregulation occurring after the first delivery of gas
18 also references the next clause which talks about re-
19 determination. And, in writing the contract the previous
20 clause which talks about deregulation occurring before
21 the first delivery of gas, we did not reference that re-
22 determination clause.

23 SENATOR RADER: As I understand it then, the redetermination --
24 there will be a redetermination regardless in a regulation.
25 Is that what we are talking about?

1 MR. THOMAS: Well, in the event of deregulation whether it --

2 SENATOR RADER: Of deregulation, yes.

3 MR. THOMAS: Occurs either before first deliveries or after
4 first deliveries.

5 SENATOR RADER: Or after. Any committee members have any
6 questions, any further follow-up on that question? Dr.
7 Swanson had one additional question. Do you agree that
8 under Sections 6.2 that if the price is regulated, the
9 price paid by you purchasers to the state shall include
10 an amount equal to severance taxes if the regulation
11 allows an amount equal to revenue taxes to be paid to
12 working interest owners?

13 MR. THOMAS: It was our understanding at the time that the
14 contract was negotiated that the Alaskan Statutes did
15 not provide for a severance tax so that is probably why
16 it was not referenced in the agreement. But, our view
17 would be to the extent that the working interest owners
18 are charged that and their purchasers are allowed to
19 include it in their rates then of course we would be
20 willing to pay the same amount, subject to inclusion in
21 our rates.

22 SENATOR RADER: Dr. Swanson, it is a little bit unusual but
23 are you satisfied with the answers or did you wish to
24 pursue them further?

25 DR. SWANSON: My interpretation of the answer just given is

1 that Tenneco is stating that it is its interpretation
2 of the intent in negotiated contracts and of the contract
3 to pay an amount equal to severance taxes to the State
4 of Alaska if it pays that amount to the working interest
5 owner.

6 MR. THOMAS: That is correct.

7 DR. SWANSON: Which is a satisfactory answer to my question.

8 SENATOR RADER: Is that your answer?

9 MR. THOMAS: And it is subject to inclusion in the purchasers
10 of the working interest gas for rate purposes and in ours
11 also.

12 SENATOR RADER: Have we reached agreement on that, Dr. Swanson?

13 DR. SWANSON: I believe so. Its implication is that Alaska
14 will not lose an amount equal to severance taxes on its
15 royalty gas.

16 SENATOR RADER: Mr. Carter, I see you nodding your head
17 affirmatively. Is that correct? We are in agreement on
18 that then?

19 MR. CARTER: Yes. It's consistent with the general principle
20 that as Dr. Swanson stated, that the State incur no dis-
21 ability from what it would otherwise have received
22 because it elected to take its gas in-kind and sell it.

23 SENATOR RADER: Dr. Swanson, I forgot to ask you or neglected
24 to ask you, were you satisfied with the answer on the
25 first question?

1 DR. SWANSON: I was, yes.

2 SENATOR RADER: Any committee members -- Mr. Gruening,
3 Representative Gruening?

4 REP. GRUENING: I want to see if I understand the question
5 as well as the answer. Is it your answer in regard to
6 the severance tax that if we change the law, you have
7 no objection to paying a price which includes that
8 severance tax?

9 MR. THOMAS: What we are saying is that that is also charged
10 to the working interest owners and that is passed to
11 their purchasers and included in their rate. What we
12 are saying is that the State should get the same amount
13 as does the working interest owners, which is consistent
14 with the intent of the contract.

15 REP. GRUENING: But that is conditioned on the FPC allowing
16 it to be charged?

17 MR. THOMAS: Yes. I think all of the rates are consistent
18 with that inclusion.

19 REP. GRUENING: But it was your earlier statement that there
20 was no -- as you read the Alaska law, that there is no
21 charge.

22 MR. THOMAS: I believe there is no charge to the royalty
23 owners, that is correct. That is the current situation
24 with the statute, as I am told.

25 REP. GRUENING: Okay. But that doesn't affect your answer

1 to the question as to whether you would object to that
2 if the working interest owners are allowed to back that
3 out, that you have no objection?

4 MR. THOMAS: If that is the statute and it is applied to all
5 of the purchasers of the gas, working interest and
6 royalty, and is subject to inclusion in our rates, yes,
7 we would be happy to pay it.

8 SENATOR RADER: Any further questions on that item? All
9 right, we'll open up the questioning generally of the
10 Tenneco representatives.

11 REP. McKINNON: Mr. Chairman?

12 SENATOR RADER: Mr. McKinnon.

13 REP. McKINNON: The Administration has indicated that one of
14 their prime considerations in these contracts was the
15 political support that it might generate, and while no-
16 body is suggesting that Tenneco has so many Congressmen
17 and Senators lined up to go with them, they did indicate
18 that one of their objectives was to establish a national
19 constituency. I think that is the phrase they used. Now,
20 what I would like to know is what specifically your
21 company intends to do to help establish that national
22 constituency. For instance, what are you going to do
23 to convince the people of, say, Tennessee that it is in
24 their best interest to get their Congressmen to go with
25 the El Paso proposal?

1 MR. THOMAS: We see that once the contract is approved, that
2 there are several areas of activity and where contacts
3 need to be made, California, Washington, in Canada, and
4 in our market area. Within our market area, which is the
5 twenty-five states that we mentioned, we feel that contacts
6 need to be made there at the customer level that we have,
7 also at the state level which would include the energy
8 agencies in the executive offices within the state. And,
9 what we are interested in doing within the state offices
10 is contacting the staff people who work up the positions
11 for the agencies and for the state to let them know what
12 we feel are the merits of this particular project and how
13 we feel it will benefit us and benefit them. That's
14 generally how we intend to attack it in the market area
15 in Washington. We intend to talk again with the staff
16 people of the various committees within the executive
17 branch. Also with the staff people, the administrative
18 aides for people in the various Congressional Delegations.

19 We want to contact as wide a range of people
20 having input into the final decision as we possibly can.
21 And, we feel it is important that the merits on these
22 various issues will be readily understood by these people
23 but it's just the task of getting to all of the people
24 and making sure that this information is available to them.

25 REP. McKINNON: How do you intend to inform the public of the

1 merits of the El Paso proposal?

2 MR. THOMAS: Within the public itself, a lot of this we see
3 can be done through our market area in the form of our
4 customers dealing with the ultimate consumer which is
5 their customers. We sell to the distributing companies
6 who in turn sell to the direct users and they have
7 contacts in that way.

8 REP. McKINNON: Getting away from the topic of political
9 support for the El Paso proposal itself then. Political
10 support for the contract in general, do you intend to do
11 anything to influence Congress to say keep the take back
12 provision in the existing law?

13 MR. THOMAS: Really hadn't considered that. From the stand-
14 point -- my own view was I didn't think it likely that
15 they'd repeal it, or if they did, it would not be retro-
16 active. That's just my own view and I'll be honest, I
17 haven't given that that much thought. Gared, did you
18 want to respond?

19 MR. CARTER: Well, other than our commitment is to work with
20 the state to accomplish their purposes and ours under
21 this contract and that calls for working with all relevant
22 agencies. And if that issue would come up and it became
23 a matter of debate and attention in the Congress, I would
24 anticipate that we would see our obligation. We would
25 spend considerable effort in the direction of working

1 with the Alaskan Congressional Delegation to sustain the
2 Alaskan tradition. We understand that is a major con-
3 sideration to Alaska to be able to utilize its gas in
4 the state and that's our basic commitment, to make the
5 gas available to be taken back and to get whatever kind
6 of dealings are required to accomplish that purpose.

7 REP. MCKINNON: Even though that may be detrimental to you,
8 you see it as a contract obligation?

9 MR. CARTER: Yes, it is a contract obligation.

10 REP. MCKINNON: Political support of the provision in the
11 law isn't necessarily a contract obligation but --

12 MR. CARTER: No, but that's the essence of the -- what Alaska
13 is trying to acquire and we recognize that.

14 REP. MCKINNON: And that is almost true?

15 SENATOR RADER: Mr. Chatterton?

16 REP. CHATTERTON: Mr. Chairman, Sir, on that very subject,
17 if you are fully wedded to the all-Alaska gas line, you
18 would certainly be willing to do these things whether or
19 not there was a royalty gas sales contract in existence?

20 MR. THOMAS: Let me respond to that. There are a lot of
21 issues around the world that we think strongly about that
22 our primary purpose to our customers -- our obligation is
23 to get additional gas supply. And, regardless of the
24 size of any company there is still a finite limit of
25 resources. We try to direct those where the end result

1 is to get gas supply for our customers.

2 REP. CHATTERTON: I take it that you would continue to use --
3 shall we use the naughty word "lobbying effort" to get
4 Alaska gas to the south 48 via the all-Alaska line?

5 MR. THOMAS: Our intent is to get some gas -- make sure that
6 we have some gas when that line comes to the Lower 48
7 also.

8 REP. CHATTERTON: Thank you, sir.

9 MR. CARTER: And Mr. Chatterton, what that means is that the
10 short answer is no. That if we don't buy gas, we don't
11 get gas to Tenneco's customers simply because the all-
12 Alaska route is designated. That does not in and of
13 itself bring any gas to Tenneco's customers.

14 REP. CHATTERTON: Thank you.

15 SENATOR RADER: Any further questions? Senator Poland?

16 SENATOR POLAND: Mr. Chairman, I would like to ask Mr. Thomas.
17 If our needs for liquid gas should exceed the twelve and
18 one-half percent, just use an example, say fifteen percent,
19 would we be allowed to trade off to a producer owner some
20 of our methane for the additional two and one-half percent
21 more liquid and then withdraw that liquid from the pipeline,
22 thereby reducing the amount of methane available to the
23 buyers under the contract?

24 MR. THOMAS: I'm not sure I understand your question. Were you
25 talking about liquids?

1 SENATOR POLAND: Yes.

2 MR. THOMAS: Are you talking about once the methane is liq-
3 uefied?

4 SENATOR POLAND: No, I am talking about the liquids, the
5 butane, the propane, the pentane, the twelve and one-half
6 percent of those that we receive. If the state had need
7 for more than our twelve and one-half percent and I used
8 the example of fifteen percent, would the buyers under
9 this contract be willing to let us trade some of our
10 royalty methane to the producer owners to get those
11 additional liquids and would thereby reduce the methane
12 that the buyers under the contract would receive?

13 MR. THOMAS: The contract, I think, specifies that the state
14 can withdraw from our contract any gas that is to be used
15 within the state to the extent that this gas traded would
16 be used within the state. I think that would be entirely
17 within the state's contractual rights.

18 SENATOR POLAND: Yes, but if it reduced the methane that you
19 would receive for us to get additional liquids that we
20 needed from the producer owners, would you be willing to
21 allow the State of Alaska to do that?

22 MR. THOMAS: And you're saying then you are taking gas that is
23 contracted to us --

24 SENATOR POLAND: Right.

25 MR. THOMAS: And trading it to others and they will put that

1 gas in a liquefied form and export it?

2 SENATOR POLAND: Yes.

3 MR. THOMAS: No, ma'am, it would not be favorable.

4 SENATOR RADER: Senator Croft?

5 SENATOR CROFT: I'd like to ask several questions. First of
6 all it has to do with an Oil and Gas Journal article that
7 came out in the July 21st, 1975 issue under the headline
8 "The Big Scramble for North Slope Gas". I think probably
9 a lot of people at the table have copies of that. It
10 may have come from the House committee members. There
11 is a section there -- they're talking about the way in
12 which North Slope gas had been committed at that time
13 and they say "The figures are based on the assumption
14 that North Slope gas will flow through the proposed
15 Alaska-Canada pipeline route," meaning the Arctic route,
16 "which would move gas directly to both the Midwest and
17 West Coast. However, both producers and purchasers say
18 that if the rival El Paso project wins out", and then
19 they describe the El Paso project, "similar amounts would
20 be made available to midwestern and eastern markets
21 either through physical movement of the gas or through
22 exchanges." Now, isn't it true that whichever route
23 is selected of the three, that basically the various
24 sections of the United States will receive about the
25 same proportion of Alaska gas through one type of arrange-

1 ment or another?

2 MR. THOMAS: The gas can be transported throughout the Lower
3 48, or essential throughout, regardless of the route that
4 it takes coming from the North Slope. Where the gas is
5 ultimately going to go will depend upon who contracts
6 the gas and where their customers are located.

7 SENATOR CROFT: But are you going to tell your customers in
8 the various areas that you serve that only if the El
9 Paso route wins can they rely on getting any additional
10 gas?

11 MR. THOMAS: I think that I'd have to tell them that unless
12 the El Paso route, the Trans-Alaska route is certificated,
13 I have no valid contract to get the gas.

14 SENATOR CROFT: You don't, but there are other people that
15 could get gas to them, is that correct?

16 MR. THOMAS: There are other people that will be attempting
17 to buy gas and if they sell in the same area, yes, they
18 could get it there also.

19 SENATOR CROFT: But in the area that you cover, there are
20 other people that sell gas in that area as well, isn't
21 there?

22 MR. THOMAS: Yes.

23 SENATOR CROFT: So the real question is whether you sell the
24 gas or another company sells the gas, not whether a
25 portion of the gas is going to go into Alabama or not.

1 Isn't that basically correct?

2 MR. THOMAS: Well, I think to my customers it is more
3 important that I get the gas than some competing route
4 from whom they get no supply.

5 SENATOR CROFT: But there might be other people in the state
6 in that very same area that you service that would prefer
7 another company to have it?

8 MR. THOMAS: That would be possible, yes.

9 SENATOR CROFT: Mr. Chairman, are there limits to the political
10 activity that Tenneco can engage in in pursuing this
11 contract? Are there any written prohibitions that you
12 have signed with the state?

13 MR. THOMAS: I'm not sure that I understand the question,
14 the portion about the written prohibitions. I don't --

15 SENATOR CROFT: Are there any other agreements that you
16 signed with the state besides this agreement here?

17 MR. THOMAS: No.

18 SENATOR CROFT: Under this contract, are you prohibited from
19 doing anything of a political nature? Are there any
20 limitations on your political activity that are contained
21 in these contracts?

22 MR. CARTER: Yes, whatever legal limitations there are on
23 political activities in state or federal law are
24 incorporated of necessity into that contract. That is a
25 general rule of contract law. It would apply to this one.

1 MR. THOMAS: And I don't recall the contract itself specif-
2 ically mentioning political support.

3 SENATOR CROFT: All right. In furtherance of the contract
4 you have formed a committee though, have you not, you
5 and the other purchasers in the state to coordinate your
6 political activity?

7 MR. THOMAS: We have met many times to discuss how we are
8 going to coordinate our activities, yes.

9 SENATOR CROFT: And there is a formal political committee
10 that was organized, was there not, to coordinate those
11 activities?

12 MR. THOMAS: Not a formal organization, no.

13 SENATOR CROFT: All right. Have you kept records as to how
14 much has been spent by you already in furtherance of the
15 contract?

16 MR. THOMAS: No, sir, I have not. I haven't personally, no.

17 SENATOR CROFT: And has the state asked you to keep any
18 records?

19 MR. THOMAS: No, sir.

20 SENATOR CROFT: Do you know offhand how much you have spent
21 to lobby the Alaska Legislature to approve the contracts?

22 MR. THOMAS: No, sir.

23 SENATOR CROFT: Could you try and find that information out
24 and supply that to this committee?

25 MR. THOMAS: Senator, let me address one part and that is

1 concerning the amounts of money that will be committed
2 in support of the project. What we have undertaken to
3 do is to give maximum support to the furtherance of the
4 Trans-Alaska project. Since we don't know when this
5 contract will be approved, at what stage that the federal
6 decision will be in, I have no projection on what the
7 expenditure might be. Insofar as what is spent to date
8 since we have just gotten started and actually have no
9 formal approval of the agreement yet, I have not been
10 tabulating. It will be some time before I can get that
11 but I'll see what has been collected.

12 MR. CARTER: Senator Croft, I believe I'm correct, I don't
13 purport to really be fully apprised of your law, but I
14 believe that under your law and under the federal law and
15 under California's law and probably any other, whatever
16 expenses that we would incur in the form of fees for
17 people to assist or in the form of just out of pocket
18 expenses or whatever other costs, we are required to keep
19 and to make available to the relevant governmental body.

20 SENATOR CROFT: I assume then that it shouldn't take very
21 long to furnish us that information.

22 MR. THOMAS: Well, because of the timing, I'm not so sure
23 that we have received any statements from any services
24 that might have been rendered to date.

25 MR. CARTER: But another answer, Senator Croft, is that so

1 far those expenses have largely consisted of hotel bills
2 and things like that that have been the out of pocket
3 expenses involved and coming up for this hearing, unless
4 you want to include the airplane tickets and the hotel
5 bills for past meetings with representatives of the
6 Royalty Board and of the executive branch.

7 SENATOR CROFT: Mr. Chairman, could I ask on a different
8 subject. On page twenty-four of the contract and I'm
9 not sure which contract it is but my question relates
10 to Section 11.4, the switching provision with regard to
11 the route. Did Tenneco request the insertion of that
12 provision in the contract?

13 MR. THOMAS: No, sir, we did not request that. That was a
14 provision that was put into the negotiations by the state
15 and we're in a position of course now that we have
16 executed the contract, we support the contract and
17 obviously we support all the provisions of it, but that
18 was not put in at our request.

19 SENATOR CROFT: With regard to the question of LNG projects
20 in other areas of the world, Tenneco is involved with
21 an LNG project in Algeria and when you and I discussed
22 a portion of this in my office, we discussed the fact
23 that Tenneco, I think, got in at a later date after
24 El Paso had already started. But that project is behind
25 schedule and I wonder if you could describe the status

1 of that project?

2 MR. THOMAS: Our project with the Algerian was signed on
3 October 4th, 1976. It's not related to either of the
4 El Paso projects. The government of Algeria is attempting
5 to contract a substantial portion of their surplus
6 natural gas. Our project involves a billion a day of
7 natural gas in the form of LNG to be delivered to a
8 receiving firm at St. Johns, New Brunswick, about seventy
9 miles north of the main New Brunswick border, to be
10 regasified and to be transported down to our mainline
11 system by a new five hundred mile pipeline from St. John's
12 down to Albany, New York, and thereon into Pennsylvania.

13 We anticipate -- well, let me go back a step.
14 The application before the Federal Power Commission was
15 filed on the 20th of December of 1976, and before the
16 National Energy Board on the same date. We would expect
17 to have timely FPC approvals which would allow the first
18 gas to flow at the end of 1981 under that project.

19 SENATOR CROFT: With regard to Sections 3.7 of the contract,
20 those sections which relate to the state taking back a
21 certain amount of gas that's committed to you and your
22 right to obtain additional gas, some people have said
23 that those sections apply -- Sections (a) and (b) of 3.7
24 apply only to gas at Prudhoe Bay. Is that your inter-
25 pretation or is it your interpretation that it applies to

1 any gas that goes through the pipeline, whether it is
2 Prudhoe Bay or the Beaufort Sea or wherever? Is it just
3 Prudhoe Bay gas that you have the future claim on?

4 MR. THOMAS: Well, what we have contracted for now is
5 certainly Prudhoe Bay gas.

6 SENATOR CROFT: Right.

7 MR. THOMAS: To the extent that the state removes it and uses
8 it for intrastate needs, then to the extent that there is
9 additional gas becoming available which is also surplus
10 to the state's needs and comes to market through the same
11 pipeline project then this gas would be made available
12 according to the terms of 3.7(a) and (b).

13 SENATOR CROFT: Whether it is from Prudhoe Bay or new fields
14 in the vicinity of Prudhoe Bay and that gas is shipped
15 through the pipeline, is that correct?

16 MR. THOMAS: I believe that is correct, yes.

17 SENATOR CROFT: It would be the new gas as well?

18 MR. THOMAS: Yes.

19 SENATOR CROFT: All right. And one final question, the total
20 amount of gas that you are purchasing from the state, do
21 you know what percentage of the total gas that belongs to
22 the state do you feel you are purchasing?

23 MR. THOMAS: Our contract specifies that we have up to 1.3
24 trillion that would be committed to us.

25 SENATOR CROFT: All right. But my point is the state has

1 twelve and one-half percent of the reserves there at
2 Prudhoe Bay and obviously the total amount of gas at
3 Prudhoe Bay is larger than the recoverable reserves at
4 Prudhoe Bay.

5 MR. THOMAS: Yes, sir.

6 SENATOR CROFT: And my question is, what percentage of the
7 total reserves at Prudhoe Bay and the recoverable reserves
8 at Prudhoe Bay, what portion of the state's share of
9 that figure do you feel that you are purchasing? One
10 hundred percent of the state's recoverable reserve?

11 MR. THOMAS: No. It is estimated that the state's share of
12 the recoverable reserves at Prudhoe Bay are approximately
13 3.2 trillion. The total of the contracts to ourselves,
14 El Paso and Southern, total only 2.6 trillion.

15 SENATOR CROFT: All right. And your figure of 3.2 trillion
16 recoverable, that is based on what percentage of the total
17 the state reserves at Prudhoe Bay? What recovery rate are
18 you using in arriving at that 3.2 trillion cubic feet?

19 MR. THOMAS: That is assuming a total of 26 trillion by the
20 field which I understand may be a little conservative at
21 this point.

22 SENATOR CROFT: Okay, but what recovery rate does that assume?

23 MR. THOMAS: Oh, what deliverability rate?

24 SENATOR CROFT: What percentage of the reserves at Prudhoe
25 Bay are going to be produced, the gas reserves at Prudhoe

1 Bay? Forty percent, sixty percent or what? What do you
2 think out of the total gas reserves at Prudhoe Bay,
3 what percent is going to be produced? What is the
4 recovery rate?

5 MR. THOMAS: Do you mean what percent will be recovered out
6 of the total gas in place?

7 SENATOR CROFT: This is fine, we can start with that.

8 MR. THOMAS: I don't recall the percentage. I would defer
9 that question to state oil and gas people. I'm sorry I
10 don't recall all of the calculations of what the recovery
11 factors are for the gas.

12 SENATOR CROFT: That is all.

13 SENATOR RADER: Senator Sumner?

14 SENATOR SUMNER: Mr. Chairman, I need some clarification.

15 Sometimes attorneys place their position on the iceberg
16 theory, ten percent on the questions they ask and nine
17 percent on the questions they don't ask. Senator Croft
18 recently asked you that if your constituents didn't get
19 gas from you, they would get it from somebody else. If
20 we believe or if we subscribe to the theory that legis-
21 lators, be they on a state level or on a national level,
22 listen to their constituents don't you think that maybe
23 if they were assured by this contract that you would get
24 some gas, they would be more inclined to support your
25 position than they would on the theory that maybe some-

1 body else would get some gas, that maybe they would get
2 some of it?

3 MR. THOMAS: I think they would, yes, sir.

4 MR. CARTER: Let me supplement that just a little and say
5 Tenneco's customers, whether they are just getting gas
6 from Tenneco or whether they might also get some from
7 somebody else, should be influenced by the arguments in
8 favor of the Trans-Alaska route even if they are going to
9 buy from someone else because those arguments basically
10 boil down to the time in which the gas would come to the
11 Lower 48.

12 SENATOR SUMNER: How much time difference do you see that
13 being?

14 MR. CARTER: Probably at least two years.

15 SENATOR SUMNER: You heard the testimony yesterday from the
16 Commissioner. Do you feel that the state could get a
17 higher price for its gas and if not, why not?

18 MR. THOMAS: Realistically no, I don't think they could.
19 The questioning yesterday concerned whether or not the
20 state had gone out to talk with industrial users in an
21 effort to make a direct sale, which sale the exact price
22 is not controlled by the FPC. When you look at the
23 conditions that apply to such sales such as, first, there
24 are not very many industries that would use the amount
25 of volume or the volume that the state has available,

1 approximately two hundred fifty to three hundred million.
2 All of these industries would have a relatively low
3 priority in the nine priorities of usage in accordance
4 with the Federal Power Commission table. The duration
5 of the contract between a producer and a direct user
6 is two years and regardless of whether or not the price
7 is controlled by the FPC, the transportation is. So if
8 the FPC feels that the price is out of line, then they
9 wouldn't approve the transportation.

10 But in any event, the FPC has not allowed any
11 of these that did not have a high priority which is
12 getting in the range of priority two's, priority three's
13 and all of those. We are serving right now only
14 priority one's and when the weather gets warmer then
15 we supply some priority two's. So I don't think the
16 state could get a higher price.

17 SENATOR SUMNER: During the negotiations with the state,
18 did you ever discuss the possibility of advanced pay-
19 ment sort of thing?

20 MR. THOMAS: Yes, sir. As a matter of fact our original
21 offer included an advance payment. This advance payment
22 of course was payable over a period of time, was to be
23 recovered over another period of time and in the terms
24 of the proposal were very much different than the terms
25 of the agreements before us.

1 SENATOR SUMNER: This morning you stated that the Trans-Alaska --
2 if the Trans-Alaska pipeline is not approved that you
3 stand to lose a lot in the amount of dollars and effort.

4 MR. THOMAS: Yes, sir.

5 SENATOR SUMNER: Do you still consider the Alcan route as a
6 viable alternative?

7 MR. THOMAS: No, sir. I do not consider the Alcan route as
8 a viable proposal. One of the main reasons being in
9 looking at it from the Canadian point of view, as I see
10 the Canadian interest they are the first to ensure that
11 the Canadian users have sufficient future supply to
12 supply their own demand and secondly, to protect the
13 Canadian economy. In looking at the Alcan route, there
14 is no Canadian supply being made available. But with
15 the advent of a major construction project there would
16 be the resulting effect on the Canadian economy. So they
17 get no gas and they get the effects of the construction
18 of a major project which might preclude a second project
19 to get Canadian gas from the Arctic Islands, from the
20 Mackenzie Delta from going forward when that demand was
21 needed by the consuming public in Canada.

22 SENATOR SUMNER: Do you think that the Canadian routes, either
23 one of them can provide sufficient financing support.

24 MR. THOMAS: I question this can be done without necessary
25 governmental guarantees on both sides of the border.

1 SENATOR SUMNER: How do you think the El Paso or the Trans-
2 Alaska line will be selected on its merits after the
3 judge indicated this morning or yesterday -- this morning,
4 maybe, that it was a selfish approach on the part of
5 Alaska to endorse that line?

6 MR. THOMAS: I think from the standpoint of the FPC the
7 administrative law judge hears a great deal of testimony
8 and the rules of evidence are set out by the Natural Gas
9 Act and there is a prescribed order and a prescribed type
10 of information that is submitted and his decision is
11 rendered in accordance with those rules. We have now
12 gone into a new phase. We are now coming under the order
13 or the prescribed information that is set out by the
14 Alaska Natural Gas Transportation Act. We are now
15 deviating from the characteristic or the normal FPC rules
16 of evidence and procedure.

17 I think now that there are many other factors
18 that come into play. I think the trial examiner's decision
19 is but one bit of information that will go into the full
20 commission and help them make their decision or their
21 recommendation to the President.

22 SENATOR SUMNER: Mr. Chairman, my last question. Which of
23 the lines that you are aware of of the three do you think
24 would have the most positive benefit to Alaska, to the
25 guy that isn't privy to the sort of discussions we hear

1 in here today and something that he wouldn't have to have
2 be explained in detail that you have really got this
3 benefit and you have really got that benefit, which one
4 of the lines would without doubt convince most Alaskans
5 that it is the line they ought to support?

6 MR. THOMAS: I think without any question it is the Trans-
7 Alaska line. That makes the gas from the North Slope
8 available at tidewater to the general industry and the
9 consuming public in Alaska.

10 SENATOR SUMNER: Thank you, Mr. Chairman.

11 SENATOR RADER: Representative Parr?

12 REP. PARR: I have a number of questions. Mr. Thomas, I
13 believe you said awhile ago that your company served
14 twenty-five states, right?

15 MR. THOMAS: Yes, sir. I believe twenty-two directly and
16 three indirectly through another company.

17 REP. PARR: We had some information, I think yesterday,
18 which indicated that really you weren't serving very
19 much of the market in but about seventeen of those states.
20 Your percentage, I think, in one state was something like
21 one percent of the total gas usage in that state and so
22 forth. So is really very realistic to say that you have
23 much of an interest shall we say in all twenty-five?

24 MR. THOMAS: Well, sir, our entire percentage of the market
25 in each of those states varies from, I think, ninety --

1 REP. PARR: It was Maine and Vermont, I believe, or Maine and
2 New Hampshire or some such place.

3 MR. THOMAS: Right. New Hampshire, ninety-eight percent;
4 Maine, eighty-nine; and then we range down to some of the
5 peripheral states to our market area where we supply
6 a minor amount, that is correct.

7 REP. PARR: Remind you of that old phrase, that is, if Maine
8 goes, so goes Vermont?

9 MR. THOMAS: Or something like that.

10 REP. PARR: The second question, Mr. Thomas, is that also
11 according to the information we heard yesterday, that
12 if you got the gas under this contract that amounts to
13 about three and one-half percent of what you are now
14 supplying in your twenty-five state market. Is that
15 roughly accurate as you understand it?

16 MR. THOMAS: It is around four percent, I believe. A fraction
17 over perhaps.

18 REP. PARR: I also, if I understood you correctly, you said
19 that you did not at present have any commitment from the
20 producers. You said in answer to a question awhile ago
21 that if you didn't get this contract, you don't have any
22 gas committed to you. In other words, I assume that at
23 present Tenneco does not have a commitment from any of
24 the producers who have the seven-eighths on the North
25 Slope?

1 MR. THOMAS: That is correct. We have no commitment from any
2 of the producers.

3 REP. PARR: Okay, then I guess we come to my next question.

4 If I understood you correctly awhile ago, contrary to what
5 most of us had understood, you were not going to go into
6 grass roots constituent lobbying. You were not going to
7 try to influence the average homeowner, who is maybe
8 having trouble getting enough gas to keep his house
9 warm, to write to his Congressman to attempt to influence
10 his Congressman to vote for the El Paso or the Trans-
11 Alaska line. You were going to instead deal with oil
12 and gas people, people in energy offices, people in
13 state government offices of some sort who might be more
14 influential.

15 MR. THOMAS: I think my answer -- well, I have two parts in
16 response to your question. The first is, on a previous
17 question before I mentioned that we deal with the dis-
18 tributors, they deal with the ultimate consumers, the
19 homeowner, so they have a direct relationship and so we
20 feel that is the method to get to the grass roots.

21 The second part is that we have a limited amount
22 of time remaining before these decisions are going to be
23 made. I think that the time has come to determine how
24 can we best spend our time, where can we best spend our
25 efforts to get the maximum advantage from it and we feel

1 that that is the reason we will try this.

2 REP. PARR: In other words what you are saying is you think
3 that your time is better spent now by dealing with people
4 who would be more directly influential in determining
5 which route is selected?

6 MR. THOMAS: We'd like to deal with people that have input
7 into the final decision, yes.

8 REP. PARR: Almost my final question, Mr. Chairman. You said
9 awhile ago that you have not really spent any money or
10 organized really properly yet because the contract had
11 not been ratified and I think we all know that the
12 contract is very general in what it says you will do.
13 Has there been a budget set even though the money is not
14 yet spent or committed, a budgeted amount which will be
15 used to hopefully influence the selection of the Trans-
16 Alaska line?

17 MR. THOMAS: The problem with setting up a budget in our
18 organization is we didn't know when we were going to
19 start and our concern has been what is our starting date?
20 We know what the ending dates are and a lot of this is
21 a function of retaining people to assist us in the task
22 of the utilization of our own people and the effort to
23 contact the people. The amount of dollars is directly
24 related to the number of days or the number of weeks or
25 months you are involved. We have no prescribed budget

1 that says that we will spend only X dollars because we
2 didn't know what the starting date was going to be. That
3 has been our problem in anticipating what we would spend,
4 The provisions in the contract specifies that we will
5 support this route. Really the insurance that the state
6 has that we are going to give maximum effort, which we
7 intend to do, is that if we don't win, we don't get any
8 gas from this contract. And also from the standpoint
9 that we feel that we need to give a maximum effort and
10 will, is because we intend to be in business in Alaska
11 for the next twenty to thirty years because, as I mentioned,
12 this is where we see the activity coming in the exploration
13 for major new supplies of reserves. We also have a large
14 multifaceted company that I feel should be more involved
15 in Alaska and the opportunities that I see here. We also
16 feel like, perhaps erroneously, that having a contract
17 with the state will give us a better understanding of
18 what is going on in the field and perhaps a better basis
19 from which the contracts are working interest reserves.
20 We don't know if that is a fact or not.

21 REP. PARR: Well, you know, Mr. Thomas, the contract simply
22 says that you agree to actively support?

23 MR. THOMAS: Yes, I know.

24 REP. PARR: That could be anything from, I suppose, I am not
25 an attorney but I suspect that attorneys will confirm it,

1 could be anything from writing one letter which costs you
2 thirty-five cents or fifty cents worth of secretarial
3 time plus a postage stamp, to spending a billion dollars.
4 Now, of what you said awhile ago, you do five hundred
5 million dollars of business a year, you have got a seven
6 billion dollar capital business, right?

7 MR. THOMAS: Seven billion in assets and our capital expen-
8 ditures are in the range of five hundred million.

9 REP. PARR: And yet what you are saying is that you have not
10 really committed yourself even with a planning budget at
11 this point because we haven't ratified the contract. It
12 really --

13 MR. THOMAS: What you are asking me is if I had a dollar
14 figure for the --

15 REP. PARR: I said how much have you budgeted. All right, do
16 you have a planning budget of X number of dollars? Are
17 you planning to spend a million dollars, one hundred
18 thousand dollars or ten dollars?

19 MR. THOMAS: My budget is based upon activities and not on
20 the dollars I will spend on the activities. I'm sorry
21 but I can't quote you a number for that that would define
22 that. I'm more concerned about the activities and the
23 efforts that we are going to purport and whatever those
24 costs are then we will underwrite those costs.

25 REP. PARR: Thank you.

1 SENATOR RADER: Mr. Hayes?

2 REP. HAYES: Thank you, Senator Rader. In addition to
3 finding gas for your customers, I presume you have a
4 profit motivation.

5 MR. THOMAS: Yes, sir.

6 REP. HAYES: And I'm wondering if you have projected what
7 the profitability might be in dollars assuming you receive
8 this 1.3 trillion cubic feet over some period of time?
9 I'm sure that you must have projected some profitability.
10 I'm just wondering if you could give me some idea of what
11 that might be in dollars?

12 MR. THOMAS: In a regulated company we make no profit on
13 buying and selling the gas. We sell it for the same
14 price that we buy it. We get our expenses recovered
15 from our own pipeline system. We depreciate our system
16 and we earn a return on the amount of money we have
17 invested in our system. In a regulated entity the amount
18 you earn is strictly based on your rate base, the amount
19 you have in facilities and you recover that regardless
20 of the volume of gas that flows through it. So, to the
21 extent that any amount of gas coming into our system we
22 add no facilities. Our recovery is just the same as
23 what it would have been with a greater or lower volume
24 of gas.

25 REP. HAYES: So there really is no profit incentive in this

1 particular deal?

2 MR. THOMAS: What we are doing is ensuring that we are going
3 to be in business over a longer period of time and we
4 are continuing to supply our customers needs. And, there
5 is a definite advantage in staying in business over the
6 long term.

7 REP. HAYES: Just so I understand it, there is no anticipated
8 profit though other than just --

9 MR. THOMAS: We do not mark up this gas, no. We sell it for
10 exactly what we buy it for plus the transportation charge.

11 SENATOR RADER: I take it also though it might mean that
12 you would not have to abandon facilities because of a
13 shortage of gas and curtailment.

14 MR. THOMAS: Yes, sir, that could easily be the case. And,
15 of course, we see in our system the same as you see in
16 a national supply, a decline in availability from our
17 traditional sources and there will come a time when not
18 only ourselves, but other companies, if they can't get
19 non-traditional supply from other areas, they will have
20 to start abandoning parts of their system. That reduces
21 rate base, will reduce the earnings that you had.

22 SENATOR RADER: It is sort of a reduction of losses theory
23 instead of a maximization of profits, I suppose.

24 MR. THOMAS: Yes, sir. That is just the basis of regulated
25 companies profitability.

1 SENATOR RADER: Representative Gruening?

2 REP. GRUENING: If the Governor switches the support of the
3 state to the Alcan route and you agree to go along with
4 that, what, if anything, have you lost in terms of
5 profit?

6 MR. THOMAS: The amount of money that we would spend in
7 support of a Trans-Alaska route, if that route were not
8 certificated, we would not be able to recover those
9 costs.

10 REP. GRUENING: Well, we haven't been able to determine what
11 amount that is going to be. Do you have any idea?

12 MR. THOMAS: I don't know what amount that is going to be
13 because I don't know number one, when the Governor would
14 switch, if he would switch or when this agreement will
15 be approved but it would take all of those items and then
16 you could project.

17 REP. GRUENING: But other than that amount whatever that
18 amount be, be it ten or a billion dollars, other than
19 that on including in the rate base you don't see any
20 difference in your profit if the Alcan route is chosen
21 and you get the gas.

22 MR. THOMAS: Well, whatever that amount of money that you
23 would spend in support of a Trans-Alaska route, that
24 would not be recoverable. That would come out of our
25 earnings and would be a net loss to us. If your question

1 is could we get the gas to our customers if it went
2 through an Alcan route, yes, we could get the gas to our
3 customers as could most anyone else.

4 REP. GRUENING: That wasn't my question.

5 MR. CARTER: Let me supplement that answer a little bit,
6 Representative Gruening. Another thing lost is the time,
7 effort, manpower, in trying to get gas supply. Tenneco
8 is no different than any other person in that there is
9 only so many things you can do with the people and the
10 time that you have got available. And if you spend
11 your time and effort trying to get a Trans-Alaska project
12 certificated and that does not succeed then you have
13 foregone other opportunities to be placing those bets
14 and if you believe that a switch to the Alcan route along
15 with the Governor, if he should do that, is not a very
16 viable alternative for getting gas then you don't sit
17 back and say "I can rest on my oars and later switch to
18 Alcan" because that won't get you anything.

19 REP. GRUENING: Well, the point of my question was if you
20 rest on your oars and Alcan is chosen and the state
21 switches its support to Alcan and you choose to go with
22 that, what you are telling me is you lose nothing in the
23 profit that you make in transmitting the gas. Is that
24 it? Wherever you make your profit you haven't lost any-
25 thing, is that correct?

1 MR. THOMAS: Because unless you add facilities you are going
2 to make that same amount anyway from the volume you were
3 transmitting otherwise.

4 MR. CARTER: If Alcan is selected, that is another premise
5 of your statement,-- that Alcan has to be certificated
6 and built or else, yes, you will lose even if you switched
7 with the Governor.

8 REP. GRUENING: Now as I understand it -- may I follow up?

9 SENATOR RADER: Certainly.

10 REP. GRUENING: Your customers are distributors and not home-
11 owners?

12 MR. THOMAS: This is correct. We do not sell to the ultimate
13 consumer.

14 REP. GRUENING: Now, are these the people you are talking
15 about bringing on to help you with the lobbying efforts?

16 MR. THOMAS: No, these are the people that we will be talking
17 to in an effort to present the merits of the situation.

18 REP. GRUENING: Well why do you have to talk to them? In
19 other words if they understand you don't get the gas,
20 I mean isn't that self evident, what else do you have
21 to say to them other than the facts, you don't get the
22 gas if the El Paso route isn't chosen?

23 MR. THOMAS: Well, it is easy for those of us who have been
24 working on the problem as we all have for eighteen months
25 to two years to know all of the pros and cons of the

1 various competing routes. It is surprising when you
2 talk to different areas in the Lower 48 that they seem
3 generally unaware of what the merits are for the individual
4 routes and it's not enough, I don't think, to go to our
5 customers and say, "Look, this way I get the gas and
6 that way I don't." That is not going to be sufficient.
7 We are going to have to sit down and say here are all
8 the reasons why, here is the reason why that we will
9 get the gas. Not only will we get it but we will get
10 it faster through the Trans-Alaska route. Here are the
11 reasons we feel that is the case, here is the way that
12 gas will move, here are approximate time schedules, here
13 is how that will fit our availability of gas to you.
14 All of these things need to be discussed, not just the
15 fact that one way we get it and one way we don't.

16 MR. CARTER: And the time frame is that I think it is by
17 July 1, the states are to comment to the President on
18 what they favor for a delivery system for Prudhoe Bay
19 gas and if we are not out in the field trying to inform
20 the responsible state officials of what the ingredients
21 of that decision should be, then you won't have any state
22 input to the President.

23 My own view is that the President is going to
24 make this decision on what he sees to be the merits.
25 And if he receives no comments from states to the effect

1 that they believe the Trans-Alaska system will deliver
2 gas to the Lower 48 faster than these others, and if
3 he doesn't receive comments reflecting that the states
4 know they will get the gas in their states regardless of
5 which system is built, then the President is going to
6 continue to be bombarded with views to the effect that
7 the Midwest won't get gas unless the Trans-Alaska --
8 of I mean the Trans-Canada pipeline is built. And he
9 just won't get the benefit of input from governors and
10 states in our market area or in the market area of other
11 companies unless somebody goes out and does the ground-
12 work with those state officials.

13 REP. GRUENING: Okay, in that regard, what are you doing
14 between now and July 1st then?

15 MR. THOMAS: It depends on when the contract is.

16 REP. GRUENING: I have a real problem. If it is signed today
17 what would you do, and approved today?

18 MR. THOMAS: What we are doing is with the people that we
19 have retained we are setting out who are the responsible
20 people to contact, what type of people should we have
21 from our staff to make the contacts or from the staff
22 of others, and what is the best timing to do in in
23 relation to their needs and our needs and theirs to
24 have the information and ours to transmit it, not only
25 to them but to other people. That is what we are in the