

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

507 SCOMM15: HOUSE/SEN. SP. COMM. SALE ROYALTY GAS 1977-78

1 process of doing now.

2 MR. CARTER: An example would be the letter that has been
3 attached as an exhibit that has been made available to
4 all of the concerned California agencies and follow-up
5 discussions with those agencies about the substance of
6 the views expressed in that letter are anticipated.
7 Now that kind of detailed work with about six or seven
8 responsible agencies in several states is a major under-
9 taking and it requires knowledgeable people spending a
10 lot of time.

11 REP. GRUENING: You would prepare, for example, a document
12 like this one and submit it to us by Tenneco?

13 MR. THOMAS: We intend to have fact sheets, data sheets,
14 probably not like that. We need one that we can revise
15 more easily as new time deadlines pass and new information
16 becomes available. That was made for a specific purpose
17 which was to supply the Royalty Board and members of
18 the legislature of what advances could be available to
19 Tenneco in supporting a Trans-Alaska route. They
20 probably would not be exactly in that form.

21 MR. CARTER: That document doesn't even really address the
22 merits of one of the routes versus the other ones.

23 MR. THOMAS: Because we knew we all believed in just one so
24 that wasn't --

25 REP. GRUENING: This is part of the lobbying effort towards

1 the State of Alaska then?

2 MR. THOMAS: Well, I think that was a part of the effort of
3 convincing the Royalty Board that we were one of the
4 parties that they should contract to.

5 SENATOR RADER: Senator Colletta?

6 SENATOR COLLETTA: Good. Yes, Mr. Chairman. Mr. Thomas,
7 there has been a great deal of discussion now on the
8 magnitude of the effort that you are going to put forth
9 on seeing that the Trans-Alaska route is selected. Would
10 it be correct to assume that this transaction for Tenneco
11 is no different than any other business proposal and that
12 you will in fact commit up to what is reasonable to make
13 certain that you do acquire this percentage of gas? What
14 I really want you to say is that that effort will be
15 whatever is required within reason, because certainly you
16 must reach a point where a further expenditure would no
17 longer be in your benefit to pursue something that you
18 couldn't make anything for thereby eliminating the pos-
19 sibility that you will head your bet on the one line to
20 hold back support for maybe an alternate route. I mean
21 that just wouldn't be good business sense, would it?

22 MR. THOMAS: Why it certainly wouldn't be good business sense
23 from us because we don't believe there is an alternate
24 route to the Trans-Alaska route that serves the best
25 interest of Canada, the Lower 48, the State of Alaska and

1 certainly as far as this agreement is concerned, to our
2 own best interest. So, we feel that this is the route
3 that is in the best interest of all so certainly we will
4 expend whatever is required to give our support to the
5 line within the reason that you mentioned. And, that is
6 where we will get our benefit.

7 SENATOR RADER: Senator Huber was asking for the floor a
8 moment ago.

9 SENATOR HUBER: I'll pass to somebody else for the moment
10 but I want to talk to them before they are finished.

11 SENATOR RADER: We have difficulty here, the fellows on this
12 side of the room are suffocating and the people on this
13 side are freezing so I suppose we will alternately open
14 the door until they freeze and then shut it until they
15 suffocate and then we will be all happy.

16 SENATOR HUBER: Mr. Chairman, may I suggest that being I don't
17 have a coat on when I shiver you close the door?

18 SENATOR RADER: We'll just try to work it out somewhat
19 cooperatively so that we can all walk out of here --
20 we all die together or live together, one way or the
21 other. Representative Meekins. I would like to so far
22 as possible, recognize first those Senators who have not
23 had an opportunity to examine particular witnesses,
24 recognizing that when a line of questions is going it
25 may be more convenient to keep that particular line going.

1 But to the extent that other Senators and Representatives
2 are trying -- try to spread the questioning as reasonably
3 as we can. So, it would be better if you didn't ask
4 for recognition the second time as long as you know that
5 other people are asking for recognition the first time
6 and I'm not keeping track of it. Representative Meekins?
7 REP. MEEKINS: Thank you, Mr. Chairman. I'm sort of interested
8 in the same line of attack -- well, not attack but sort
9 of questions. It seems to me that contracts are all about
10 promises or performance and sanctions, that if that
11 performance isn't given. We have been told that one of
12 the primary things that we are receiving in this contract
13 is some sort of an advantage or some sort of a gain in
14 the possibility that the El Paso line will finally be
15 approved and yet we are all stumbling around, I think,
16 in trying to find out exactly how we can quantify some
17 regards what we are going to be receiving. That is what
18 is stimulating the questions of what the budget is going
19 to be and those type of things and I think that is probably
20 fair. What I'm wondering is can you, is there some
21 monetary incentive for you -- can you, for instance, pass
22 through onto your rate base the costs that you might be
23 incurring for this effort if the El Paso line is finally
24 given approval. That would seem to me that that would
25 be an incentive that if you can include those in your

1 rate base if El Paso got approval and you couldn't if
2 Alcan did, that that would be some sort of an incentive
3 and we could have something substantial to look to.

4 MR. THOMAS: Essentially that is the way it goes in securing
5 new gas supply for a regulated company. If you are
6 successful they say "fine", then you have secured ad-
7 ditional supply for your customers so they can share in
8 the cost. But if you are unsuccessful, then obviously
9 you shouldn't have embarked on that course so your stock-
10 holders -- or you have to reduce your profit to that
11 extent. That is your cost, it is not passed on to the
12 customer. In general that is the way it goes. So what
13 you say is correct, that is real incentive and it is an
14 incentive to make sure that when you embark on a program
15 you feel like that you can be successful. And of course,
16 we looked very carefully at this when we started because
17 we had a choice of all of the routes because we were
18 uncommitted. So, before committing to the terms of this
19 agreement we had to answer to ourselves, is there enough
20 gas, can we win? And we analyzed and answered, we can.

21 REP. MEEKINS: Thank you. Thank you, Mr. Chairman.

22 SENATOR RADER: We have been at this approximately an hour.
23 I think this would be a good time for a ten minute break
24 and we will try to reconvene promptly in ten minutes.

25 (Whereupon the hearing was recessed at

1 2:30 p.m. and reconvened at 2:45 p.m.)

2 SENATOR RADER: Because of the fact that the capacity of
3 this room is exceeded by the number of people in it,
4 we adopted the no smoking rule and some persons who were
5 not here yesterday when that was announced perhaps were
6 not aware of that. We are asking you not to smoke in
7 the committee room here during deliberations and probably
8 even during the recesses if you would go into the lobby
9 so that this area has a chance to clear.

10 There has been questions as to whether or not
11 we are going to go into the night. You know we have
12 hearings scheduled for tomorrow to again commence at
13 11:00 o'clock and we plan on operating this afternoon
14 I would think until 5:30 or a convenient breaking time
15 depending upon how it breaks the witnesses. I would
16 prefer that we not schedule a meeting this evening and
17 hope that we can do all of our work tomorrow, then make
18 the decision tomorrow depending on how close we are to
19 being through, as to whether or not we should go over
20 another day or whether or not we should go into a night
21 session tomorrow evening. So, I think that we will plan
22 on no evening session today and tomorrow at around noon
23 perhaps we will try to judge our time at that time and
24 our witness schedule.

25 We have one other problem and that is Mr. Smith

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1 of Southern has a commitment and will have to leave in
2 the morning. We will interrupt Tenneco's testimony
3 after the next break if you are still testifying at that
4 time, with your permission and with the permission of
5 the committee, to take Mr. Smith of Southern out of
6 sequence so that he can leave tomorrow. That would
7 leave us perhaps an hour to an hour and one-half for
8 Mr. Smith. Is there any objection to following that
9 procedure by any committee members? All right, that
10 will be the plan then and we can adjust as we go along.

11 I understand that you are having difficulty in
12 hearing. Perhaps one way that we could solve that and
13 you can communicate that is if you are in the back of
14 the room and you cannot hear, if you will hold up your
15 hand or something, perhaps I will see it and I can advise
16 the Senator or the witness to speak up, whoever is having
17 difficulty. But as a general admonition, we don't have a
18 system here other than the mechanical one of our vocal
19 chords so everybody speak up as best they can.

20 I believe we are open for further questions on
21 the Tenneco witnesses.

22 SENATOR CROFT: Mr. Chairman?

23 SENATOR RADER: Senator Croft?

24 SENATOR CROFT: I have one that relates to the question with
25 regard to your building into your rate base the cost that

1 you might incur in developing public support for the
2 El Paso proposal and as I understood your answer it was
3 that if the El Paso proposal wins, you can put it in the
4 rate base, if the El Paso proposal doesn't win, that you
5 can't put it in a rate base. It's only if it is basically
6 successful and you used that as an argument that you
7 have a real incentive to go with the El Paso proposal.
8 Isn't it really an incentive to go with the winner and
9 that if the state shifts its position from El Paso to
10 some other position, it is in your best interest to go
11 with the system that is likely to win rather than to
12 stick with the El Paso system at all cost?

13 MR. THOMAS: As I understand the cost figures and generally
14 speaking you are able to put into your cost the successful
15 securing of new supply. To the extent that you expended
16 money on an unsuccessful route, then that would not be
17 allowed regardless of whether you switched on to a new one
18 later on. There would be a clear distinction, since these
19 are competing routes there would be a clear distinction
20 of these costs so I don't see that it would make all that
21 much difference.

22 MR. CARTER: Let me supplement that a little too, Senator.
23 Apart from the theoretical question, in planning what you
24 are going to do you have to think hard about probability
25 and our sincere view is for the reasons expressed in the

1 letter to the State of California, and for the reasons
2 outlined in the administrative law judge's opinion, we
3 don't see getting gas through switching to the Alcan route
4 as a way that has any significant probability of getting
5 gas for Tenneco. So there is no incentive to sit back
6 and wait to switch to that route because it is not going
7 to wind up accomplishing the purposes that bring us here.

8 SENATOR CROFT: The Alcan route or the Arctic route would not
9 produce any gas for Tenneco if the state switched its
10 position to support one or the other of those routes?

11 MR. CARTER: If it won, only if it winds up being designated
12 by the President as the method for delivering gas and we
13 don't think there is a significant possibility that the
14 President is going to designate the Alcan route.

15 SENATOR CROFT: And you do think there is a significant
16 possibility he will designate either Arctic or El Paso?

17 MR. CARTER: Yes.

18 SENATOR CROFT: Equal chance on both?

19 MR. THOMAS: Well, obviously we feel that if we can get out
20 and get our work done, we have a better chance to get
21 the Trans-Alaska route because we feel it is in the best
22 interest of the contract.

23 SENATOR CROFT: Okay. Your major concern is to make sure
24 that your purchasers have this additional gas, is that
25 correct, that is the reason you are in this to extend,

1 as I think you answered Representative Hayes, to extend
2 the life of your operations and your customers operation?

3 MR. THOMAS: That is right, that we transport it through our
4 system to our customers.

5 SENATOR CROFT: There isn't any question but what if the
6 state switched to another route that you thought might
7 win, that you would go along with the state in order to
8 get the gas for the customers, is there?

9 MR. THOMAS: Yes, there is a question because we spend a lot
10 of time in the country in support of many different
11 supplemental projects and all of these are important to
12 us and we can't support, in this case as an example, the
13 Trans-Alaska route up to day twenty and do our best to
14 convey all of the issues and the merits of the cause
15 and then on day twenty-one go in and tell the same people
16 all that we have told you for the first twenty days,
17 forget it, we are now off on a new route. I think we
18 would destroy our credibility, which not only affects
19 this project but many others that we are working on.
20 So, I see a very definite problem to us switching the
21 route simply because the state might elect to switch.
22 I think there would be a very serious question of whether
23 or not we would be able to.

24 SENATOR CROFT: You would rather go back and tell your pur-
25 chasers you are not going to get anymore gas because we

1 decided not to switch, than to switch if you thought that
2 it might produce the gas?

3 MR. THOMAS: I think I would have to tell my customers what
4 all the fact situation was at the time the state switched
5 and what our reasoning was at the time to not support,
6 if in fact that were the case. It would be difficult for
7 me to anticipate simply because I don't think the Alcan
8 route is a viable route and I can't see the possibility
9 of the state switching to that route. Neither do I see
10 the state switching to support a gas Arctic route. So
11 I don't see much likelihood of this ever occurring.

12 SENATOR CROFT: All right. In that regard you indicated
13 July 1, 1977 was the date in which the states started
14 making their comments to the President.

15 MR. THOMAS: It must be concluded by July 1.

16 SENATOR CROFT: All right. So that -- are you saying that
17 any switching that occurs after July 1, 1977 probably
18 you wouldn't play any role in what happens. If the state
19 switches after that time, you are sort of out of the
20 picture by then, is that correct?

21 MR. THOMAS: I say that we may be out of the picture just a
22 very few days after this contract is executed. In fact,
23 we may be out of the picture already because we have
24 already made our views known in several different places
25 as to our support of a Trans-Alaska route and the reasoning

1 behind it. It might even be difficult for us to switch
2 today. We would have to look very carefully at doing it.
3 Again, I think these are theoretical questions because I
4 don't see any reason for the state to switch.

5 SENATOR CROFT: So that anybody that says if the state switches
6 it is going to carry Tenneco with them is simply mistaken?

7 MR. THOMAS: I think that they could have a real serious
8 problem on their hands.

9 SENATOR CROFT: Thank you.

10 SENATOR RADER: Senator Sumner?

11 SENATOR SUMNER: I have a dilemma. Yesterday in the testimony
12 before the committee we talked about integrity, today we are
13 talking about integrity. If the administration supporting
14 this contract decide, dedicated to El Paso as they are,
15 decides that it is the best interest for Alaskans to
16 sometime in the future when they decide or it is determined
17 that the El Paso line is no longer feasible, if the state
18 then switched its support to the Alcan line, would you
19 see that as any violation of the state's integrity? And,
20 would you if you thought at that time, sometimes we get
21 smarter a month later, if you found that the Alcan line
22 had a possibility and in your view it served to benefit
23 your clients and your customers more to support that line,
24 would you then switch and not consider that a violation
25 of your integrity?

1 MR. THOMAS: I find that difficult to answer. I guess I am
2 looking at contractual terms where the state has the
3 right to switch, they have reserved that right. I guess
4 it is difficult for me to say that the state would be
5 guilty of any violation of integrity if they did what
6 they have allowed themselves to do under the terms of
7 the contract and if they felt that that was indeed in the
8 best interest of the population.

9 Now, from our point of view I guess because the
10 state switches we don't have the contractual obligation
11 to switch with them. At that time we get to look and
12 say "all right, what are the facts, what is the situation
13 at this time, what have we done, what are our feelings?
14 Do we feel that that is a good switch, can we honestly
15 support it?" This I can see as integrity, whether or not
16 we would switch contrary to what we have said before.

17 SENATOR SUMNER: But you aren't at this time preempting the
18 option of switching to a second line?

19 MR. THOMAS: The contract allows us to switch.

20 SENATOR SUMNER: Thank you, Mr. Chairman.

21 MR. CARTER: What we are doing is telling you that's not an
22 option that means very much and that there would be a lot
23 of real life problems for the company to exercise the
24 option.

25 SENATOR SUMNER: And conversely you are stating at this time

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1 that you are not committing to switch but that is
2 essentially what your position is and that your options
3 are open just like the state's options are open?

4 MR. CARTER: We don't think they are as open as the state's
5 options may be because Tenneco has many things up before
6 people that make decisions on these kind of energy
7 questions and whether they get the results they want
8 depends to a great deal on whether people believe their
9 testimony. And so you can't really be in a position of
10 telling them different things on different days about
11 the same project and hope to maintain the kind of
12 credibility that is necessary to be believed.

13 SENATOR SUMNER: If the Alcan project lost -- let me ask you
14 this. I asked you this morning if it was a viable
15 alternative and you don't think it is at this time?

16 MR. THOMAS: No.

17 SENATOR SUMNER: Is there any real evidence to support that
18 basis or that fact?

19 MR. THOMAS: Well, I think the trial examiner, just in my
20 brief reading of his press release, said there was no
21 chance for a certificate.

22 SENATOR SUMNER: But, of course, in the same brief he stated
23 that his support largely was for --

24 MR. THOMAS: Was for Gas Arctic. He also said the Trans-
25 Alaska route was a viable route, he did not say the same

1 thing on Alcan.

2 REP. GRUENING: Mr. Chairman, I don't have a question but
3 if I could get from the court reporter the log numbers
4 there of this last dialogue, the last couple minutes
5 so we could have that transcribed ahead of time if we
6 want it. Just get an idea of where we are at. That
7 is all I have.

8 SENATOR RADER: Fine. Representative Hayes?

9 REP. HAYES: Thank you, Senator Rader. I would like to
10 pursue a line of questioning that I started yesterday
11 and I lightly touched on today and that is whether
12 in selling our royalty gas for the FPC regulated price
13 plus lobbying efforts, we have in doing so, given up
14 the opportunity of getting some front-end money, better
15 known as a premium. Yesterday we had a little bit of
16 this in questioning Commissioner Martin. I believe he
17 testified that it wasn't possible to get a premium
18 because of a recent ruling that said the premium couldn't
19 be included in the rate structure. Then I got on to a
20 question about maybe it was possible to get the gas
21 companies as an incentive to have the opportunity to
22 purchase the gas to give up some of their profit in
23 the form of a premium and I believe that the testimony
24 was that it probably wouldn't have been very much
25 money. Whatever very much money is, I don't know, but

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1 anyway, as I understood from my questions a few minutes
2 ago that the way the gas company recovers or makes a
3 profit is through a recovery of cost plus profit for the
4 transmission system. And during the recess I talked to
5 Mr. Thomas about what kind of daily capacity they had
6 in their system and I believe he gave me a figure of
7 about 3.6 billion cubic feet per day and I divided that
8 into the 1.3 trillion which gives you three hundred
9 sixty-one days or about a year's operation. And I know
10 that is not the way to figure the value but anyway it is
11 a horseback way of saying that maybe it might allow them,
12 if they are successful in other areas to stay in business,
13 to recover -- Let's see, the negative way of making
14 money, reduce their losses for a year longer so that we
15 could put a dollar value on that. I mean there could be
16 some sort of a quantity put on that.

17 And then the other question that I asked him was
18 in view of that was there a possibility of the state
19 collecting a premium and I believe he mentioned and I
20 believe there was testimony on that earlier today that
21 initially they had offered the state some premium but it
22 was in the form of an advance payment which would be
23 returned over a period of time so the net benefit would
24 just be the money now instead of later. I did ask him
25 what he thought about the possibility of a premium in

1 the form of deferred profit and the answer -- I'm
2 bringing this out in testimony so I can just get your
3 confirmation and get it on the record, that that was a
4 possibility I suppose if you would agree to it, but it
5 would require FPC approval inasmuch as they do have some
6 concern about the profitability and viability of this
7 type of corporation as it affects stockholders.

8 Now just so that I can put that aspect to rest,
9 is that essentially what --

10 MR. THOMAS: If I might add one more thing. Any money paid
11 to a producer is really in the form of a price for gas.
12 The FPC now regulates the price so they would not allow
13 whatever you might call it, an advance payment, a front-
14 end bonus, anything that would in effect have you paying
15 more gas than a price that they allow to be paid at the
16 wellhead. So, they very definitely would have control
17 and the contract would have to be approved and they would
18 reject it.

19 SENATOR HAYES: They would reject you paying the state part
20 of your profit?

21 MR. THOMAS: Yes, because that in effect is paying more for
22 gas than what they say the wellhead price should be.

23 SENATOR HAYES: If you don't pass it on to the consumer though
24 why you wouldn't think -- it wouldn't seem logical they
25 would want to enter into a business transaction as long

1 as it didn't affect the consumer.

2 MR. THOMAS: Sometimes we think they do a lot of things
3 that don't appear too logical.

4 MR. CARTER: Well one consideration there is that the company
5 stay in business so that the consumers can continue to
6 get service. The American public is not served if you
7 get a bunch of dummies running the company that spent
8 to make it go bankrupt and then the consumers no longer
9 have gas. So that is the argument --

10 MR. THOMAS: That is the other argument that he was pointing
11 out.

12 REP. HAYES: Okay, but if we are talking about whatever you
13 recover in one year for the use of your facilities and
14 the Commissioner yesterday said, "I don't have any idea
15 what that is, maybe that's a billion dollars, maybe it's
16 ten billion dollars and if the state could get a little
17 bit of that", how much is a little bit, is that one
18 hundred million or one million? We are just trying to
19 get an idea of what we might be foregoing for the op-
20 portunity of having the lobby effort. We are just trying
21 to put a price on it which I am not able to do apparently.
22 If someone else can think of a different way to approach
23 it --

24 SENATOR RADER: To the extent possible, I hope that we will
25 all keep our comments in the nature of questions rather

1 than an exposition of our individual positions. I know
2 I am tempted to do that at times but I appreciate the
3 fact that you were trying to get a conversation that was
4 not on the record on the record. But to the extent that
5 we are discussing and convincing each other here, I hope
6 we will keep that to a minimum because we will never,
7 never conclude these hearings and we will also have that
8 opportunity to do that on the floor of the House and on
9 the floor of the Senate in other committee meetings. And
10 so let's try to pick the brains of our witnesses here as
11 far as we can and not each others to the extent that that
12 is pretty slim pickings perhaps.

13 Senator Huber?

14 SENATOR HUBER: I waited a little bit here, most of the things
15 I had in mind got asked, Mr. Chairman, which makes me
16 happy for a change. There has been a couple other
17 questions raised, however. The question that Mr. Hayes
18 just put in regard to adding front-end payments --

19 SENATOR RADER: Would you speak up, Senator? We are having
20 difficulty hearing you.

21 SENATOR HUBER: I sure will. The question that was asked by
22 Mr. Hayes in regard to adding in front-end payments,
23 would this be academic if the Congress does indeed de-
24 regulate the gas? If they deregulate it, you would be
25 able to add it in then wouldn't you?

1 MR. THOMAS: Senator, I think you have to come to the point
2 that first when you say deregulation -- you and I might
3 both say deregulation but we wouldn't really know what
4 the other is talking about. It would depend upon what is
5 the form of deregulation, is that only for new gas or
6 old gas, what is Prudhoe Bay gas?

7 I guess what you are saying is in the event
8 there was completely no regulation, there were no
9 restrictions on what you could pay for gas, then would
10 anyone be interested in making a front-end payment?

11 SENATOR HUBER: What you are telling us is that we're not
12 likely to get an uncomplicated decision on deregulation?

13 MR. THOMAS: I do not believe it will be uncomplicated.

14 SENATOR HUBER: My next question is relatively simple. You
15 went into yesterday's testimony and this is because of it.
16 We were talking about your customers and yesterday we
17 also talked about contracts to industrial users and you
18 tried to clarify that awhile ago. And I think the question
19 that needs to be asked is, these distributors that you
20 sell to, is there cases where those distributors have you
21 or somebody else transport the gas for them where they
22 buy directly from producers?

23 MR. THOMAS: Not the distributors. The distributors cannot
24 do it, an individual industry or corporation can, that
25 is the ultimate user. Then they would contract directly

1 with the producer for whatever volume they have but for
2 a maximum of two years. Then they would make arrange-
3 ments with us and with the distributor to transport the
4 gas to them.

5 SENATOR HUBER: But a distributor is precluded in the inter-
6 state market from becoming a customer of a producer?

7 MR. THOMAS: Yes.

8 SENATOR HUBER: Okay, that helped me there. Mr. Chairman,
9 my next question if you will bear with me on it, goes
10 back to -- I interpreted something that you said earlier
11 this morning, Mr. Thomas, if I can steal a term from an
12 old friend who will recognize it. But originally if the
13 state had chosen any one of the three proposed routes,
14 they would be can do routes as far as you were concerned
15 in being able to get the gas to you. That was the note
16 I made.

17 MR. THOMAS: Insofar as physically being able to get gas
18 through any of the three systems to our customers in
19 our market place, we could have done so, yes.

20 SENATOR HUBER: Okay. And then I also understood you to
21 say that there was not a deal currently -- there was not
22 a deal right now between you and any producer from the
23 Prudhoe Bay area to have the gas.

24 MR. THOMAS: We have no contract with any of the producers.

25 SENATOR HUBER: Do you have anything on the back burner with

any of the Prudhoe Bay people set aside?

MR. THOMAS: Well, we are in the gas buying business and we try to maintain contact with everybody that has gas available that is not already committed. We have no commitment from them, from any of the producers that says wait another thirty days and we will contract with you.

SENATOR HUBER: Here is how I framed the question a little bit earlier. I realize that I'm getting into a legal area and I might be getting into an area that you may not want to answer. But have you, Tenneco, any negotiations underway or on the back burner from any of the producers either in the Prudhoe Bay or the Mackenzie Delta area or also the proposed route of the Arctic Gas proposals?

MR. THOMAS: Senator, that is a pretty broad question. I guess I could answer it this way, somewhat like I did before. We are in the gas buying business and we make it our business to contact and maintain conversations with anyone that has gas available. Now we have, I'm sure, talked to every working interest owner in Prudhoe Bay about the possibility of contracting their gas. I don't think that we have talked to any of the people in Mackenzie Delta but I can't be sure about that. I guess my answer is that we try to make it our business to talk to everyone and I have no contracts in hand, I have no

1 promises that I am going to have a contract and I guess
2 that is about the extent that I could go into that. As
3 a policy we don't discuss who we are negotiating with
4 or what the terms of the negotiations are at the time.

5 SENATOR HUBER: Mr. Chairman, I certainly thank Mr. Thomas
6 for being so candid and I would like to ask one more
7 thing. If you get the information that Mr. Croft asked
8 about costs up to now in getting a state contract that
9 you would certainly include that in that, at least I
10 would want you to include in it your costs from the time
11 when about two years ago when I first noted you coming
12 to our meetings with the idea of selling the gas. I
13 would want to see that.

14 MR. THOMAS: That may take more time to dig up.

15 SENATOR RADER: Any further questions?

16 SENATOR HUBER: Thank you very much.

17 REP. GRUENING: Mr. Carpenter had his hand up.

18 SENATOR RADER: Mr. Carpenter?

19 REP. CARPENTER: Mr. Thomas, if eventually the El Paso route
20 is certificated, does Tenneco have any plans to acquire
21 an equity position in that pipeline?

22 MR. THOMAS: We have not committed ourselves to taking an
23 equity position in the pipeline. My own personal views
24 are that it is going to probably take all the people
25 who buy any of the gas on the North Slope to make the

1 project go. Everybody is going to have to participate.
2 It's too big of a project for any one company or any
3 three companies. It is going to take many more but that
4 is the next stage once we determine what the job is.
5 But, we have made no commitments at this time.

6 REP. CARPENTER: Earlier in your testimony this afternoon in
7 response to --

8 SENATOR RADER: A little bit louder, Mr. Carpenter.

9 REP. CARPENTER: Earlier in your testimony this afternoon in
10 response to questions from Senator Sumner you said -- you
11 were enumerating the reasons why the all-Alaskan route is
12 superior and paraphrasing you perhaps weakly here, you
13 said the all-Alaskan route makes it possible for state
14 royalty gas to be available to Alaskans at tidewater.
15 What is the significance of the phrase "at tidewater"?

16 MR. THOMAS: I guess the significant phrase is that to compete
17 with a product that is made from natural gas, whether it
18 be petrochemicals or whether it is LNG in a direct form,
19 any other product using that as a feed stock, transportation
20 is probably the biggest single element of competition from
21 that point on. The first point would be the price of the
22 feed stock and the second is what does it cost to transport
23 it from that point to wherever your market is. Being at
24 tidewater gives you access to the lowest cost transportation
25 to then transport the product to wherever you might want

1 to sell it and I think that most anywhere in the world
2 that is one of the essential items -- is low cost
3 transportation and among the lowest is transport by ship
4 by sea.

5 MR. CARTER: But that does not exclude the gas being available
6 anywhere along the Trans-Alaska line for any in-state
7 use.

8 MR. THOMAS: Oh, no, not at all.

9 REP. CARPENTER: This is my point, nothing that we are looking
10 at excludes a camp at Fairbanks.

11 MR. THOMAS: No, sir.

12 SENATOR RADER: Would that conclude your questions, Mr.
13 Carpenter? Mr. Chatterton, I believe you had --

14 REP. CHATTERTON: Yes, Mr. Chairman, I will have a series of
15 questions in the arena of daily deliverability, gas
16 reserves, things like that. I would be happy to yield
17 to anyone that has questions before we get into this new
18 arena.

19 SENATOR RADER: Senator Poland?

20 SENATOR POLAND: Mr. Chairman, I just have one very brief
21 question I would like to ask Mr. Thomas.

22 SENATOR RADER: Fine.

23 SENATOR POLAND: I understand that you sell to distributors.
24 Do you have any idea of the percentage of customers of
25 your distributors that are homeowners and those that are

1 industrial?

2 MR. THOMAS: I believe that the approximate break out we have
3 is between the FPC priority one and priority two. And
4 priority one is residential and small commercial, so that
5 would be the nearest number we would have and forty-four
6 percent of our gas on the average day goes to that
7 priority. Forty-two percent goes to priority two and
8 the remainder goes to the higher priority. I should
9 point out that right now, in the wintertime, all of our
10 gas is going into priority one because their demand has
11 increased and if their demand increases you automatically
12 shut off the next higher priorities.

13 So we are supplying, to my knowledge at least as
14 of a few days ago, we were supplying only priority one.
15 We did not have sufficient gas for any of the higher
16 priorities.

17 SENATOR POLAND: Thank you.

18 SENATOR RADER: Any other questions before we go to Mr.

19 Chatterton's line of inquiry? Senator Huber?

20 SENATOR HUBER: We might clarify one thing from which I'm
21 pretty sure I have got the answer but from some of the
22 questions around here I am not sure that it is common.
23 The pipeline gas which you purchase and transport is only
24 the two top fractions, C-1 and C-2, ethane and methane or
25 methane and ethane, isn't that correct?

1 MR. THOMAS: It is essentially methane because most of the
2 liquids have been extracted or are extracted at different
3 points.

4 SENATOR HUBER: And the ethane also can be used, it can be
5 transported?

6 MR. THOMAS: Yes, in with the methane, right.

7 SENATOR HUBER: But the other factions -- I mean we seem to
8 have some confusion a roundabout where they can take out
9 the liquefactions and so forth. They can't be trans-
10 ported in the type of gas lines that are proposed, isn't
11 that correct?

12 MR. THOMAS: Well, propanes and butanes can be injected into
13 the system and transported in with the methane and
14 extracted at other points.

15 SENATOR HUBER: In a high pressured gas line?

16 MR. THOMAS: I can't define what the carrying capacity is of
17 the different pressures in the line. Frankly I am not
18 conversant with that, I don't know. But I know that in
19 many areas where there is no market for propane and butane
20 you merely reinject in back into the methane supply and
21 it enriches the gas, it makes for a higher BTU count, you
22 just don't sell the liquids. And since you are above one
23 thousand you are paid for -- or in most contracts you are
24 paid for the BTU content, that's the value that is
25 received.

1 SENATOR HUBER: Well, I had understood that in a high pressure
2 line you can't transmit them because they become liquids
3 and the line is made to handle gaseous material rather
4 than liquid material.

5 MR. THOMAS: Senator, I can't answer that. I can't address
6 that. I just don't know the answer.

7 SENATOR HUBER: Okay, I'll get the answer from someone else.

8 SENATOR RADER: Representative Gruening?

9 REP. GRUENING: Mr. Thomas, can you tell us what advantage
10 would you have as a part owner of our royalty gas and as
11 a sponsor of the successful pipeline route in obtaining
12 other Prudhoe Bay gas or North Slope gas?

13 MR. THOMAS: I think as I have mentioned before we hoped that
14 that might give us an advantage. I don't know if it
15 would or not. I guess from my own view that when you
16 are involved in a project and you have an active interest,
17 you have an ownership or you have a contract, you tend
18 to stay up with it more. You stay up-to-date on what are
19 the new developments, what are the new discoveries, what
20 is the activity level, what is going on with the other
21 people within the project. You don't have that where you
22 are on the outside and you have no involvement in it,
23 contractual involvement, financial involvement. And I
24 think from that standpoint alone we would be more aware,
25 and we would be more active perhaps. That would be my

1 only view. Certainly there is nothing tangible, that is
2 purely a subjective one, perhaps that is a wish on my
3 part that it would give us a better competitive aid.

4 REP. GRUENING: Is there a financing aspect to that that works
5 in your benefit as well?

6 MR. THOMAS: A financing aspect?

7 REP. GRUENING: Financing the pipeline. In other words by
8 having that one portion the tendency in order to put the
9 project together would be to -- and the producers, of
10 course, would want the project to be put together in the
11 best manner possible and the tendency to have other
12 commitments of gas could accrue to your benefit.

13 MR. THOMAS: I think you could probably argue that either way.
14 The working interest owners -- as I understand your
15 question, your question is, as people are contracted gas
16 then they would be more likely to take an equity position
17 in the pipeline and therefore is it more advantageous
18 to contract more gas to a company or to spread the gas
19 out in smaller packages to a bunch of companies. I think
20 that it is going to take a lot of companies with financial
21 strength and credibility in the financial market to ensure
22 that any of the systems are financed and built.

23 Certainly we think it can be done but not by any
24 one company or two companies. It is going to take several.
25 So from the standpoint that we feel with our financial

1 strength that we should be contracted more and the working
2 interest owners should contract us more, I don't know if
3 they would view that the same way or not. I think they
4 could look at it either way.

5 SENATOR RADER: Any more questions along this line before we
6 go to Representative Chatterton's line of questioning.
7 Representative, why don't you pursue your line?

8 REP. CHATTERTON: Thank you very much, Mr. Chairman. Mr.
9 Thomas, earlier today you made a comment about entering
10 into an agreement involving LNG in October of '76 and I
11 think you referred to Algeria. I think there was a
12 little more dialogue on it. Who did you enter into the
13 contract with, Sonatrach?

14 MR. THOMAS: Yes, sir, Sonatrach.

15 REP. CHATTERTON: Okay. Now for the liquefaction will Algeria
16 be doing the processing of this?

17 MR. THOMAS: No, that is a completely separate process.

18 REP. CHATTERTON: Completely separate, thank you very much.
19 You also earlier this morning said something about -- or
20 today anyway, said something about you had done quite a
21 bit of study and so forth and so on before you entered
22 in this contract with the State of Alaska on royalty gas
23 and part of your consideration was the terms -- I think,
24 using your very term, sufficient reserves available. Am
25 I to gather that you feel the 1.3 trillion cubic feet or

1 the 2.6 trillion cubic feet is sufficient reserves
2 available to make a viable project?

3 MR. THOMAS: Well, I think the total project will depend upon
4 all of the reserves in the North Slope. What we were
5 looking at were essentially two things, one is -- well,
6 three I guess, to consider more. What are the presently
7 proven reserves total that are recoverable in Prudhoe Bay,
8 what is the potential for all of that area for the reserves
9 that might come to market through the same pipeline, the
10 same system and then we looked at it from the standpoint
11 of how much of that might we be able to contract, because
12 again we must compare that with other projects where we
13 might get X quantity of gas and we compare what is the
14 cost, what is the amount of time, money and people that
15 you put into each one. And if you are going to get a
16 little amount of gas and the probability of success is
17 low, then you may opt for something else, but we look
18 at them from all the points of view.

19 REP. CHATTERTON: In other words, I hear you say that eight-
20 eighths of the gas reserves at Prudhoe Bay is necessary
21 to make a pipeline project viable, is that correct?

22 MR. THOMAS: Well, I think you are looking at the total
23 reserves --

24 REP. CHATTERTON: Eight-eighths is total.

25 MR. THOMAS: As far as the question of could the state do

1 something with one-eighth, I think there has been dis-
2 cussion about that before but from our standpoint we
3 looked at the total reserves, the eight-eighths.

4 REP. CHATTERTON: Thank you very much. Now, what do you
5 visualiize as the minimum daily throughput in cubic feet
6 that would be required for a viable economic pipeline?

7 MR. THOMAS: We have not run the sophisticated models that
8 either the state has or any of the other direct advocates
9 in the cases. I can't answer that. I don't have the
10 reservoir models that they have used and I don't know --

11 REP. CHATTERTON: I'm sorry, Mr. Thompson, I'll rephrase my
12 question or restate it. What daily throughput in cubic
13 feet of gas do you consider necessary for a viable
14 economic pipeline project?

15 MR. THOMAS: Do you mean regardless --

16 REP. CHATTERTON: It has nothing to do with the reservoir.
17 You are going to put out a bunch of money and build a
18 pipeline. What do you need for a throughput per day,
19 daily rate?

20 MR. THOMAS: In any of the ranges that we have seen mentioned,
21 from two billion to some three and one-half. We think
22 it could be economic within that range, within the total
23 range.

24 REP. CHATTERTON: Let's take your two billion as a minimum
25 and anything on top of that, of course, is advantageous

1 to you I realize. Now, over how long a calendar time
2 period do you need to be assured of that rate?

3 MR. THOMAS: I think that the lenders of money will be the
4 ones that would have to be assured and depending upon
5 what terms they have, whether this is a twenty year or
6 what type of a loan or mortgage that you would have,
7 you would have to have sufficient supply to maintain that
8 throughput for that period of time, normally for two years.

9 REP. CHATTERTON: Lenders of money, thank you, Mr. Thomas. I
10 will use that term in my next question. In view of the
11 Royalty Gas Sales Contract, as I am told and as I have
12 read in my layman knowledge, the State of Alaska has a
13 two year figure off date, or upon notice can terminate
14 their share of the gas sales and shuck that off. Or for
15 that matter let's go beyond the contract, supposing that
16 our State Conservation Department says that we will not
17 be able to give you your two billion cubic foot per day
18 throughput. Do you believe with that staring you in the
19 face that you could get any money lenders to come forth?

20 MR. THOMAS: I think what the money lenders and the equity
21 contributors are going to have to have before them when
22 their decision is made is what is the deliverability rate
23 that is currently projected for this system, for what
24 duration is that projected to be available and what are
25 the ultimate reserves in this area and what is the promise

1 of additional reserves in the area. I can't answer how
2 they are going to view whatever those numbers are but I
3 can assure you they will look at them very closely and if
4 there is not enough deliverability and if there is not
5 enough assurance over the term then there will be a problem
6 raising the money for any project.

7 REP. CHATTERTON: Coming back from what the money lenders
8 might do, you as a prudent businessman would want to be
9 assured of a deliverability rate for over a period of time
10 beyond any reasonable doubt excepting an act of God that
11 it would continue. Is that correct?

12 MR. THOMAS: I think we would want to have an assurance that
13 the supply would be available, yes, sir.

14 REP. CHATTERTON: All right, sir, thank you very much. Do
15 you as a transmission company have any great feeling or
16 care about either the wellhead -- and under present legal
17 and regulatory situations of the FPC, do you as a gas
18 transmission company have any particular concern about
19 either wellhead price or city gate price?

20 MR. THOMAS: Absolutely.

21 REP. CHATTERTON: In what way, sir?

22 MR. THOMAS: A main competitor for natural gas is fuel oil and
23 we market primarily -- the biggest share of our market
24 along the eastern seaboard where fuel oil is readily
25 accessible. When we project into the future the rise of

1 natural gas prices, we make sure that we do not get non-
2 competitive with fuel oil. We very definitely have a
3 concern there. Our customers very definitely have the
4 ability to switch, a lot of them, and there they have
5 alternate fuel capacity in some cases and they will
6 switch to an alternate form if it is available and if it
7 presents an economic savings. So we very definitely have
8 an interest in it. The Federal Power Commission also
9 has a very definite interest in us looking after it
10 also.

11 REP. CHATTERTON: Then if you do have an interest and I
12 gather that the competitor in this is based on the price
13 per British therm or something like that. All right, so
14 we are into energy. If you do have an interest in the
15 city gate picture then you are certainly most interested
16 in any system that will get the lowest city gate cost
17 to the South 48, aren't you?

18 MR. THOMAS: I think at this point in time you look at many
19 requirements and I come back to the primary requirement,
20 and it is even more accentuated right now, its avail-
21 ability. If the people in Ohio right now had a choice
22 of not having enough to eat or paying a nickel more, I
23 think they would be willing to pay the nickel more.

24 REP. CHATTERTON: Five bucks more, I think.

25 MR. THOMAS: Yes, that is correct.

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1 REP. CHATTERTON: One last question unless it engenders some
2 more. As a transmission company you certainly are, you
3 may not be personally but your company is always involved
4 contractually and I know what our contract says. Could
5 you give me a rough cut as to the quality gas that you
6 will accept for the entrance into your pipeline and I'm
7 thinking of one, the normal H₂O dew point to the hydro-
8 carbon dew point, three percentage CO₂, nitrogen and for,
9 of course, percentage sulfur.

10 MR. THOMAS: Let me be just a bit facetious with what one of
11 our pipeline people told me. He said it used to -- we
12 told people we would buy their gas if they would take
13 the crud out of it. Now he says we tell them we will
14 take the crud if there is some gas in it. That is about
15 the situation that our quality requirements have gone.
16 We used to have very stringent ones and then we exacted
17 just very meticulous care that everybody met it. That is
18 not as possible as it once was. We now take it so long
19 as it just doesn't completely tear our system up and that
20 we can get it in. We have a long list of quality require-
21 ments which I would be happy to provide you.

22 REP. CHATTERTON: You certainly would not take gas that in any-
23 way would give you a two phase flow, is that correct?

24 MR. THOMAS: We have taken some offshore Louisiana that was
25 two phase flow. We didn't want to but we came back to

1 that same situation. We took the crud because it had
2 gas in it.

3 REP. CHATTERTON: Thank you, sir. Thank you, Mr. Chairman.

4 SENATOR RADER: Representative Meekins?

5 REP. MEEKINS: Could you explain what that is, two phase flow?

6 Is that when you have some --

7 MR. THOMAS: Liquid and gas.

8 SENATOR RADER: Any further questions? Senator Butrovich?

9 SENATOR BUTROVICH: Mr. Chairman, maybe this doesn't have too
10 much bearing on the matter before us but I was reading
11 here in this little book that --

12 SENATOR RADER: Could you speak up, Senator, they are having
13 difficulty hearing you in the back of the room.

14 SENATOR BUTROVICH: In the back of the room?

15 SENATOR RADER: That is what they indicate.

16 SENATOR BUTROVICH: I was reading in this book here, it says,
17 "Tenneco is a widely and carefully diversified company
18 which employs 78,300 people and has major operations in
19 manufacturing integrated oil, chemicals, package and land
20 management, and agriculture in addition to natural gas
21 pipelines." And I notice in another one of your booklets
22 here you have "Package Incorporation of America" and it
23 says here they do business in every state except Alaska.

24 MR. THOMAS: We hope to correct that one of these days.

25 SENATOR BUTROVICH: Well, that is the point I was getting

1 around to. I'm sure that I not only speak for myself
2 but I speak for a lot of legislators, our concern is not
3 primarily with getting the revenues from the gas that
4 goes down below to the consumers in the south 48. The
5 concern of a lot of Alaskans is the development of
6 industry in Alaska. And if I were, I'm not, I'm just
7 peanuts but if I were a corporation interested in
8 acquiring Alaska gas and I were a conglomerate and I were
9 in a position where I could utilize some of that gas for
10 Alaska in some type of manufacturing -- on tidewater we
11 do have a lot of timber, accessibility to a lot of timber,
12 we have a couple of pulp mills, a lot of the pulp goes
13 to Japan and I just wonder if anywhere along in your line
14 of thinking and before you came to dickering with the
15 State of Alaska for the gas, there was any possibility
16 anywhere along the line that any of your subsidiaries
17 might be able to do something in Alaska along that line,
18 and whether or not those subsidiaries buy any appreciable
19 amounts of gas from Tenneco. It is a long question.

20 MR. THOMAS: Yes, I'll answer the last part first. Tenneco
21 Chemical Company buys some gas from an intrastate --
22 small intrastate pipeline that we have in the State of
23 Texas for processing fuel for some of their plants. I
24 don't think they buy any intrastate market from us. I
25 don't recall that any of our other divisions do buy from

1 us in any of the other areas.

2 But now to your question of a large integrated
3 conglomerate having an interest in Alaska. My personal
4 interest and I emphasize this as my personal interest,
5 I think that there are many opportunities for Tenneco
6 in Alaska. I see many opportunities here and I see this
7 as a by-product for us to get this large multifaceted
8 organization we have with a closer relationship to the
9 opportunities in Alaska. I would hope very much that
10 there would be something come of that. That is my
11 personal view.

12 SENATOR BUTROVICH: We are interested in providing a market
13 for Alaska labor and there are some of us who are naive
14 enough to think that if we do not get an Alaska line, we
15 do not provide that market but there are some of us who
16 want to go beyond that. We would like to think that we
17 would be developing industry up here for by-products.

18 MR. THOMAS: I would encourage you because you look at the
19 model of the Texas Gulf Coast and industry is there
20 because there was energy available and because there was
21 labor available and because they were close to a ready
22 transportation system where they could move it. I see
23 some of the same promise here.

24 SENATOR BUTROVICH: It does seem to me that if I were out
25 there seriously trying to make a deal with the State of

1 Alaska that that would be one of the considerations that
2 I would have taken into consideration because I think it
3 is quite important to the Alaska Legislature. We know
4 that bang, when this stuff goes through a pipeline and
5 hits the south 48 why it is fine temporarily but we'd like
6 to see a little industry develop from it.

7 SENATOR RADER: Senator Croft?

8 SENATOR CROFT: Why wasn't there some commitment made in these
9 contracts by Tenneco to do what Senator Butrovich is
10 talking about? Why didn't Tenneco through one of its
11 subsidiaries agree to construct or to use some of that
12 gas in the state here?

13 MR. THOMAS: Well, there are probably many reasons why some-
14 thing like that does not tie to a gas sales agreement.
15 The first is, the divisions of Tenneco operate independently.
16 They are independent profit centers, they have their own
17 areas of activity and their own financial resources
18 allocated to them. In many cases we work with them in
19 different areas where they evaluate from their own point
20 of view what is the potential of doing business in Alaska
21 and in California and in other areas. From the standpoint
22 of the natural gas coming to the line, since we couldn't
23 project what the wellhead price was going to be and there-
24 fore what price feed stock would be available, this becomes
25 very difficult for a chemical company to look and determine,

1 all right, what is available. The primary petrochemical
2 type of business is not one that we are in. We are more
3 in the secondary type from the chemical standpoint,
4 thinking primarily of petrochemicals. Our chemical
5 company deals in polyvinyl chloride, polyurethane foams,
6 definitely in the secondary. We are not in the large
7 ethylene complexes and that sort of thing which is the
8 first stage of the development of a petrochemical project.
9 So it did not fit exactly our type of business in
10 chemical. We did not go beyond that point of locking
11 into our other areas.

12 SENATOR CROFT: So you refused to do that when requested to
13 negotiate on that subject by the state?

14 MR. THOMAS: Senator, we were never asked. We didn't refuse
15 at any time. We reviewed the potentials of a chemical
16 company involved. Petrochemicals we are not in from that
17 definition of the word, from the ethylene.

18 SENATOR CROFT: You were never asked by the state to make
19 any commitment for use of any of that gas in the state
20 during the course of the negotiations?

21 MR. THOMAS: That was not a --

22 MR. CARTER: I think we asked to look at that possibility --

23 MR. THOMAS: Which we did.

24 MR. CARTER: And everybody else was too, as I recall. It was
25 determined that the state would be better able to review

1 that record.

2 MR. THOMAS: But it was never a condition of negotiations
3 that you had to do that.

4 SENATOR CROFT: With regard to some of the questions that
5 Representative Chatterton asked and a comment that
6 Commissioner Martin made towards the end of the hearings
7 yesterday, the state has the right to withdraw, under
8 certain conditions and with certain notice to you, up
9 to all of the gas that they have committed to you. And
10 Commissioner Martin said that it was his feeling that
11 you expected that the state would never ever really
12 withdraw a substantial amount and it was his feeling
13 that the state would. Is that correct, that you feel
14 that the state won't be withdrawing a substantial amount
15 under those contracts?

16 MR. THOMAS: Our projection in what work we did which is
17 primarily based upon what some of the state agencies
18 have done on projecting population increase, that sort
19 of thing, our views were that the state would not require
20 nearly as much gas for the intrastate market as did the
21 Royalty Board or the Department of Natural Resources.
22 Obviously we felt there would be more gas flowing to us
23 than they did.

24 SENATOR CROFT: So I take it you feel reasonably confident
25 in telling your buyers in the lower 48 states that over

1 the course of this contract you will be able to deliver
2 to them 1.3 trillion cubic feet.

3 MR. THOMAS: I think that as far as the 1.3 trillion, I
4 don't know that I would tell them exactly that but I
5 would tell them that based upon what we have in the
6 contract and what we project withdrawing, together with
7 the state's replenishment of that from future supplies
8 that we were securing the range of 1.3 trillion.

9 SENATOR CROFT: What are your projections as to what the
10 state will withdraw?

11 MR. THOMAS: I don't recall all the numbers. This is very
12 much a sliding scale because there is no demand that
13 exists in a vacuum. First there has to be a supply, then
14 a demand is created, then a system has to be built to
15 accommodate that new demand. All of this takes time.
16 So the day the gas starts to flow, most likely there
17 will not be any immediate demand for that gas. Over a
18 period of years this will build, both for residential
19 market along the pipeline and with industry that will
20 build up once they see the supply is there, once they
21 know what the price is going to be and once they have
22 assurance that it is going to be there all the time.
23 And all of this builds up over a period of time, not
24 instantaneously and normally, not very rapidly.

25 So, we see a slower building than does the state

1 and coming to the latter part of the contract life, we
2 feel from our studies, that there will be sufficient new
3 discoveries that there will be additional gas available
4 so that if the state takes part of this gas back for
5 utilization in the industry, there will be new gas
6 available to make it up, or they could just utilize the
7 new gas that is available. We see that there will be
8 more than enough gas to supply the needs for the industrial
9 intrastate demands.

10 SENATOR CROFT: What is your estimate of the amount that the
11 state will withdraw?

12 MR. THOMAS: Senator, I don't remember the exact numbers
13 because they do vary so much with the time.

14 SENATOR CROFT: Well, what about the percentage? I'm sure
15 you could give us a ball park figure.

16 MR. THOMAS: Oh I think at one time we projected that the
17 state would probably not require more than in the range
18 of twenty-five to thirty-five percent of the flow.
19 That is very much an average number, it would vary with
20 time.

21 SENATOR CROFT: Thank you.

22 SENATOR RADER: Any further questions? Because of our commit-
23 ment to Southern, are we about through with this witness?
24 If we keep our questions short then perhaps we can get
25 through with this and then go to Southern. And also,

1 gentlemen, so far as we are able to, let's try to stick
2 as close as we can to our problem here and that is the
3 ratification of this sale. I know that there are a lot
4 of interesting things going on here but let's try to
5 stick to that point as closely as possible.

6 Senator Huber?

7 SENATOR HUBER: Yes, Mr. Thomas. As I recall, correct me if
8 I'm not because my question will change. I recognize
9 that you are one of the early supporters, maybe almost
10 a couple years ago, of an all-Alaska Trans-Alaska gas
11 line by El Paso, is that correct? Were you one of the
12 early supporters of such a route? Tenneco, I mean.

13 MR. THOMAS: We have been negotiating with the state now for
14 about two years. If that is what you mean, that is
15 correct.

16 SENATOR HUBER: And I have in the past at some meeting asked
17 you questions based upon that?

18 MR. THOMAS: Yes.

19 SENATOR HUBER: All right, in that case what route would
20 Tenneco support if you failed to gain legislative approval
21 of the present sale?

22 MR. THOMAS: Do you mean if another route were certificated?

23 SENATOR HUBER: No, sir. I mean if -- you have at present a
24 document from the state to purchase fifty percent of our
25 royalty gas for Tenneco?

1 MR. THOMAS: Yes, sir.

2 SENATOR HUBER: If that achieves legislative approval after
3 these hearings and the proper legislative process. If
4 it doesn't get approved, what route will you support?

5 MR. THOMAS: I doubt seriously if I would support any route.

6 SENATOR HUBER: That is a good fair answer, thank you.

7 SENATOR RADER: Representative Meekins?

8 REP. MEEKINS: Thank you, Mr. Chairman. I am making a list
9 here as we are going through these hearings and trying
10 to summarize anyway on sort of a cost benefit analysis
11 of what we are giving up and what we are getting. I was
12 wondering if you could just summarize for me, as briefly
13 as possible, because I have been listening to you, I don't
14 need the explanations, what you think we are getting from
15 your company.

16 MR. THOMAS: Well, I think I would have to say what the state
17 is getting from the contract. There are many provisions
18 in the contract but basically it looks to me like the
19 state is committing less than all of their gas. They
20 have an almost unprecedented right to take back what they
21 have contracted. I have not seen that in any other
22 contracts in existence. They are getting assurance of
23 the maximum price that is going to be paid for any of the
24 gas from that area that goes in interstate commerce.
25 They have the right to all of the liquids that come out.

1 The term of the contract is for twenty years and that is
2 normally a term that is common in an area that has many
3 pipelines available and certainly it would be the minimum
4 term here where we are talking about a major new project.
5 I think the state is getting the support of two companies
6 that have not previously been involved in the active
7 support of the project on the national scene. Quickly
8 and briefly I see those. Do you have something to add?

9 MR. CARTER: And I think that that support that those two
10 companies bring is not only kind of argumentative kind
11 of support and manpower but that it also will over time
12 improve the very viability of the project because the
13 two companies are major participants in LNG projects and
14 they do bring not only personnel and expertise, but the
15 financial backing that is going to make this project a
16 more credible and viable project just on the merits. It is
17 quite apart from the fact that the guys are going to get
18 out and support it.

19 SENATOR RADER: Representative Meekins?

20 REP. MEEKINS: I understand what you are saying. I am more
21 interested and perhaps you would repeat yourself but the
22 question I am getting to is not exactly all the things
23 that are included in the contract, some of which are
24 sort of reinforcements or guarantees of our rights that
25 we currently think we have and I certainly wouldn't want

1 a contract where we were abrogating those rights. But
2 what are we achieving in the contract that we wouldn't
3 otherwise have? In other words, 13(b) in existence
4 right now gives us -- sort of indicates that we have
5 the ability to take our royalty oil, I mean royalty gas
6 and use it for in-state purposes, at least to transport
7 it and things. It seems to me that this contract is
8 consistent with that but does it reinforce that, does it
9 change it to any degree? I want to know what is the
10 marginal benefit just from this contract.

11 MR. THOMAS: It looks to me like the overriding benefit that
12 the state gets from this contract, their very primary
13 purpose is to secure a route and a pipeline across the
14 state. That must be the primary purpose and that is the
15 benefit that this contract makes if you want to put it
16 all in one thing. And in detail it does those other
17 items that I mentioned, but hopefully it will secure
18 that route.

19 MR. CARTER: But on 13(b) too, Representative Meekins, unless
20 you enter a contract and unless that contract is approved
21 by the FPC, 13(b) as I understand it at least, doesn't
22 give you anything. In other words, if you don't sell
23 your royalty gas before the producers start producing
24 and selling this royalty gas then it isn't clear under
25 the combination of the leases and 13(b) that you have

1 that option beyond that date. That is my interpretation
2 and something you may want to ask the state to verify.

3 REP. MEEKINS: That would be exactly what my question speaks
4 to, that kind of a thing. I mean, if we can in the
5 future contract and get the same provisions in it, then
6 we are really not gaining those because we are not losing
7 them. We have them and we can have them in this contract
8 and we can have them in the future. But, what we need
9 to know is what opportunities are we foregoing, what
10 are we losing in the contract and what are we gaining
11 that we can't get in the future?

12 MR. THOMAS: I think the one thing that you must consider
13 is whether or not in the future you are going to have
14 a Trans-Alaska route. Will that decision be made in
15 favor of Gas Arctic, in which case then you don't have
16 the same set of circumstances.

17 REP. MEEKINS: Thank you.

18 SENATOR RADER: Any further questions? Thank you, gentlemen,
19 very, very much. We will take a ten minute break and
20 then we will have Southern.

21 (Whereupon the hearing was recessed at
22 3:50 p.m. and reconvened at 4:05 p.m.)

23 SENATOR RADER: As the day goes on we may lose Representatives
24 and Senators and other interested parties but we do have
25 the representatives here of Southern with us who want

1 very badly to finish their testimony this evening. I,
2 of course, have no idea what their testimony is going
3 to be nor the extent of questioning that we all have.
4 To the extent though that we can make our questions
5 brief and try to limit to the precise subject matter
6 before us, I think it will be appreciated. Certainly I'll
7 appreciate it and I know that the witnesses will.
8 Although Mr. Smith has assured me that this is an important
9 matter and that their schedule -- they will stay over
10 tomorrow if it is necessary or whatever the committee
11 seems to think in that regard.

12 Mr. Chatterton?

13 REP. CHATTERTON: Mr. Chairman, in the interest of expediency
14 would you be willing to ask these gentlemen if they were
15 present during the entire testimony by the preceding
16 company and if so, my thoughts are running along the
17 line of rather than going through all the details of
18 the multiple questions that we the committee did before,
19 maybe we can ask if they also support us.

20 SENATOR RADER: Mr. Chatterton, I had planned on doing
21 expressly that, particularly on Dr. Swanson's questions
22 because I think that he wanted to have the interpretation
23 of all contractors as to what their interpretation of
24 those provisions were. I think it would be fair to let
25 the record reflect that Mr. Smith and your associates

1 were here during the complete testimony, starting this
2 morning, of Tenneco, and we will expect you to point out
3 any differences in interpretation at least as to the
4 contract. I don't want to be too general with you.

5 First of all, as to those questions propounded
6 by Dr. Carl Swanson. Do you disagree with the answers
7 that were given by the Tenneco representatives?

8 MR. SMITH: No, sir, we concur in those answers. We agree.

9 SENATOR RADER: Is there any feeling here that we need to
10 pursue those questions any further?

11 Now, Mr. Smith, how would you like to proceed?
12 Would you like to make a presentation first and then
13 questions?

14 MR. SMITH: Would you permit me, I hope I can do it in about
15 five minutes, to introduce myself and my associates to
16 you and then subject myself to the mercy of the court,
17 okay? I am --

18 SENATOR RADER: Excuse me, Mr. Smith, you have, I think, a
19 very extensive prepared statement to be entered into
20 evidence, is that correct? You would like to have it
21 be made a part of the hearing?

22 MR. SMITH: I hate to burden your record with it, sir, but
23 we did provide it to you and I guess it is probably
24 appropriate that it be made a part of the record and I
25 trust that every member of the joint committee has received

1 a copy of it.

2 SENATOR RADER: Unless there is objection, we will make the
3 Statement of Southern Natural Gas before the Special
4 Committee of the Alaska Legislature, hearings held
5 January 31 to February 2nd, exhibit number 10, although
6 we may or may not reprint the -- if you particularly want
7 us reprint particular portions, we will, but probably may
8 not reprint the whole statement unless you think it is
9 necessary.

10 MR. SMITH: I don't think it is necessary. I will leave it
11 to your discretion, Senator. Certainly the attachments
12 were put in there for the information of the committee
13 and I don't really think they go to the substantive
14 issue involved.

15 SENATOR RADER: All right, probably then, so it is reflected
16 in the hearing in the minutes of this meeting, if Exhibit
17 10 is not reproduced in full, that copies will be held
18 on file in the office of the Secretary of the Senate and
19 the Clerk of the House of Representatives for any interested
20 party to examine. Is there any objection to that procedure?

21 (Whereupon Exhibit 10 was duly marked)

22 SENATOR RADER: Mr. Smith, you have the floor, sir.

23 MR. SMITH: Thank you, sir. Senator Rader, Representative
24 Gruening, ladies and gentlemen, my name is Peter Smith.
25 I am President and also Chief Executive Officer of

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1 Southern Natural Gas Company. Sitting on my immediate
2 left and I guess your right is Mr. John M. Van Dyke,
3 who is a vice president of our company in charge of gas
4 supply for us. Mr. Van Dyke has been in Alaska, in
5 Juneau, essentially since the opening of your legislative
6 session and he will stay here for some period of time,
7 I would hope until there is a resolution of the matter
8 relating to our contract with the state to purchase some
9 of the royalty gas. He is an executive of our company
10 and will be here to speak and talk with you informally,
11 answer questions of fact or questions of policy with
12 respect to our company.

13 Mr. Henry Pratt is sitting somewhere and he is
14 working with us on this matter. And the gentleman im-
15 mediately behind me is Mr. David Hendrickson, who is an
16 attorney with our company.

17 I will try to condense, in the interest of time,
18 what remarks I wanted to say but I did want to identify
19 our company for you as the major supplier of natural gas
20 in the southeastern part of the United States. Our
21 markets cover the territories of Louisiana, Mississippi,
22 Alabama, Georgia, South Carolina, we serve a small portion
23 of Tennessee, we serve a small portion of northern Florida.

24 Southern Natural Gas Company is a diversified
25 energy natural resources company. Its stock is publicly

1 held. We have stockholders in all fifty states. I might
2 say that our yellow statement which was introduced to you
3 indicated -- correction, failed to indicate that our stock
4 is listed on the New York Stock Exchange which is a fact
5 and I think we have made that correction in everybody's
6 booklet. If not, that correction, I hope, will get into
7 the record.

8 Southern Natural Gas Company constitutes more
9 than half of the total assets and accounted in 1976 for
10 more than half of the net income of its parent, Southern
11 Natural Resources. What is our interest in the Alaskan
12 gas and what do we bring to the state? Our interest
13 essentially, gentlemen and ladies, is that we need the
14 gas supply. For the last several years Southern Natural
15 has consumed more gas than we have been able to purchase
16 under new gas purchase contracts.

17 Our average purchases in the last seven or eight
18 years have averaged about two hundred billion cubic feet
19 per year. Our average sales requirements during that
20 same period have been about six hundred billion cubic feet
21 per year so that we have been not able to place under new
22 gas purchase contracts as much gas as we have been
23 consuming in our area. And the question was raised
24 yesterday about this being a relatively minuscule quantity
25 of gas. Well, gentlemen, six hundred and fifty billion

1 cubic feet of gas, which is what the state has contracted
2 to sell us, subject of course to the contractual with-
3 drawal rights and so on, is approximately three times
4 the amount of gas we have bought in any other year for
5 about seven years. So, this is a very significant purchase
6 to us and that is the reason that I have come to talk to
7 you about it.

8 I think it might just be worth mentioning very
9 quickly a significant thing about our gas supply, that
10 we are involved in a project to bring Algerian natural gas
11 to the United States. That project will go on stream
12 sometime late in 1977 or early 1978. We are in the final
13 stages of completion of a huge LNG receiving terminal
14 near Savannah, Georgia. And I mention that to indicate
15 to you that we have a great deal of familiarity and I
16 think expertise in the general area of LNG and the
17 particular context of the construction of an LNG receiving
18 terminal.

19 In the situation of the Alaskan gas, let me say
20 that we think the state has worked out with us a contract
21 which we think is rather tough but it has been bargained
22 our fairly, it has mutuality, it is a contract, gentlemen,
23 that we are comfortable living with and supporting and we
24 have discussed it with our customers which are distribution
25 companies scattered across the southeastern part of the

1 United States. I am confident that they understand its
2 terms and provisions and that they too are interested in
3 our having -- having us consummate the contract and they
4 will support us in our efforts to get the Trans-Alaskan
5 project approved.

6 What do we offer to the state? Well, Southern
7 Natural Gas and Southern Natural Resources are both
8 financially sound and extremely stable companies. As I
9 said before you have an assured market for this gas, we
10 need it and we are going to give it wide geographic
11 distribution across the southeast. On a more technical
12 basis perhaps, we think we have, as any natural gas company
13 does, significant engineering capabilities which will be
14 of assistance in the project and we certainly have great
15 expertise, we think, in the construction of an LNG receiving
16 terminal. We have sound environmental capability and an
17 outstanding track record, I submit. And our concerns for
18 and our approaches to and our solution to environmental
19 and ecological problems. We have a deep familiarity and
20 a large comfort factor with LNG, this is not something
21 new to us so that we are comfortable with it and all its
22 aspects.

23 And finally I think I should say that a major
24 thing that we feel that we bring to the state in connection
25 with this contract is support of the all-American Trans-

1 Alaskan pipeline project.

2 The Governor's speech or comments to you yesterday
3 referred to the endeavor to create a national constituency
4 and we think that we can contribute to this with respect
5 to the commitment of the southeast towards the project
6 which the State of Alaska favors. In fact, that effort
7 is really underway already and we are involved in efforts
8 at various levels, including what I would refer to really
9 the grass roots level.

10 Now, gentlemen, we sell gas to distribution
11 companies in the southeast so essentially we don't have
12 contact with the ultimate consumer of the gas but we have
13 already started going around giving speeches to Kiwanis
14 Clubs, Rotary Clubs, civic clubs of that kind, about
15 this situation and about our interest in the Alaskan
16 gas.

17 We have discussed the matter, as I said before,
18 with our distribution company customers who do ultimately
19 have the contact with the person at the burner tip and
20 they are involved in helping in this area. We have the
21 Chambers of Commerce in our area involved and familiar
22 with it. We have been talking to significant state
23 legislators in the various legislatures in our market
24 area. We have been talking with the public service or
25 public utility commissions which regulate the local

1 utliities in the various states which we serve, they are
2 familiar with it. We have talked with virtually all of
3 the southern governors, we have a couple more on our list
4 but local governors or lieutenant governors either are
5 or shortly will be familiar with it. Last but not least,
6 we have talked with our Congressional delegations through-
7 out the southeast in Washington and that effort certainly
8 will continue.

9 I submit to you, gentlemen, that we have plenty
10 of credibility in all of these areas. These people know
11 us, I think they believe us and they like us. And, I
12 might emphasize too, that this cold weather that we have
13 had, particularly in the southeast, has made believers
14 of some of the heathens and they really understand, more
15 than they ever did before, the imperative necessity of
16 our getting additional gas supplies and getting them as
17 soon and as quickly as we can.

18 You gentlemen know, I am sure without my saying
19 it, we have strong and effective delegations in Congress
20 from the southeastern part of the United States in both
21 the Senate and the House and we have good relationships
22 and good communications with those people and we have
23 already talked with them as I said. And naturally we
24 are supporting the El Paso project, so-called, before
25 the Federal Power Commission.

1 So, gentlemen, in summary we are delighted that
2 we are a party to a contract with the state for a share
3 of its royalty gas. We are proud to have been chosen
4 as a partner of the state in this effort. We think it
5 will be mutually helpful, to us obviously -- essentially
6 it means more gas supply, to you we think that obviously
7 we will provide the benefits from the sale of the gas
8 and other benefits in terms of the kind of support that
9 we can give your state for the project which you would
10 like to have. We hope you are going to approve the
11 contract and I respectfully urge you do so.

12 I will answer your questions or try to.

13 SENATOR RADER: Any questions? Senator Huber?

14 SENATOR HUBER: Thank you, Mr. Chairman.

15 SENATOR RADER: Senator, would you please speak up?

16 SENATOR HUBER: I only thanked you so far, Mr. Chairman.

17 SENATOR RADER: I know but everybody wants to hear what you
18 have to say.

19 SENATOR HUBER: The provision in the contract about the
20 change of route should the El Paso not be approved.
21 You have heard them ask the other ones whether that was --
22 Tenneco if that was one of the provisions they wanted
23 in the contract and they said they support the contract
24 but it was not something they asked or had put in the
25 contract. I place the same question to you. Did you

1 want it or have it -- request it placed in the contract,
2 or was it put in by others?

3 MR. SMITH: We did not request it, Senator Huber. I think
4 it was (Mr. Van Dyke was involved in the negotiation of
5 the contract) really put in at the suggestion of the
6 State.

7 SENATOR HUBER: I understand that is correct.

8 MR. SMITH: Yes, we didn't request it.

9 SENATOR HUBER: Some of us question that particular one and
10 we want to know the stand of the companies. I realize
11 you support the contract. Thank you, Mr. Chairman.

12 SENATOR RADER: Any further questions? Representative Parr?

13 REP. PARR: Yes, sir. Mr. Smith, since you heard the previous
14 colloquies with Tenneco, as you remember, there was a
15 little problem that Tenneco had with that switch. What
16 would your reaction be if you were going along and all of
17 a sudden between day 25 and day 26 you are supposed to
18 switch to this alternate route?

19 MR. SMITH: Representative, I think I would have something
20 of a problem with it but, frankly, and without any dro-
21 gation at all of what my friends from Tenneco have said,
22 I don't think I would have the same problem with it that
23 they did. Our objective, sir, is truly and simply and
24 candidly to acquire the gas supply. And if the State
25 should make a decision that a different route than the

1 so-called all-Alaskan route is a preferable one from the
2 state's point of view and they invoke that provision of
3 the contract and say will you support this other thing,
4 I think we would. I think we would in fairness and
5 candor we would have some problem explaining that switch
6 of position to the various constituencies, if you will,
7 to whom we have been explaining our support of the El
8 Paso-Alaska project. But at the risk of an inconsistency
9 and without, sir, any feeling that I would be jeopardizing
10 my personal or my company's integrity, I would have no
11 great problem, I believe, if the state said this is the
12 way you should go, in explaining this to the people with
13 whom we have been talking and say, "gentlemen, the
14 signals have switched and this is the way we should go."

15 REP. PARR: May I continue, Mr. Chairman?

16 SENATOR RADER: Certainly.

17 REP. PARR: This is a question on a different subject but it
18 is again one you heard me asking the Tenneco people, and
19 that is the contract provides no standard of performance
20 by your company in terms of obtaining support for the
21 Trans-Alaska line.

22 MR. SMITH: Yes, sir.

23 REP. PARR: And you heard, I think, the Tenneco representatives
24 say they didn't even have a planned budget. They would
25 do whatever they felt was necessary and they would pay

1 the costs. Now, what is your company's position on that
2 same issue?

3 MR. SMITH: Well, I tried, sir, to indicate first that we
4 are already making an effort, which I consider part of
5 the ongoing effort that we always have in terms of public
6 affairs and public relations. In that sense we are not
7 planning to add staff within the company to accomplish
8 the support of the Trans-Alaska project, but we are
9 expecting to divert greater efforts on the part of our
10 existing staff towards support of that -- of the Trans-
11 Alaska project.

12 We do not have, sir, a specific -- I'm sorry to
13 say I am like Tenneco in this respect, a specific dollar
14 budget which says we will spend this much or some other
15 amount of money. Just sort of a rule -- not really a
16 rule of thumb, sort of a little hypothetical to myself,
17 and I think I came out that it probably would not be un-
18 reasonable to expect that within the next year or so we
19 very well might spend, not counting the efforts of the
20 internal staff, something in excess of one hundred thousand
21 dollars. I am unable to say how much more it would exceed
22 that amount and we haven't specifically allocated that
23 amount for this project at this point.

24 REP. PARR: If I might continue, Mr. Chairman, with one more
25 question, I think.

1 SENATOR RADER: Certainly.

2 REP. PARR: You also heard the questions asked of Tenneco
3 as to what has already been spent in this whole attempt
4 with the contract. Do you have a figure for that by any
5 chance?

6 MR. SMITH: On the whole attempt for the contract, this would
7 include the trips we have made to Alaska in negotiating
8 sessions and so on?

9 REP. PARR: Whatever is involved at this point.

10 MR. SMITH: Well, the answer is no, sir, I really do not have
11 that number and I guess it could be generated with some
12 difficulty. We would be glad to do it for you if you
13 would like.

14 REP. PARR: Thank you.

15 SENATOR RADER: Well, following that same line, I assume for
16 you to develop such a figure you would have to take a
17 proportion of your own salary and the salary that is
18 attributable to your office and the days you are out of it,
19 plus those of your associates, plus those of your legal
20 staff. It would be quite a cost accounting problem,
21 wouldn't it?

22 MR. SMITH: It really would, Senator, because we don't charge,
23 for example, Mr. Van Dyke's time in that kind of way. He
24 is our vice president in charge of gas supply and all of
25 his efforts are devoted to gas supply and I think I would

1 have a dickens of a time saying that ten or twenty or
2 fifty percent of his time in the last year had been
3 devoted to this. We can say and it is true that we have
4 had people back and forth in Alaska, as I like to say in
5 our offices, almost on a shuttle basis for the last year
6 and one-half and we can isolate without too much trouble
7 those expenses but that wouldn't get to the individual
8 salaries, the proportions attributable to this particular
9 project or the overhead related to those. It would be
10 a monumental accounting job which I am not volunteering
11 to perform but will do if it will help your committee.

12 SENATOR RADER: Representative Gruening?

13 REP. GRUENING: Would you have that same problem of accounting
14 if you were trying to include it in your rate base? In
15 other words, you might have heard Tenneco's comments that
16 if El Paso is successful to charge all that off. So, I
17 imagine you could also come up with the figures.

18 MR. SMITH: It could ultimately be done. I imagine,
19 Representative Gruening, I would do my best very honestly,
20 sir, to say that this is part of Mr. Van Dyke's ongoing
21 activities and the whole thing can be charged to our
22 customers, likewise the legal expenses and so on.

23 REP. GRUENING: You would take a percentage -- for purposes of
24 establishing what is includable in a tariff then you
25 would figure out some percentage that was allowed by the

1 FPC then?

2 MR. SMITH: I would state it a little differently. The next
3 time we file a rate base I would have Mr. Van Dyke's
4 salary for three hundred and sixty-five days in that rate
5 base. I would have his travel expenses to Alaska,
6 similarly for the other people on the staff. If somebody
7 challenged that and put Mr. Van Dyke or me on the stand
8 and said "how much time did you really spend on the
9 Alaskan project", we would have to make an estimate, I
10 guess.

11 REP. GRUENING: Okay.

12 SENATOR RADER: Any other questions? Mr. Carpenter?

13 REP. CARPENTER: Mr. Smith, I am sitting right down here with
14 him, it always makes it sound like I am shouting at him.
15 I don't mean to be shouting at you.

16 MR. SMITH: You wouldn't be the first one.

17 REP. CARPENTER: Three questions. One, I am beginning to
18 think that Mr. Parr has a point here and my background
19 is in public relations in advertising and promotion and
20 you don't go into something like that seriously unless
21 you in fact do have a budget. I am certain you are
22 perfectly aware of that. And to tell us that you are
23 going out and do a promotional job on this route and tell
24 us you are just going to spend whatever it takes I don't
25 think it is really a fair response to it.

1 MR. SMITH: Well, I can only say that we are in the early
2 stages of this situation, Representative Carpenter, and
3 I think at some point we clearly will have to determine
4 how much money we will spend over and above our normal
5 salaries for public affairs and public relations people.
6 But we haven't reached that point yet, sir. The contract
7 is not -- I hate to keep rubbing this in, but the contract
8 hasn't yet been approved by the Legislature so that we
9 do not have such a budget at the moment, and that is just
10 a fair statement of the facts.

11 REP. CARPENTER: Apparently though what we are selling here,
12 the primary purpose is the support that we are going to
13 get from you so we don't know -- we can't place any quali-
14 tative or quantitative measure on that support, can we?

15 MR. SMITH: I don't know how you can in terms of dollars and
16 cents, Representative Carpenter, at this particular point.
17 As I said to you, I think it is conceivable that we might
18 spend as much as One Hundred Thousand Dollars this year
19 in addition to the normal expenses that we have.

20 What for? Let's stop and think about that for
21 a moment. As I said before, we are not in touch with the
22 ultimate consumer at the burner tip, we are in touch with
23 distribution companies and I think what we might do is
24 try, for example, to prepare fliers for our distribution
25 companies to send out with their billings. I think we

1 might consider, although we have trouble with our
2 customers in doing this, some kind of advertising
3 campaign. I have seen an awfully good brochure which
4 I know that the El Paso Company has prepared relating
5 to this project which it is using for P.R. purposes and
6 I don't know how much that thing costs, Representative
7 Carpenter, but something like that appealed to me
8 greatly and I think we could use it in many ways.

9 It really seems to me though, sir, that a
10 major effort and the thing that we are going to be most
11 effective with in fact is our contacts with our customers,
12 with our governors, with our legislators, with our
13 Congressional delegations and Congress. And this, as
14 I said before, is really part of an ongoing process
15 that we have with the staff that we have at the moment.
16 We are simply going to direct the emphasis in essence
17 in this direction, in my view. I don't know that it
18 will be helpful, gentlemen, but it might be of interest
19 to you to know that we had a management meeting, I guess
20 most companies do, with about thirty-five of our top
21 people a couple of weeks ago that do our strategic
22 planning for the next year and five years. We gave
23 these people a list of about twenty-five issues and
24 said pick the four or five that you think we should be
25 spending the most time on in the next year and these

1 related to things like deregulation of gas and investment
2 tax credits and all kinds of things. The Alaskan gas
3 matter was on the list and in every case it came out
4 number one. So I think this says we have a commitment,
5 sir, on the part of our company and on our management to
6 move this project forward the best we possibly can because
7 the gas supply is so important and so significant to us.

8 REP. CARPENTER: I have to follow this with one more question.

9 I think what you are telling me and what I believed all
10 along in which I don't really see anything wrong with,
11 is that what we are buying or what we are getting in
12 exchange isn't in fact a typical promotional campaign or
13 advertising campaign or public relations campaign. We
14 aren't in fact going to send you out there to build a
15 constituency, a phrase that has been used all along. We
16 aren't doing that at all, we are buying your ability to
17 influence people in places that count. That is what we
18 used to call building an influence with and that doesn't
19 require a brochure, that involves contacts that you as a
20 business have established over a number of years and that
21 in fact is what you are going to do because this is a
22 political matter and it will be decided in Congress.

23 MR. SMITH: I would say that that is certainly an effort that we
24 will be making, yes, sir. I don't disagree with your
25 statement.

1 REP. CARPENTER: Okay. I just want to set aside that building
2 of a constituency in talking about the consumers in the
3 southeast or throughout. That isn't really what we are
4 talking about.

5 MR. SMITH: Well, I guess I would say I would hope, gentlemen
6 and ladies, that the results would be the same whichever
7 way it went.

8 REP. CARPENTER: The other question was, to borrow your words,
9 Mr. Smith, what do you find tough for you in this contract?

10 MR. SMITH: Well, I think there is really one, from our point
11 of view, awfully tough provision. The major provision
12 which is tough very honestly is the -- I would call it
13 and refer to it as the call-back provision under which
14 the state can withdraw its gas. We need the gas supply
15 and this is, as Mr. Thomas said, a most unusual provision.
16 I have never seen anything like it in any contract I've
17 ever seen our company enter into before. Then when you
18 need gas supply and you run into a contract where somebody
19 says "here's the gas supply but I can take it back." That
20 is pretty difficult but okay, that is the deal and we have
21 accepted it willingly and we'll support it; that is what
22 the state wants and we accept that. I made this argument
23 before the Royalty Board and I'll repeat it to you. I feel
24 this very sincerely. If we get this gas for one day, just
25 one day, and I hope we get it for a lot longer than that,

1 we'll be better off than if we never got it at all because
2 we are short of gas supply and it will be helpful. But,
3 that's a tough, really a tough, tough provision for people
4 who are short of gas.

5 REP. CARPENTER: Is that the only tough provision, really
6 tough provision?

7 MR. SMITH: There is one that is a little more cryptic and I
8 think hard to come to grips with which I think is also
9 kind of tough, which is the provision relating to the
10 situation where the state might have to pay to the working
11 interest owner some costs for gathering or maybe processing
12 its gas and we are obligated to reimburse the state for
13 those amounts. I'm not stating that very artistically but
14 that in essence is what the provision is. And that again
15 is not essentially so tough except the provision says that
16 we have got to pay the state those costs even if we are
17 not able to recover them in our rates. So to the extent
18 that that provision might apply, we are subjected to some
19 risk as far as our stockholders are concerned and I think
20 that is a tough provision, Mr. Carpenter.

21 REP. CARPENTER: You don't know the section, do you?

22 MR. SMITH: Well, I don't know it out of my head but maybe Mr.
23 Van Dyke does.

24 REP. CARPENTER: Maybe I could get that from Mr. Van Dyke.

25 MR. SMITH: If you can find it, I have read it a lot of times,

1 I'll tell you that.

2 SENATOR RADER: You still have the floor, Representative
3 Carpenter.

4 REP. CARPENTER: The final question is, some people have said
5 that we are selling you awfully cheap ethane because as
6 Senator Butrovich was talking about awhile ago and
7 Representative Meekins and so forth have brought up from
8 time to time, there has really been nothing in here to
9 kind of sweeten the kitty for Alaska in terms of industry.
10 And that ethane you are picking up at Prudhoe at methane
11 prices, aren't you?

12 MR. SMITH: If there is ethane in the gas stream which could
13 be removed and it is not removed, I guess the answer to
14 the question is yes.

15 REP. CARPENTER: You don't place a value on that ethane for
16 petrochemicals in the lower 48?

17 MR. SMITH: We do not have any -- that is not correct, what
18 I just said -- started to say. We sell gas to our
19 customers and it is my understanding, sir, that they sell
20 gas to their customers on the basis of the number of
21 BTU's in the gas stream. If ethane in the gas stream
22 should contribute to the BTU's, I guess essentially we
23 get the benefit of it if the BTU exceeds a certain number
24 per cubic foot, which is one thousand and fifty, if my
25 recollection is correct. I don't know of anywhere and I

1 hope I'm being helpful, I'm not trying to be evasive
2 when I say this, I don't know of anyplace once the gas
3 enters our pipeline where somebody is taking ethane out
4 and selling it as a product.

5 REP. CARPENTER: You won't have any valuable liquids trans-
6 ported to the lower 48 out of this purchase of the gas?

7 MR. SMITH: If the ethane is an effective part of the gas stream,
8 sir, I just think it is part of the stream. I'm not a
9 chemist or really an engineer and I'm not sure I'm being
10 responsive to your question. John, do you know the
11 answer to that?

12 MR. VAN DYKE: No, there will not be, especially from the
13 process up here to take those products out.

14 REP. CARPENTER: Everything that you are taking out of the
15 state on these cryogenic tankers, your intent is to have
16 somebody burn it off someplace?

17 MR. SMITH: Yes, sir, that would certainly be my expectation
18 and understanding and intent and I will tell you that is
19 what is going to happen with that Algerian LNG, there is
20 nobody going to take anything out of it after it lands
21 in Savannah, Georgia.

22 REP. CARPENTER: Or any other means of transportation out of
23 the state of any --

24 MR. SMITH: Okay.

25 REP. CARPENTER: Thank you.

1 SENATOR RADER: Representative Meekins?

2 REP. MEEKINS: I have got a couple questions, one just on
3 that last point. I don't know where I read it, maybe
4 it wasn't in the contract but I was under the impression
5 that if the BTU content is increased because of inclusion
6 of ethane and other types of gas in the flow, if it is
7 over a certain amount that the state is compensated for
8 that. That is what my understanding was, is that correct?

9 MR. SMITH: The price is adjusted upwards, yes, sir.

10 REP. MEEKINS: Over a thousand or something like that BTU?

11 MR. SMITH: I don't know whether it is a thousand or a
12 thousand and fifty but that is a fairly typical provision,
13 yes, sir.

14 REP. MEEKINS: Okay, I must have misunderstood. Somebody
15 said that wasn't true, I just want to remember that.
16 The other thing, you said one of the provisions that is
17 tough on you is the take back provision. I understand
18 what you are getting at there but just to be completely
19 clear on that, it seems to me that only in the situation
20 that the state starts taking one hundred percent of its
21 royalty gas at some point, not just the Prudhoe Bay gas
22 but the other gas, will that limit the total amount that
23 you receive because you'll of course be able to -- if
24 there is another field that opens up and we don't take
25 one hundred percent of it, if there is some surplus that

1 is not used for in-state, that you have the right to
2 have that gas, isn't that correct?

3 MR. VAN DYKE: Only if it comes into this line.

4 MR. SMITH: If it comes into this line, says John.

5 REP. MEEKINS: If it comes into that line, right.

6 MR. SMITH: And we are like Mr. Thomas, we are very bullish
7 on the prospects of your finding more gas in Alaska
8 but in a sense in dealing with gas supply I have to deal
9 with present day realities and all I am looking at is
10 Prudhoe Bay.

11 REP. MEEKINS: Right. And that comes back to what Commissioner
12 Martin was saying, people are betting on different
13 contingencies arising. You are sort of betting on that
14 happening so that you would -- and he might be betting
15 that it doesn't but in any case there is a possibility
16 of your achieving the full 1.3 --

17 MR. SMITH: Six hundred and fifty billion in our case.

18 REP. MEEKINS: Six hundred, oh, yes. All right.

19 MR. SMITH: We are the little boy, I understand.

20 REP. MEEKINS: And the last question now. If, as it might
21 appear, if you extend the logic of today's decision by
22 the FPC judge and some of the other things we have heard,
23 if you extend that sort of tendency out, and I'm not
24 sure you should, but if you did, it would look like --
25 there is a possibility at some point of the Alcan route

1 not being a real factor and that perhaps the decision
2 in Congress and with the President comes down to a real
3 fight between El Paso versus the Arctic route, if that
4 were the case and if the state went to the wire with the
5 El Paso route, which it might very well do in that
6 situation and if Arctic then won, unfortunate for us,
7 this contract would not be in effect. Isn't that correct?
8 That you would not have any --

9 MR. SMITH: That is the way I read the contract, yes, sir.

10 REP. MEEKINS: So in that contingency you would then have an
11 incentive to fight very hard for this?

12 MR. SMITH: Yes, sir.

13 REP. MEEKINS: I am getting at the questions of would you jump
14 off onto another line or do you really have an incentive.
15 When Alcan is there and it looks like a good second best,
16 I think there is a suspicion in some people's minds that
17 at some point the state might jump or you might jump with
18 the state and this may change things. But, if Alcan sort
19 of drops out of the question then it is an all or nothing
20 proposition for you, is that correct?

21 MR. SMITH: Well, I would hope I could somehow dispel within
22 the minds of this group or your legislature the notion
23 that we might jump the track on a contract that we have
24 made in good faith. I really am proud of the fact that
25 we live up to our contracts. I don't feel I need a

1 contract to make me live up to a representation that I
2 make to somebody. And, we have committed to support the
3 El Paso project and I'm going to support it until the
4 state tells me I should do something else or cancels
5 my contract.

6 REP. MEEKINS: What I am getting at is that -- not that I
7 don't believe you but I'm sort of into what your
8 calculations are as to what kind of sanctions happen to
9 you, what do you lose and what you gain under certain
10 circumstances. We were talking about the city gate price
11 being cheaper in different lines and those types of things
12 so why do you really need these -- the availability of
13 gas in that case was said by Tenneco to be very important,
14 more important than the price delivered at the city gate
15 and those types of things. I'm just sort of following
16 that up to try and see that if Alcan does fall out, then
17 you have a direct business incentive regardless of your
18 commitment to push this line, seeing as you have no other
19 choice. You don't have another option.

20 MR. SMITH: We do have, that is correct, we do not have any
21 other option and as I said before, I think we'd stay
22 with what the state asked us to do, told us to do.

23 REP. MEEKINS: Thank you.

24 SENATOR RADER: Any further questions? Senator Huber?

25 SENATOR HUBER: I wasn't trying to push one away but I can

1 ask this one. You caused this question so I have got to
2 clear it up. Would you be willing to purchase our
3 royalty gas further down the line, even without the
4 prior commitment that you have, if it is offered to you
5 at a later date, if it isn't approved now?

6 MR. SMITH: Further down the line in time?

7 SENATOR HUBER: If we end up not approving the contracts and
8 we have uncommitted natural gas, that is state royalty
9 gas, will you be interested in purchasing it further down
10 the line in time?

11 MR. SMITH: Yes, sir.

12 SENATOR HUBER: Okay. And this is a question also that I
13 asked of Tenneco. What route would Southern Natural Gas
14 Company support if your present contract with the State
15 of Alaska is not approved by the legislature?

16 MR. SMITH: If our present contract is not approved, Senator
17 Huber, by the legislature, we had no contract for Alaskan
18 gas of any kind, character or source, under those circum-
19 stances we have no incentive to support any project at
20 all. We can go back into our burrow and stay there until
21 we get some Alaskan gas.

22 SENATOR HUBER: I suppose that then answers -- probably
23 answers -- my third question is, do you have any deals
24 either made with producers or cooking on the back burner
25 or simmering on the back burner for purchase of a portion

1 from producers, say, if it goes the Arctic Gas route?
2 MR. SMITH: The quick answer is "no." I kick my friend, Mr.
3 Van Dyke, frequently in the rear end and tell him he has
4 got to buy some gas from the producers, and he has not
5 been successful in doing so yet. We do not have any deal
6 on the back burner, express, implied, anywhere. I wish
7 we did. But I will say this, and somebody asked this
8 question yesterday -- if, for example, we could go to
9 Producer X and Producer X said, "I'll sell you twenty-five
10 percent of my working interest (or something, you know),
11 a significant quantity of gas, but the condition is that
12 you support some other line," I would like to assure you,
13 sir, that we have got a prior commitment to the State of
14 Alaska with which we are going to comply, and I am not
15 going to walk away from a pre-existing contract and an
16 obligation I have with somebody.

17 SENATOR HUBER: I like your answer. Thank you, Mr. Chairman.

18 SENATOR RADER: Any further questions? Mr. Chatterton?

19 REP. CHATTERTON: Mr. Chairman, I will have a series of
20 questions but this one is so opportune, sir, I have to
21 ask it. Mr. Smith, you actively have pursued trying to
22 get contracts for gas with producers. Are they somehow
23 being smarter than we, the State, they are not willing to
24 sell yet for some purpose? Why do they not want to sell
25 to you?

1 MR. SMITH: I don't want to be evasive. John says we can't
2 fathom the producer mind. In the days of advance payments
3 which as you have learned by now have been outlawed by
4 the FPC, we thought we had a chance of getting some
5 producer gas. When the advance payments dropped by the
6 wayside, the opportunity to buy producer gas seemed to
7 drop also for the moment and they all just seem to be lying
8 behind a log.

9 REP. CHATTERTON: Producers are apparently keeping all options
10 open then, is that a fair statement?

11 MR. SMITH: I would think that is a fair statement, yes. I
12 think that is right. I would say, you know, I think they
13 may not have, perhaps, the same incentives that the state
14 administration had to make a commitment of their gas at
15 this time.

16 SENATOR RADER: Any further questions? Continue.

17 REP. CHATTERTON: Getting back to another track.-- but I'll
18 yield to anyone that --

19 SENATOR RADER: Fine, why don't you go ahead, Representative.

20 REP. CHATTERTON: Mr. Smith, I would ask you to refer to your
21 Exhibit 10 if my number keeps -- you don't have to refer
22 to it because I will in effect be referring to it, if I
23 fib why set it straight. But I understand that in 1970
24 Southern entered into a contract, from what I read here,
25 with El Paso-Algeria for LNG.

1 MR. SMITH: Yes, sir. Right.

2 REP. CHATTERTON: I think I further heard you testify to the
3 fact that -- Oh, first of all, why I think it says that
4 you were buying that LNG from El Paso, is that correct?

5 MR. SMITH: That is correct, sir, yes.

6 REP. CHATTERTON: I think I then heard you give in your
7 direct here that you expect this from 1970 ~~now~~ you expect
8 this plant in Algeria to be on stream in late 1977 or
9 1978?

10 MR. SMITH: I so testified, yes, sir.

11 REP. CHATTERTON: Right. Do you have any concept or recol-
12 lection as to the size of that plant as far as through-
13 put?

14 MR. SMITH: Yes, sir. It is a one billion cubic foot per day
15 plant.

16 REP. CHATTERTON: And the plant proposed at Gravina Point is
17 roughly three times as large?

18 MR. SMITH: Yes, sir. That is correct. I think there is a
19 2.4 billion per day case and a 3.2 billion per day case.

20 REP. CHATTERTON: Do you happen to know when actual physical
21 construction started on El Paso-Algeria's LNG plant?
22 The breaking of ground, let's say.

23 MR. SMITH: Yes, right. We made the contract in 1970 --
24 permit me to ruminate if you will for a minute.

25 REP. CHATTERTON: Yes, yes.

1 MR. SMITH: We made the contract in 1970 and we and the other
2 companies involved made an application to the Federal
3 Power Commission for authority to import this LNG and
4 my recollection, sir, is that that import certificate
5 or authorization was not finally issued until sometime
6 in 1973 is the recollection that I have. And I am pretty
7 certain, I am completely confident that no work started
8 on the liquefaction facilities in Algeria until 1973,
9 because people were not going to be spending a bunch of
10 money until they knew they had a market for their gas
11 and until the import authorization was granted. Obviously
12 they didn't know that that would occur. And my sort of
13 recollection is that it started sometime in the Spring
14 to Midsummer of 1973.

15 REP. CHATTERTON: So we are looking at something on the order
16 of four and one-half years for the construction of a
17 plant one-third the size of the one proposed by El Paso
18 at Gravina Point at the end of a long logistics line.

19 MR. SMITH: That is correct. That is correct. Can I just
20 expand on that a little bit, however? I am not the world's
21 greatest expert on LNG technology but the plant in Algeria
22 and I am confident at Gravina Point will be built with a
23 series of so-called trains, which if you will, are simply
24 big machines for making LNG and it will take in Algeria's
25 case six of those to make one billion cubic feet per day.

1 I think that Gravina Point on the large case will take
2 something like eight, but work can go forward on all of
3 those things simultaneously rather than sequentially.
4 There are things like foundations and power generation
5 facilities and so on which also have to be built but those
6 two essentially go on -- the power generation stuff, for
7 example, goes on simultaneously rather than sequentially
8 so that I don't think it would be fair to infer that it
9 would take three times as long to build the Gravina Point
10 plant as it took to build the Algerian plant. I didn't
11 think, sir, you did infer that but --

12 REP. CHATTERTON: Thank you, Mr. Smith. But why -- to connect
13 up that line of questioning is that it was because basically
14 Mr. Carter was so concerned about time in his testimony
15 and I had to bring that out.

16 MR. SMITH: Right. I think El Paso says that they can have
17 their plant on stream in sixteen months and I think that
18 is probably the first train, so-called, sixteen months
19 from the day they start the construction and they will be
20 using, I'm sure -- I'll be using American contractors and
21 American workmen and you know. I am not an expert on LNG
22 technology. I would have no real problem in believing
23 that they can comply with that kind of a timetable.

24 REP. CHATTERTON: All right. Mr. Smith, you were buying your
25 LNG from El Paso-Algeria. Now, knowing that something

1 like that is possible, why did you not wait for the
2 Gravina Point plant and buy LNG rather than going through
3 the horrible thing that you are going through right now
4 and try and buy gas in place?

5 MR. SMITH: Well, I guess the answer to that really is that
6 we knew the state had the gas available for sale, or at
7 least theoretically wanted to negotiate a contract with
8 people, and we thought it best to go to the guy who had
9 the gas this time. In 1970 when we made the contract with
10 El Paso they had the gas. El Paso doesn't have this gas,
11 the state's, so that is why we came to the state.

12 REP. CHATTERTON: Thank you. Do you plan to be a participant
13 in the pipeline?

14 MR. SMITH: We have made no decision on that, sir.

15 REP. CHATTERTON: I'm sure that was an unfair question, I'm
16 sorry.

17 MR. SMITH: No, it is a perfectly legitimate question. We
18 have not been asked to make that decision. Again, frankly
19 we would have some problem, and we have said this publicly
20 in Alaska before. We would have some problem participating
21 in that line with one-quarter of one-eighth which is to
22 say one thirty-second of the gas under circumstances in
23 which the state, as I have said before, could snatch the
24 gas away from us -- might be able to do so.

25 REP. CHATTERTON: I'm about wound up, Mr. Chairman, if you

1 will stay with me. You did say that the take back
2 provision of the contract, which is contractually in there,
3 did give you a little bit of concern, a little pain, and
4 so I am going to ask you this, in considering that, were
5 you aware that there is an overriding -- potential over-
6 riding situation that is not within the contract, that not
7 only the one-eighth but all of the remaining seven-eighths
8 our Oil and Gas Conservation Commission might just turn
9 the valve and shut it down.

10 MR. SMITH: Yes, I am aware of that as a possibility. I heard
11 some testimony, I guess, to that effect as a possibility
12 at the Royalty Board hearing in mid-November. That is
13 also a concern but again we have to deal with what the
14 situation seems to be at the moment. And, as I understand
15 the situation at the moment, there is an expectation that
16 the gas may be sold and even if the state should do that,
17 Representative Chatterton, I do not think that the contract
18 will automatically be cancelled. That is not my under-
19 standing. I think at some date they are going to have gas
20 to sell and I hope I am still in business to buy it.

21 REP. CHATTERTON: Thank you. One final question, Mr. Chairman,
22 please? I'm sorry, but it just rolled away from me so I'll
23 yield.

24 SENATOR RADER: Any further questions? Going once, going
25 twice, going three times.

1 SENATOR HUBER: You can't pull it off yet. Chatterton still
2 has another one and I think I have one or two.

3 SENATOR RADER: Oh, I am sorry. I am sorry.

4 REP. CHATTERTON: I remembered the one I forgot for a second,
5 but go ahead.

6 SENATOR HUBER: I will let you continue and I will come back.

7 SENATOR RADER: Well, just somebody ask the question and
8 let's go.

9 REP. CHATTERTON: Sir, if you were here yesterday you heard
10 the Commissioner of Natural Resources testify that it
11 would be several years, now that is more than a few and
12 maybe not as much as many, I realize that, but several
13 years whatever you quantify that as, beyond any reason-
14 able doubt he would be sure that he could guarantee any
15 pipeline continuing delivery. And then we put on top of
16 that what you just testified to, five years, sixty months,
17 five years for construction of an LNG plant. That is
18 several -- that begins with an S so I will seven, so we
19 are twelve years out into space before we really start
20 selling gas, aren't we?

21 MR. SMITH: I don't know that I follow that, sir.

22 REP. CHATTERTON: Well by several -- I am trying to just
23 quantify the Commissioner of Natural Resources' several.

24 MR. SMITH: Yes, I agree with that. I am not sure again those
25 two times would run sequentially. They might, I'm not