

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

509 SCOMM15: HOUSE/SEN. SP. COMM. SALE ROYALTY GAS 1977-78⁶⁹

1 attached you would have been a fully serious competitor
2 for the State's gas?

3 MR. BECRAFT: Yes.

4 SENATOR RADER: Senator Sumner.

5 SENATOR SUMNER: If you were allowed to bid on the gas today
6 what could you offer the State in terms of price, or
7 whatever, that it is not getting under the current
8 contract, or the proposed contract for sale?

9 MR. THOMPSON: Two things. We would, of course, be a
10 competitive bidder with other people. Secondly, we feel
11 because of the proximity of the Northwest market area,
12 which is seven Western States, the State of Washington
13 where we supply one hundred percent of their natural
14 gas that's consumed there, Oregon, Nevada, somewhat in
15 Arizona, that proximity of market means that the trans-
16 portation costs are thereby less, protecting the wellhead
17 and thereby insuring greater royalty revenue to the
18 State of Alaska. We think we're in a slightly more
19 competitive position position than the others.

20 SENATOR SUMNER: What would a competitive bid mean in
21 the terms of price to Alaska, how much more money?
22 Could it mean more money under the present regulated---

23 MR. THOMPSON: Senator, those are, of course, difficult to
24 predict. We can't say that we'll give Ten Cents over
25 the Dollar, we're all currently regulated. But I think

1 simply because of the proximity of our market that we
2 better protect the wellhead.

3 SENATOR SUMNER: Would that result in any increase over
4 what the present contract calls for?

5 MR. THOMPSON: I believe, as I indicated in the testimony,
6 that the transportation of Prudhoe Bay gas to whatever
7 markets are a factor for the State to seriously consider,
8 and that if transportation costs can be lowered, the
9 revenue to the State of Alaska is higher, yes.

10 SENATOR SUMNER: We heard yesterday in testimony that the
11 transportation costs had little or no effect in the
12 amount of money the State would get from its sale of
13 the gas. Do you agree with that?

14 MR. THOMPSON: No. I think that the scenario that was being
15 proposed or offered to the State was that if you rolled
16 in prices that the transportation costs would not be
17 significant. But that's a scenario that really can't
18 hold up forever because if you keep rolling in higher
19 and higher gas, your transportation costs are eventually
20 going to be impacted, so it's our position that transpor-
21 tation costs are a factor in the wellhead price.

22 SENATOR SUMNER: The question I have is, do you think that
23 the rolled in technique is going to be employed in the
24 sale of the royalty gas?

25 MR. THOMPSON: I'm not sure.

1 MR. BECRAFT: The Commission will, in all probability, use
2 the rolled in technique. However, the FPC staff, as
3 I understand it, is still very strongly in favor of
4 incremental pricing for the supplemental supply, and
5 perhaps Mr. Moody or others here can correct me, but
6 I don't think the Commission has abdicated their respon-
7 sibility to provide gas at the lowest possible cost
8 to consumers, which they have pursued vigorously over
9 the years, and mostly in recent years by reducing wellhead
10 prices to the point where we know that the gas supply
11 has now become inadequate. I think they intend to
12 translate -- they do look at an increment. The rolled
13 in pricing will be used simply to make a salable product
14 out of it. But they are going to look at each project
15 incrementally, and the notion that transportation will
16 have no impact on wellhead price is preposterous.
17 They'll look at the entire scheme.

18 SENATOR SUMNER: Mr. Chairman, just to emphasize one point.
19 You're saying without any question or any doubt that
20 the cost of transportation will result in a significant
21 price difference in the sale of the gas, to the State
22 of Alaska; we'll get more money if the cost of transporta-
23 tion is less? You're absolutely sure of that?

24 MR. THOMPSON: That's our testimony. We say that the
25 transportation costs can have an impact on the wellhead

1 cost.

2 SENATOR SUMNER: That isn't what I asked you.

3 MR. THOMPSON: When you said "significant," what's signifi-
4 cant?

5 SENATOR SUMNER: I said will it have? You said it can have.
6 There's a difference.

7 MR. THOMPSON: I'm sorry. It will have, in our opinion,
8 an impact on the wellhead.

9 SENATOR RADER: Senator Kerttula is seeking the floor.

10 SENATOR KERTTULA: Just one follow-up, and perhaps it's
11 been answered earlier. The ultimate price, your price
12 per product in the Western States, is it higher or less
13 than that for the same amount of product in the Midwest?

14 MR. THOMPSON: Gas is a regulated commodity and you could
15 price it in several different mechanisms. The FPC staff
16 could set it moderately priced, and that could vary
17 from region in the country, or in this instance they
18 could set a flat rate across the country for the gas.
19 The significant difference for the State, however, is
20 the transportation, Senator, that we're maintaining;
21 the closer to market, the less transportation, the
22 more royalty return, the greater opportunity of protecting
23 the wellhead, therefore, the more royalty return for
24 the State.

25 SENATOR KERTTULA: I understand that, and you're saying

1 that it will be a uniform price, that you won't have a
2 greater or lesser price than, say, Arizona for this gas
3 than you might have in Southern Illinois?

4 MR. THOMPSON: I'm saying that the FPC has not made that
5 decision yet and they have the authority to set a price
6 for Alaska's royalty gas, and the possibility of a unit
7 price is there.

8 MR. BECRAFT: Certainly after deregulation scenario, where
9 we're starting to look at alternative fuels, we can
10 presume that our market will stand a similar pricing
11 structure to other markets, and then the transportation,
12 the distance to market, and the cost of the system does
13 translate directly back to the wellhead in that situation.
14 Fuel oil in our market is roughly comparable to fuel oil
15 in Southeast. It's an alternate fuel, and that's what
16 we're competing with.

17 SENATOR KERTTULA: Thank you, Mr. Chairman.

18 SENATOR RADER: Representative Chatterton.

19 REP. CHATTERTON: Thank you, Mr. Rader. Mr. Thompson, let's
20 take a hypothetical case that, for some time into the
21 calendar future an option is available to you to purchase
22 a portion or all of the Alaska royalty gas and this
23 option, you know that it's available to you for five, ten,
24 fifteen years into the future. With that premise, would
25 you be in any haste to sign a sales contract with the

1 State of Alaska?

2 MR. THOMPSON: I guess it would depend on the conditions for
3 the sale. If it was a pure, as we testified -- let me
4 try to come back somewhat around to the question. As
5 we testified, we don't really feel it's in the State's
6 best interest to sell its gas now, for some of the reasons
7 we listed. However, if the State made that decision
8 and said, "The gas is for sale today," we would want to
9 have an opportunity to be a competitive purchaser.

10 REP. CHATTERTON: All right, you're right on target, Morry.
11 I'm saying your option will remain to purchase all or
12 part of it will remain open for ten, fifteen years; are
13 you in a haste to sign the contract now?

14 MR. THOMPSON: That's a difficult question. I think that,
15 as I've said, if the State decided to sell, we would be
16 an active purchaser. But we don't feel the State should
17 sell now because we think that by waiting, as the other
18 seven-eighths are, that the opportunities are greater
19 for the State to increase the financial return to Alaska.
20 At the same time, as purchasers of gas, we would be
21 clamoring for that opportunity.

22 MR. BECRAFT: It would be good practice for us to buy the
23 gas at the earliest possible date, I think. We're on
24 the other side of the coin. I'd rather buy it today
25 when I know the conditions, make the deal, and not take a

1 chance on wide variation in regulatory, environment and
2 what have you. This is the reason the producers don't
3 want to sell their gas right now. They've been caught
4 many times over the last ten years in widely varying
5 regulatory situations, contract dates that govern what
6 your price is. They don't at the moment, but they did
7 until a few months ago, and they may again under the
8 deregulation bill.

9 They don't have a price, but it is good practice
10 to commit when you have a modicum of certainty as to
11 what you're going to do. And producers want to wait until
12 they know what ball game they're playing. I think they
13 will, in the next six months to a year, begin to designate
14 their markets, and by that I mean the largest uncommitted
15 interests, Exxon and Arco -- because I think under the
16 Arctic Gas Transportation Act the destination of that gas
17 has to be determined, and they will want to get a
18 transportation system approved. They will try to do it in
19 the form of an agreement to a degree, if they don't have
20 a price, to leave options open while designating the
21 market -- if that helps your understanding of it.

22 REP. CHATTERTON: I think so, if what I heard you say is
23 really what you said, that the only purpose for rapidly
24 signing this contract on your part would be to lock the
25 State into a contract under today's conditions that might

1 be to your advantage and the State's disadvantage if you
2 waited five, ten, fifteen years.

3 MR. BECRAFT: Well, that plus the fact that we could pursue --
4 if the reserves are firmly committed to us we could pursue
5 corporate objective. They underpin our financial structure
6 and what have you, and there are financial reasons
7 for getting the reserves and getting them into our
8 picture so it would be part of the financial system and
9 we can arrange financing and what have you for expansion
10 of our Lower 48 system. We can go ahead, and these
11 reserves do help; that's the practical reason.

12 SENATOR RADER: Representative Hayes.

13 REP. HAYES: Senator Rader. Mr. Thompson, during your
14 testimony you mentioned that if the Alcan system was built
15 instead of the El Paso route that the State of Alaska
16 would be the beneficiary of approximately Eight Hundred
17 Million Dollars more income. Is that statement based
18 on a deregulation situation or it has nothing to do
19 with deregulation?

20 MR. THOMPSON: No, that information, Representative Hayes,
21 came out of the FPC filings and was in Judge Litt's
22 recommendation to the Federal Power Commission when he
23 was comparing transportation costs of all three systems.
24 He gave the Twenty-Four Cent differential between El Paso
25 and Alcan, and we projected that out of the commodity of the

1 gas, and that's the difference.

2 REP. HAYES: Just to follow up on that -- then, when you're
3 speaking of a competitiveness in carrying the State's
4 royalty gas, that would be the competitiveness of it,
5 not that you're willing to pay more for it or pay a
6 premium, but simply that because your projected costs,
7 or Judge Litt's opinion says that there would be Eight
8 Hundred Million Dollars difference, that would be the
9 competitiveness of your proposal over El Paso's or
10 Arctic's?

11 MR. THOMPSON: That's correct, from the State's point of
12 view. We maintain thereby that the State would get that
13 additional revenue.

14 SENATOR RADER: Representative Meekins.

15 REP. MEEKINS: Thank you, Mr. Chairman. I would like to have
16 you summarize one of the things you touched on in your
17 testimony. I've been trying to look at this whole thing
18 as you've stated and as Representative Gruening has also
19 stated, in terms of the costs and the benefits to the
20 State in approving this contract. We've heard some
21 people say that the benefits to the State are great and
22 that it might be a determinate factor in getting the
23 El Paso line. We heard Mr. Tussing yesterday say very
24 flatly that there would be no benefit. But I think,
25 given that testimony, it sort of comes down to my mind

1 what the costs are, because if the costs are zero then
2 we're really not losing anything to go ahead and approve
3 this contract on whatever probability that it might have
4 some benefit. So I'd like you to summarize what you
5 think are the costs to the State, what we'd lose in
6 approving this contract.

7 MR. THOMPSON: I think, as you can see, where you could
8 lose several things, lose a guarantee or better guarantee.
9 Now, let me try to answer. All three projects are
10 gigantic, massive, and all three projects throw a lot
11 of financial figures around. We think that to the best
12 of all our abilities, and I'm speaking for the com-
13 petitors as well, that we try to fine line these figures.
14 But moving gas from Prudhoe to Chicago has never been
15 done, so the probability -- you've got to also look at
16 the probability of cost over-run.

17 We submit that because of the design of our
18 system, because we use existing pipelines in Canada,
19 we use proven technology, and we follow a corridor, that
20 the probability of construction completion is greater
21 with us, thereby insuring a quicker royalty return to
22 the State, thereby insuring no cost over-runs which drive
23 your wellhead down. We think you'd lose that opportunity.

24 Also, there has been a lot of questions about
25 the gas productivity at Prudhoe. As we all know, that

1 production rate has not been set. Our system envisions
2 for the first three years a slow buildup from 1.2 to 2.4
3 billion cubic feet a day. El Paso, at one time, envisioned
4 3.4, dropped down now to 2.4 billion cubic feet, and
5 Arctic says 2.25. We submit that Prudhoe is an oil
6 field, and that's where the State is really going to
7 maximize their return. At all costs they must protect
8 the production of oil there.

9 So, in our lower incremental buildup case, we
10 contend and say that we better protect that until a little
11 bit more is known about that reserve. We don't pump
12 two billion cubic feet out a day to start. We think
13 that's an advantage for the State. The lower transporta-
14 tion costs that we have is another advantage to the State.

15 Both Arctic and El Paso use technology that does
16 not currently exist, the high pressure for Arctic and the
17 LNG size at Gravina for El Paso and the cryogenic
18 tankers for El Paso; the technology to build that size
19 of operation is not there so your probability of over-runs
20 are increased. I think those are some of the things.

21 MR. GROH: Representative Meekins, it's difficult to
22 quantify. Assuming a deregulation scenario, it may be
23 a very substantial amount. Certainly that is difficult
24 to quantify.

25 REP. MEEKINS: Mr. Groh, we have two questions here, and I

1 don't want to confuse them. One is which line we should
2 be supporting. If we make the assumption, just for
3 simplification, that -- I'll make the assumption that
4 I'm supporting the El Paso route, then the question really
5 becomes, what do we lose in approving this contract?
6 That's really what I'm interested in, because that's
7 the subject of these hearings.

8 MR. THOMPSON: If you don't sign the contracts now, you have
9 the opportunity later of gauging the market. When the
10 producers start selling their gas you can look at condi-
11 tions that they're getting, and the State could follow
12 those. Under deregulation you also lose the opportunity,
13 perhaps, of selling to an unregulated purchaser, as we
14 indicated here. You also lose, we feel, the possibility
15 of getting advance payments, the possibility, and I
16 underscore that. I think those are the major considera-
17 tions.

18 MR. BECRAFT: You're basically making the assumption, I think,
19 that these are as good a contract as you can get. We're
20 making the case that it is not the case.

21 A statement was made yesterday by one of the
22 witnesses that I might disagree with a little, and that
23 is that once the producers sell their gas everybody will
24 be getting the same price in Prudhoe. Many of the
25 producers, and part of their marketing strategy will be to

1 put it into areas, allocate the gas themselves before
2 the FPC does it. But they will also try to do business
3 with people who can do other things for them that aren't
4 in the four corners of that contract. There may be oil
5 swaps for gas, for instance, which the majors need oil.
6 There may be price upgrades in other contracts or swaps
7 of liquids from the regulated company plants in these
8 major companies. There are other things, and there are
9 deals that are made outside the straight four corners
10 of the gas purchase contract itself. What we're saying
11 is that these opportunities haven't been fully surveyed
12 by the State.

13 REP. MEEKINS: Thank you.

14 SENATOR RADER: I think Representative Carpenter was trying
15 to get the floor a while ago.

16 REP. CARPENTER: Mr. Becraft, this was exactly the point
17 that I wanted to ask you about. You're telling us that
18 the provision of the contract that ties our royalty gas
19 to the best price that the producers are getting at some
20 later date isn't a valid provision; is that what you're
21 telling us?

22 MR. BECRAFT: No, that's a valid provision. Your pricing
23 provision is essentially passive in this contract. If the
24 other guy's prices go up, yours go up, but I don't see
25 much initiation opportunity in there. I don't really see

1 your ability to go out and put your gas in the best
2 market and set the price yourself.

3 REP. CARPENTER: If I may, a moment ago you were telling us,
4 Mr. Becraft, that one of the reasons the producers aren't
5 committing their gas at this time is because we're in a
6 period of deregulation atmosphere and they want to get
7 the best price they can get. Well, if we're linked to
8 them in this provision in this agreement, that's fine,
9 we're safe, aren't we?

10 MR. BECRAFT: I don't think so, because again their price
11 may be established in a market -- I'm making the
12 assumption there is a finite value, top, upper bound,
13 limit to the value of this gas in the Lower 48, broadly,
14 and there will be some variations by market. You are
15 putting your gas -- they may put their gas into less
16 attractive markets. They may be remote markets, they
17 may be in the East, further away in terms of transporta-
18 tion, or they may be put into markets that can't stand
19 higher rolled in costs, or they may be up against the
20 ultimate cost of fuel at that time, so they might not
21 be able to pay this higher price, conceivably, and,
22 therefore, you're tied to their price and that again
23 is not necessarily indicative, particularly in a non-
24 regulated scenario, of what your price might be if you
25 establish it yourself.

1 REP. CARPENTER: Again, you're calling that provision passive,
2 and that is not a good posture for the State, in your
3 opinion.

4 MR. BECRAFT: Yes, sir.

5 SENATOR RADER: We have time for one more question before
6 noon recess. Senator Huber.

7 SENATOR HUBER: Thank you, Mr. Chairman. I think mine might
8 be able to be answered with a "yes" or "no", I hope.
9 Morry, do you consider that the approval of the present
10 sales agreement would be decisive in choosing the final
11 route of the gas line?

12 MR. THOMPSON: No.

13 SENATOR HUBER: And the other one I have for you, do you
14 believe you would be able to offer the State the best
15 possible deal on its royalty gas if we wait until your
16 facility is ready to transport the gas?

17 MR. THOMPSON: I'd like to say yes, but I will say this:
18 that we will come in, we'd like to have the opportunity
19 to bid competitively along with everyone else and give
20 the State an opportunity to review all of the proposals
21 that are received under competitive sale and select
22 the best deal for the State.

23 SENATOR HUBER: Mr. Chairman, the point I'm trying to find
24 out is, if you believe by waiting until that point in
25 time that the State will receive the best possible deal

1 for its gas, or is it better to do it now?
2 MR. THOMPSON: As we've testified, Senator, we feel it would
3 be in the State's best interest to wait.

4 SENATOR HUBER: Thank you, Mr. Chairman.

5 SENATOR RADER: I have about eight minutes after 12:00.

6 We will recess until 1:30 sharp.

7 (Whereupon the hearing recessed at 12:10 p.m.

8 and reconvened at 1:30 p.m.)

9 SENATOR RADER: The committee will come to order. We will
10 resume with the Alcan presentation. Do you have any
11 questions of Alcan? Representative Parr.

12 REP. PARR: In the statement by Mr. Thompson, the prepared
13 text that we have here, the State is obligated to purchase
14 from the buyers a percentage of the field facilities and
15 so forth. What part of the contracts specify that? I
16 don't really understand where that is in the contract.

17 MR. THOMPSON: Representative Parr, if we can look to the
18 exact language -- if we may have a minute to find that
19 exactly in the contract.

20 REP. PARR: I wouldn't ask you to do something I can do
21 for myself, but I've read that contract several times and
22 I guess I didn't pick it up. If I may continue, Mr.
23 Chairman.

24 SENATOR RADER: Certainly.

25 REP. PARR: In these field facilities, would that include

1 the gas treatment plant, the Billion Dollar gas treatment
2 plant; is that under the term of field facilities?

3 MR. THOMPSON: I don't believe so, Representative.

4 But let's double check right in the contract.

5 REP. PARR: The last, and another question, Mr. Chairman,
6 and it's on another thing that was stated. I believe I
7 understood you to say, Mr. Thompson, that the FPC could
8 charge the State for the unused capacity in the line
9 due to the fact that the State is taking its royalty
10 gas out and that the contract should provide that the
11 buyer would reimburse the State for that amount of money.
12 Did I misunderstand that?

13 MR. THOMPSON: We raised the issue that the FPC may charge
14 someone for the excess capacity in the line caused by a
15 pull-back, and our concern is that in contract negotiations
16 that this be tightened up in the contract (that's our
17 suggestion) to insure that that does not happen.

18 REP. PARR: But you are saying that the FPC has the power to
19 do that, to charge the State of Alaska for pulling out
20 its royalty gas and, therefore, in having the pipeline
21 not operating to full capacity?

22 MR. THOMPSON: That's our understanding.

23 MR. BECRAFT: Excuse me, Mr. Parr. I'm not that intimately
24 familiar with the Arctic Gas Transportation Act, but I
25 believe that's an open issue relative to the State's

1 withdrawal of the gas. The FPC will have the power
2 under that act to determine that "adjust and make reason-
3 able rates for the transmission to the point of withdrawal."

4 All we're trying to say is that the original
5 gas, the three hundred million or so, that goes into
6 the pipeline, the facility will be predicated upon
7 the volume, the tankers if it's an LNG route, the
8 liquefaction facilities and what have you. It is not
9 conceivable to me that if you pull out that same three
10 hundred million that that cost of that excess capacity
11 would be transferred a hundred percent or borne, I should
12 say, by the Lower 48 consumers. I'm not sure I can tell
13 you how to cure your contract, but it looks like those
14 costs are an open issue.

15 REP. PARR: The key issue, I was asking you, was, if I
16 understood Mr. Thompson this morning, is that the FPC
17 has the authority and can do that to us.

18 MR. THOMPSON: Yes, sir.

19 MR. BECRAFT: Sir, I think it's Paragraph 3.11, I believe,
20 the one to which we refer in that, and I believe that
21 does include field processing and treating facilities
22 are added, if that was the question a minute ago.

23 REP. PARR: I have one final question, Mr. Chairman. That is,
24 you mentioned something about a standard of nine hundred
25 and fifty btu per, I guess it's a thousand cubic feet

1 or something (I don't know) in the Lower 48, and I believe
2 that other people who have talked have always spoken of
3 a thousand as sort of being standard.

4 MR. BECRAFT: The thousand btu, sir, is a normal point from
5 which to determine a premium for the gas or determining
6 an adjustment to price for heating value above and below
7 a thousand. Now, as to the quality of gas the pipeline
8 will accept; very normally, and certainly in all the
9 standard contracts that Northwest employs in the Lower 48,
10 I believe that minimum is nine fifty to nine seventy-five
11 in most cases. In other words, so long as the gas is
12 sweet gas (as we call it) mercantible gas, the btu content
13 of nine fifty or greater is satisfactory to us.

14 REP. PARR: I don't quite understand the point then. A
15 thousand is simply an arbitrary figure used for determining
16 the sale price for the gas more or less, is that correct;
17 but nine hundred and fifty is a figure you're using for
18 shipment purposes? Is that more or less ---

19 MR. BECRAFT: Yes, what we class as mercantible gas. The btu
20 content of a gas stream, and I'm not a chemist or an
21 engineer even, but it is comprised of the components in
22 the gas, which are the methane, ethane, propane and
23 so forth. In most gas streams you will leave in some
24 of the things that won't bother your transmission such
25 as nitrogen and a minor amount of CO₂, all of which

1 reduce the btu content. That, coupled with a high
2 quality requirement in terms of btu per cubic foot,
3 does effectively limit the producer's option to extract
4 a deep cut of liquid products. Methane, itself, if it
5 was pure methane is something under a thousand in btu
6 content.

7 REP. PARR: Thank you.

8 SENATOR RADER: Representative Gruening.

9 REP. GRUENING: I'm curious as to how we would write the
10 contract to get around the problem that you point out
11 with the FPC charging the State for the excess capacity.
12 How do we write that out into the contract? We're telling
13 the FPC what they can rule in the contract? In other
14 words, how do we get around that point?

15 MR. BECRAFT: The main point is, Representative Gruening,
16 we don't know what that cost is going to be. You set up
17 your procedure here and you have the right under the act
18 to take the gas out, but I think it's more of a caveat
19 than anything else. You've got it there, it's wide open,
20 and as I see the contract you could be certificated to
21 get the gas out and the contract would be effective, and
22 the Commission, at a later time, would determine what
23 those costs are, and I don't think you'd have any control
24 over it. I don't have a recommendation for you and I
25 think you have a problem that will just have to wait.

1 REP. GRUENING: Well, is the inference from your statement
2 that we should write into the contract that the gas
3 companies, purchasing companies, bear the costs related
4 in any way to removing our royalty gas for in-State use?
5 I mean, not the costs, the mechanical costs, but the
6 costs of the excess capacities, as you put it?

7 MR. BECRAFT: You could certainly write it in your contract.
8 I wouldn't be particularly optimistic about the
9 chances of that being approved by the FPC. I think your
10 contracts might be modified to the extent that an
11 acceptable certificate to the State granting this with-
12 drawal would also set forth exactly under the condition
13 what your costs would be, so you'd know. Again, I can
14 see you getting a certificate perhaps, with the price
15 issue still permitting withdrawal but the price issue
16 to be determined at the actual time you take the gas,
17 or somewhat later.

18 REP. GRUENING: We can ask the consultants this, but isn't
19 the problem pretty much the same with the conservation
20 committee saying you're going to take several hundred
21 million cubic feet less because of the conservation
22 problem?

23 MR. BECRAFT: It's the same problem, sir, but in that case
24 there isn't much doubt about who is going to pay the
25 bills involving the gas, a lower amount or a higher amount,

1 of moving it to the Lower 48. The Lower 48 customers
2 are going to pay that tariff. They won't be borne by
3 the Alaskans.

4 SENATOR RADER: Senator Colletta.

5 SENATOR COLLETTA: Morry, you know, it seems to me I recall
6 in other hearings that we've had, the Alcan route, not
7 only for oil but for gas and, unfortunately I never
8 asked the question why that route was not acceptable
9 to these other people that looked at it. Of course, I
10 had the reasons why you say it's the best way to go,
11 but I'm curious as to if you knew why the others have
12 turned it down.

13 MR. THOMPSON: Oh, I don't know that it was "turned down".

14 I think the Arctic consortium, and this might be a better
15 question to Arctic Gas, Senator Colletta -- let me try.
16 I think the Arctic consortium is composed of oil and
17 gas companies that have interests both in Prudhoe and
18 Mackenzie Delta, and they would like to go from Prudhoe
19 over to Delta to perhaps pick up that gas should additional
20 reserves be found in Mackenzie, and then come down. I
21 mean, that's their principal objective in going across
22 the Wildlife Refuge to Mackenzie Delta.

23 As you know, our route was recommended by the
24 FPC staff environmental staff, was considered by a committee
25 of the Department of the Interior and Justice Berger

1 himself, a staff report, or the Berger Report, indicated
2 that if there was to be a Canadian line, a highly
3 desirable place would be the Alcan route.

4 SENATOR COLLETTA: Mr. Chairman, I just have one more.

5 Morry, reading the brochure, you know, Alcan Pipeline is
6 wholly owned by Northwest Gas out of Utah, and has
7 Northwest Gas made an attempt to purchase any of our gas
8 or is your operation so intermingled that you want
9 primarily to construct the line and be a purchaser of
10 gas as just an added benefit, or do you separate the two?

11 MR. THOMPSON: I think, like all companies, Senator Colletta,
12 we're interested in doing both; we're interested in
13 constructing the line and interested in purchasing gas
14 for the customers we serve in our service area.

15 To answer the other part of the question, we were
16 an interested purchaser at the time the State announced
17 that they were going to sell their royalty gas, but one
18 of the requirements that the State put down was that
19 the potential purchasers had to agree to endorse El Paso,
20 and we were contemplating and later filed before the FPC
21 and we, therefore, could not agree with the stipulation.

22 SENATOR COLLETTA: Mr. Chairman, that's exactly the question
23 that I had. You're placing it better than I can. But
24 if, in fact, the pipeline company is a totally divorced
25 entity from the gas company, then why didn't the gas

1 company -- you know, it would just seem to me that the
2 line would be adopted on its merits, and I don't know
3 if this was valid at the time that the State was asking
4 for solicitations on purchases, if it was valid to assume
5 as you're stating now, these contracts mean nothing
6 towards enhancing which line is accepted, why they
7 didn't -- you know, why Northwest didn't buy some gas,
8 care less what line was used.

9 MR. THOMPSON: At the time -- Senator, let me come back.
10 I answered directly yes to a question from Senator
11 Huber when I was asked whether I felt these contracts
12 would have no impact, and to try to be as short as
13 possible I said I didn't think that they would. I don't
14 think they'll have any measurable, appreciable impact.
15 I'm not saying they will have none (period).

16 Secondly, like all gas companies, this is true
17 for all three of us, we purchase gas and sell it to our
18 customers for the purchase price. That's the reason
19 we're all in business. Gas companies make money off
20 the transmission of the commodity as opposed to sell and
21 resell. So, we all have an obligation to the customers
22 that we serve, to attempt to secure as much gas as we
23 can for our market areas. So we're both interested,
24 Senator, in purchasing gas and in constructing the system.

25 MR. BECRAFT: Senator Colletta, our offers to the State were

1 made under the name of Northwest Pipeline, understanding
2 which way you're pointing here, and we are interested in
3 buying it. It is a separate issue with us, and our
4 offers were made for the pipeline customer, written
5 offer.

6 SENATOR COLLETTA: Mr. Chairman, what I'm driving at, and
7 you know, maybe unjustly so -- I can't help but form an
8 opinion that, in fact, you participated in exactly what
9 you're saying the State should not participate in, and
10 that was that that sale of the State's gas to you was
11 contingent upon your line; you don't want the gas unless
12 it's through your line.

13 MR. THOMPSON: No, Senator. No, there must be a misunder-
14 standing, and I hope we're not confusing the issue.
15 At the time the State announced its royalty gas sale
16 we were going to submit a bid, and one of the conditions
17 of the sale precluded us from submitting a bid. That
18 was that you must endorse El Paso. We are interested
19 in purchasing gas and we're interested in constructing
20 the line. We will stay active in constructing the line
21 even if we're unsuccessful in getting a percentage
22 of the royalty gas, and I hope that clears it up,
23 Senator.

24 SENATOR COLLETTA: Okay, thank you.

25 SENATOR RADER: Any further questions of the Alcan representa-

1 tives? If not, gentlemen, we thank you very much.

2 MR. THOMPSON: Thank you, Senator.

3 MR. GROH: It's interesting to be on the other side of the
4 table.

5 SENATOR RADER: The next scheduled witness is Arctic Gas.

6 I want to urge the witnesses, as well as the Representa-
7 tives and Senators, to be as brief as possible. I suspect
8 at this point brevity may have more impact than anything
9 else. It's too bad, Mr. Ward, to hit you with that
10 particular point, but you have testified before us
11 enough times, I'm sure you understand what I mean.
12 But I don't mean to foreclose in any manner any presen-
13 tation you wish to make or in any manner any question
14 that any member of this committee has to make.

1 MR. WARD: Thank you, Senator Rader, Representative Gruening,
2 and Members of the Committee. My name is Robert W.
3 Ward, I am President of Alaska Arctic Gas. I had a few
4 notes to start with a few days ago, and as the hearing
5 has progressed I've added, and deleted and scratched,
6 and I've concluded though in all of it it's not of much
7 point for me to make a long statement, and I am not
8 intending to run over the Administrative Law Judge's
9 decision again. When it came out a couple days ago
10 one person told me that that was responsible for the
11 power outage that we had. I don't think I'll comment
12 much about it anyway unless there are questions.

13 I would like to set a couple points as straight
14 as I can from our perspective, and recognizing that a lot
15 of times the more we clarify things the more confused
16 they become. But I think there has been some confusion
17 about how the effect of royalty gas not moving through
18 the Arctic Gas system would affect the viability of our
19 line and the ability to finance it. I think I said
20 before a committee of the Legislature last year that
21 having royalty gas in the line or not having it in the
22 line would not affect the viability of our pipeline,
23 and predicated it on the basis of the fact that our line
24 is designed, and it's anticipated that our volumes will
25

1 be from two billion cubic feet per day initial volumes
2 to two and a quarter billion feet after the third year
3 of operation, having built up over the three years.
4 That range is about what the royalty gas is, and the
5 amount of the royalty gas is, and it would not affect
6 the viability of the line.

7 Incidentally, there have been comments about
8 reasonable assumptions on the amount of deliverability,
9 and there probably will be others to talk about it with
10 more expertise than I. But from all the assumptions
11 on deliverability that have been made from Prudhoe Bay
12 for natural gas, the reasonable assumption is from two
13 to two and a half billion cubic feet per day. Lower
14 volumes is not a reasonable assumption. It's an assumption,
15 but it's not a reasonable one and should not be character-
16 ized as such.

17 One thing about the royalty gas in the pipeline
18 system, and there have been discussions here, discussing
19 how or if the State would have to subsidize that portion
20 of planned capacity if royalty gas were withdrawn. It's
21 been my assumption, on talking to our attorneys, and
22 admittedly it hasn't been an in-depth search by the
23 attorneys -- if such is required, we will do so -- but
24 it is their opinion, without giving it detailed study,
25 that the FPC would probably not recognize that royalty

1 gas portion as a viable portion financing the line if
2 is is subject to withdrawal, and even though a tariff
3 would probably extend, and would extend to shipment
4 of that gas if it is shipped, it would not necessarily
5 count to financiers for through-put to provide the
6 captial to finance the line because it could be withdrawn.

7 If it is counted, that's where the FPC has the
8 problem of allowing withdrawal, if it's committed to
9 interstate commerce. I would also like to clear up
10 one point on Section 13-B of the Act. It's knowledge,
11 maybe not common knowledge, but at any rate when that
12 amendment was first proposed we opposed it, much to the,
13 not chagrin, but it made Congressman Young extremely
14 upset. I'd like to clarify that slightly.

15 As you can all recall, there was hardly anybody
16 that gave that legislation more than about a twenty
17 percent chance of passage. We were advised, when it was
18 introduced in the House, by the Senate Committees working
19 on it, who would have to ratify it after the House was
20 finished, that they just wouldn't buy that Section 13-B.
21 As soon as we were aware that they would and it would
22 not jeopardize the legislation itself, we did not
23 oppose it and do not now.

24 In all candor, and in my opinion, the contracts
25 that you are considering in this hearing are really

1 pretty good for what you're trying to do, or what the
2 State is trying to do. I don't particularly see that
3 they jeopardize the State that much. I'm not sure that
4 they help that much, but I think the State has gotten
5 about as good a deal as they could possibly get. As a
6 matter of fact, I was amazed that they got as good a
7 contracts as are drafted.

8 I've heard, last year, the people urging the
9 use of royalty gas as a weapon to kill Arctic Gas and
10 somehow authorize the all Alaska route. It's hard to
11 have much of a weapon if you parcel it up among a lot
12 of people and then tell them that you might not be able
13 to get it at all.

14 El Paso has been heavy on political support, and
15 I'm not knocking it. I made a first appearance before
16 the Legislature in regard to this project in 1974. At
17 that time there was a big push to adopt the resolution
18 of support by the Legislature so that El Paso could go
19 to their board and get Thirty Million Dollars to help
20 with environmental studies and engineering work to put a
21 better application together.

22 So, under great pressure they got the resolution
23 passed, and then went to the board meeting and didn't
24 approve the Thirty Million anyway. They said they didn't
25 need it because of the work that Alyeska had done in the

1 same corridor.

2 This royalty gas thing is perhaps somewhat similar
3 in terms of trying to get companies to do as much as they
4 can to help them get political support. I think it was
5 Attorney General Gross who suggested that really it
6 wasn't for political support, it was on the merits,
7 because the merits would speak for themselves; so it
8 really wasn't for political support, and if it were just
9 for political support it would be readily exposed.
10 And it is readily exposed and it is for political support,
11 and it probably will help.

12 Without trying to suggest anything one way or
13 another, I'll just give you one example. Midwest Gas
14 Association, of course, is in the service area of several
15 of our owner companies, Arctic Gas Line Company, and
16 a resolution for support of Arctic Gas was considered
17 at their fall board meeting in December. I think there
18 is just in excess of sixty members, sixty-five, sixty-
19 seven members in Midwest Gas Association. Because of
20 Tenneco's involvement in this contract, where we probably
21 would have had unanimous support, there were two absten-
22 tions and one voted against it. Even though that didn't
23 affect that much, it does have some impact, and El Paso
24 and Southern route had some impact also.

25 But the contracts themselves do not improve the

1 pretty good for what you're trying to do, or what the
2 State is trying to do. I don't particularly see that
3 they jeopardize the State that much. I'm not sure that
4 they help that much, but I think the State has gotten
5 about as good a deal as they could possibly get. As a
6 matter of fact, I was amazed that they got as good a
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18 of support by the Legislature so that El Paso could go
19 to their board and get Thirty Million Dollars to help
20 with environmental studies and engineering work to put a
21 better application together.

22 So, under great pressure they got the resolution
23 passed, and then went to the board meeting and didn't
24 approve the Thirty Million anyway. They said they didn't
25 need it because of the work that Alyeska had done in the

1 system at all. And recognizing that I may be speaking
2 some in my own interest when I say it, I would hope that
3 even though you do approve the contracts, as I expect
4 that you probably will -- even though you do, I would
5 hope that you could do it and acknowledge the reasons
6 you're doing it. I think the arguments that are based
7 on conjecture that are not supported by fact in the
8 record shouldn't be part of the situation. I do not see
9 any reason why you should have to, or try to fabricate
10 merits that aren't there.

11 With that, I would be happy to answer your questions.

12 SENATOR RADER: Any questions? Representative Parr.

13 REP. PARR: Mr. Ward, is it your belief that the State will
14 get more money in wellhead sales through the Arctic
15 proposal than through any other?

16 MR. WARD: Our position has consistently been that the
17 opportunity is there, and we have never said that it
18 automatically would because of the Arctic Gas system,
19 and the reason that we have not said that they auto-
20 matically would (even though people suggested we have
21 said it, we haven't)-- the reason for it being there are
22 some other factors involved, and traditionally one cannot
23 argue successfully against what the FPC has done his-
24 torically in the past. But, since the FPC is moving
25 more toward commodity pricing, there is the opportunity

1 for more wellhead price if they go that route and approve
2 it that way.

3 That view, incidentally, is supported by testimony
4 on the record by others than Arctic Gas.

5 I'd like to point out, and I meant to mention
6 it earlier, Mr. Chairman, if you'll allow me -- rolled
7 in prices, to suggest that rolling in prices is going
8 to so confuse the transportation costs that they can't
9 be identified is ridiculous. The shippers are going to
10 pay a tariff to the pipeline company based upon the
11 total cost of service of that line, and that's not going
12 to be rolled in. Arctic Gas is not a buy and sell
13 pipeline, they will not be buying gas and selling it
14 to customers. We develop the tariff that's going to
15 provide the financing of the system, and it's going to
16 pay it. It's not going to be rolled into our costs.
17 We can't roll it into anything. The total cost may
18 be rolled in to consumers down the line, and I think
19 it will be; but to say that the transportation costs
20 cannot be readily identified -- no way!

21 SENATOR RADER: Representative Gruening.

22 REP. GRUENING: I'm reminded, Mr. Ward, of a statement
23 that somebody said about oil and gas men, he said,
24 "They're like cats, you can't tell from the sound of
25 them if they're making love or fighting." After your

1 statement saying that the approval of this contract
2 would help the route decision for El Paso, are you
3 fighting or making love with El Paso?

4 MR. WARD: Well, I did share a room with Mike Holland up
5 in Prudhoe Bay once.

6 REP. GRUENING: You disagree with Arlon's assessment, Arlon
7 Tussing's assessment yesterday that it will have no
8 political effect on the national level at all?

9 MR. WARD: Well, I don't know whether his pronouncement was
10 that it would have no effect on the ultimate decision
11 or if it would not have any effect at all or if it would
12 not help at all. We've had a reasonable effort for
13 two years now with the U. S. Congress and the Adminis-
14 tration, and from originally information to dissemination
15 on issues like the Pipeline Act that was passed last fall,
16 we worked very hard, and we have a new Administration now
17 and there are a lot of new facts that are going quite
18 deep. There are new Congressmen, there are new committee
19 assignments. So we have to do a lot of that effort over
20 again and start it over again. For the most part we
21 haven't been stumbling over El Paso too much in those
22 efforts. That doesn't mean that they haven't been active,
23 because they have. If there are more people in the action
24 when it comes down to Congressional decision, it's got to
25 have some impact. To say that it won't is not being

1 honest.

2 It will have some impact. Whether it will pre-
3 vail or not, I don't know. Whether it's necessary or not,
4 I don't know. But it is obvious, as you people here have
5 already concluded, because it is obvious that the royalty
6 gas is more valuable than money. Otherwise you could
7 go buy it to do the job. It is not that the system is
8 any better, it's not that the merits are any better; what
9 they're going for is to get a chunk of gas. That's
10 what they're willing to put some political clout for,
11 and what they have, is to get some gas. It's not that one
12 system is better than the other.

13 SENATOR RADER: Any further questions? Mr. Hayes.

14 REP. HAYES: Mr. Ward, do you think in view of what the
15 State of Alaska might be getting in the way of of political
16 influence is worth the opportunity they might miss later
17 on to get a higher price from their sales of their royalty
18 gas or possibly to exercise some of the other options that
19 they might have? Do you have an opinion on that?

20 MR. WARD: Mr. Chairman, I'm sorry that I am not capable
21 of answering questions like this in short manner. As a
22 matter of fact, I might have confused that so much that I
23 missed the question. The royalty gas, as it has developed,
24 royalty gas use and the thought by the State to use our
25 royalty has, has been rather interesting itself, because

1 there is a liquefaction plant on the south coast of Alaska
2 now. It has been in existence for quite a while. The
3 State of Alaska has yet to take its first cubic foot of
4 royalty gas in kind.

5 It's a timing problem. They want to use the
6 royalty gas now to help force a decision without a use
7 for it. So they want in this essence to be betting on
8 the cow. The people who are participating in the con-
9 tracts, the purchasers, are also betting on the cow.

10 They really don't think, in my opinion, is going to be
11 pulling back that gas right away or they wouldn't sign
12 the contracts. If they're going to put up something
13 they have to have some expectation. It's a reasonable
14 assumption, there isn't a market for the royalty gas now.

15 Now, is that fact and all this development going
16 to provide for higher prices for State royalty gas if the
17 State held back and kept all their options open? I'm
18 not necessarily sure that's the case. I think that the
19 State is pretty well protected under the provisions of
20 the contract that's drawn. Now, there's some disagreement
21 with it, and that's appropriate, and maybe some things
22 should be tightened up. I don't think the State is hurt
23 that much in terms of price.

24 I was disappointed at one point in time because
25 of the switching provisions in the contract. It seemed

1 to me that even though Arctic Gas were certified, if the
2 State did decide to go with Arctic Gas then, these
3 shippers would be locked in again on royalty gas, and I
4 didn't think that quite appropriate. I didn't mention
5 it earlier because it doesn't seem to bother me now
6 because there were so many definite statements that the
7 State would go over the cliff like the lemmings rather
8 than support Arctic Gas and so the contract would be void.

9 SENATOR RADER: Senator Huber.

10 SENATOR HUBER: Thank you, Mr. Chairman. Bob, I'll be brief.

11 Do I understand you correct, that Arctic Gas would
12 support the State keeping all or part of its royalty
13 gas for use within the State, you wouldn't oppose us
14 doing that, with the FPC or anyone?

15 MR. WARD: No, Senator, and I've said so before, that they
16 would not. Again I would like to point out, there was
17 some discussion here yesterday, as I recall, that if
18 Arctic Gas were certified, if the State took its royalty
19 gas in kind and did not sell it that that twelve and
20 a half percent share would have to be produced and
21 reinjected while the rest of the gas was going out.
22 Unless something is changed since I've been involved in
23 it, more recently, that is not the only option. I think
24 there is an option, a viable option, to leave it in the
25 ground and not produce it at all. Obviously, there are

1 time limits on that because it's going to have some
2 effect further down the road. But I don't think it's
3 absolutely necessary that they have to produce and
4 reinject it if they want to hold on to it.

5 SENATOR HUBER: I have one other question of Mr. Ward, Mr.
6 Chairman. Could you give me a percentage, off the cuff
7 figure, Bob, if we approve or if we disapprove the
8 contracts that are before us now what chance do you
9 believe, in the one case or the other case, the difference
10 in the chance would be of El Paso persevering over your
11 route and getting it instead of you? I'm looking for
12 comparative figures.

13 MR. WARD: Mr. Chairman, I'm not sure I can give a comparative
14 figure because I am inclined to agree with the learned
15 Dr. Tussing, that the big problem or the key, if you
16 will, to the certification of Arctic Gas is indeed
17 Canada. I think, with or without, if Canada was not
18 a factor, in other words, if they weren't in it at all,
19 I don't think there's any question, with or without the
20 royalty gas, and again I could be wrong -- as you know,
21 my political judgments have been wrong before -- but I
22 don't see any other way but that Congress would approve
23 the Arctic Gas route.

24 SENATOR HUBER: Mr. Chairman, could you bear with me just
25 a little bit more? Then you aren't able to give me a

1 figure, Mr. Ward, but from what you just said I would
2 judge that you would say there would be no significant
3 difference in the percentage, if you were able to give
4 me a figure.

5 MR. WARD: Maybe that's kind of academic because I can't give
6 you a figure, but I do think, as I said before, the
7 contracts will have some impact.

8 SENATOR HUBER: Thank you, Mr. Chairman.

9 SENATOR RADER: Senator Croft, did you have a question?

10 SENATOR CROFT: No.

11 SENATOR RADER: Senator Sumner.

12 SENATOR SUMNER: Do you believe that a Native Land Claim
13 settlement in Canada is going to be a problem with
14 approval of your line?

15 MR. WARD: I believe, Senator, that the Native Land Claims in
16 Canada is a very sensitive issue and it has a lot of
17 tension in Canada. That's part, that's only one part
18 of the whole Canadian decision that has to be made.
19 The Canadian Government, in my opinion, and subject to
20 legal opinions that I've had from Canadian counsel, in
21 my opinion the Canadian Government has the option to
22 resolve the claims without prejudice to the Natives
23 so that it would not hinder this project time-wise, if
24 they so desire, and it would be part of the whole Canadian
25 issue.

1 SENATOR SUMNER: Settle the costs later?

2 MR. WARD: Yes.

3 SENATOR SUMNER: Have you or any part of your company ever
4 agreed to share any part of those costs?

5 SENATOR RADER: Senator Sumner, you're not being heard.
6 Would you speak louder?

7 SENATOR SUMNER: Thank you, Mr. Chairman. Have you or any
8 members of your company testified in the past that any
9 part of the Native Land Claim settlement in Canada would
10 be borne by your company?

11 MR. WARD: To my knowledge, Senator, we have not testified
12 to that. I have not personally reviewed the record
13 of what our people in our Canadian company have said
14 before the Berger Commission hearings, but to my know-
15 ledge, they have not. However, it is quite obvious to
16 me that should a corridor be established and the claims
17 extinguished without prejudice to the Natives, subject
18 to compensation at a later date, I'm pretty well assured
19 that Arctic Gas will be paying a substantial portion,
20 if not all, of those claim settlements that pertain
21 and attend to their right-of-way.

22 SENATOR SUMNER: Does your costs before the FPC reflect
23 any figures for that?

24 MR. WARD: We have right-of-way cost figures, yes.

25 SENATOR SUMNER: Do you know what they are offhand?

1 MR. WARD: No, sir, I don't.

2 SENATOR SUMNER: Thank you, Mr. Chairman.

3 SENATOR RADER: Senator Butrovich.

4 SENATOR BUTROVICH: Mr. Chairman. Bob, you've enjoyed
5 Commissioner status in the State of Alaska, and this
6 may be hypothetical also, but do you think that the State
7 has made a wise decision to hold back on the twelve and
8 a half percent or a poor decision?

9 MR. WARD: Senator and Mr. Chairman, I think that the State
10 is making a wise decision in holding back the twelve and
11 a half percent and not making commitments on it now.
12 I think that's the wisest decision the State could make.
13 I recognize that there may be reasons, very cogent ones,
14 to the State for trying to do something different, but
15 I think their wisest move is to hold back.

16 SENATOR BUTROVICH: Thank you.

17 SENATOR RADER: Any further questions? Representative
18 Chatterton.

19 REP. CHATTERTON: Mr. Chairman. Mr. Ward, I think I heard
20 you say that you have over past time used influence or
21 attempted to use influence on the national scenes so
22 far as gaining support for your route, the Arctic
23 route, and I would imagine that you would still continue
24 to plan to seek help and support for your route on the
25 national scene; is that correct?

1 MR. WARD: Yes, it is.

2 REP. CHATTERTON: Now may I ask you this question: do you
3 feel that your ability to gain support on a national
4 scene would in any way be enhanced if in the process of
5 obtaining this support you could also wave a little
6 certificate that said you owned one-eighth of the gas
7 at Prudhoe Bay?

8 MR. WARD: No question about it.

9 REP. CHATTERTON: It would help?

10 MR. WARD: No question about it.

11 REP. CHATTERTON: Thank you.

12 SENATOR RADER: Any further questions? Representative
13 Gruening.

14 REP. GRUENING: Most of the members of the Arctic consortium
15 are also either the producers or closely related to
16 the producers who have the other seven-eighths. Why
17 haven't you used that as part of your political battle
18 to win the route decision?

19 MR. WARD: Representative Gruening, Mr. Chairman, the pro-
20 ducers are no longer members of our consortium, the
21 Prudhoe Bay producers.

22 REP. GRUENING: They will be at some point.

23 MR. WARD: No, I suspect that they won't. Arco, Exxon and
24 SOHIO were members until after we filed the application.
25 They assisted us in perfecting the application, and then

1 some time after the application was filed they withdrew,
2 which was their stated intention when they joined the
3 consortium to start with.

4 They weren't interested in acquiring equity
5 ownership in the gas transmission line. They weren't
6 in that particular business and they don't intend to do
7 so. That's not necessarily true on the Canadian side.
8 We do have major producers in the Mackenzie Delta who
9 are still in the consortium and who plan to take equity
10 ownership in it.

11 I should point out, however, in terms of my
12 response to Chat, I spend a lot of my time traveling
13 around the country, talking to various people here and
14 there, about the project. Some of our participants
15 do have a commitment on gas. As was mentioned here,
16 Columbia and Northern Natural have pretty good commitments
17 on about seven trillion. Texas Eastern still has a
18 contract hanging by a thread. The rest of them, while
19 they all had contracts, they were cancelled because of
20 this New Years Eve Massacre or whatever it was.

21 When I'm in areas in the East, east of Chicago,
22 but in areas, and some of them service areas of the
23 participants to this contract, people there are wondering,
24 "Well, yeah, it's a good system, it's going to get the
25 gas here cheaper, more efficiently, and more directly,

1 it will be more dependable and we like it, but we don't
2 have any gas. You can't get us any gas." I say,
3 "Well, you know, the contracts are still under negotia-
4 tion, the producers at this point in time are not in a
5 position where they feel that they can execute the
6 contracts. Our shippers had it once but they don't have
7 it anymore. But in addition to the Prudhoe reserve
8 there's a lot of potential. If people in your area go out
9 and acquire gas by negotiations with producers we'll
10 ship it for them easier and better than anybody else."
11 That is a fact.

12 REP. GRUENING: Is Columbia telling the fact that it has a
13 thirty percent contract, or whatever amount they have?
14 Are they telling their customers they should support
15 the Arctic line, "because we've got a contract with
16 them"? Are they making any use of that contract?

17 MR. WARD: Columbia is very, very active in their service
18 area. They're a very active member of our consortium.
19 Incidentally, their major usages, there are several
20 states, but Ohio and Pennsylvania.

21 REP. GRUENING: You mean the ones that are now under severe ---

22 MR. WARD: Yes, and they're having an extremely difficult
23 time satisfying their requirements.

24 REP. GRUENING: So they are lobbying, in fact, for your line
25 then, with this percentage.

1 MR. WARD: They've been very, very helpful.
2 SENATOR RADER: Senator.
3 SENATOR CROFT: Imperial Oil is a member of your study group,
4 is it not?
5 MR. WARD: Yes, it is.
6 SENATOR CROFT: And it has most of the Mackenzie Delta
7 reserves, doesn't it, gas reserves?
8 MR. WARD: Yes, and I don't know, Senator, how they break
9 down, but Imperial, Gulf and Shell are the three members
10 who are members of our consortium that by far have the
11 major interests.
12 SENATOR CROFT: But Imperial has the largest percentage of
13 anybody of the Mackenzie Delta reserves?
14 MR. WARD: I believe so, but I can't say.
15 SENATOR CROFT: Has Imperial made any commitment of its
16 Mackenzie Delta reserve?
17 MR. WARD: Yes, they have.
18 SENATOR CROFT: Was that to Columbia?
19 MR. WARD: I'm sorry, again, Senator, I don't have that
20 breakdown. There were commitments made on a lot of
21 the Mackenzie Delta reserves, and at one time they were
22 all made to U. S. shippers. Now, some of those agreements
23 have been cancelled, Senator, and advance payments
24 refunded because of the supply and demand situation
25 in Canada, and also the likelihood that in the first

1 instance anyway the National Energy Board would not
2 declare a surplus and allow any of it to be exported.
3 Some of them have been changed. Some of them, as
4 American National testified here yesterday, are still
5 in effect. Whether they'll ever be able to be proved
6 up on is hard to say; probably not.

7 SENATOR CROFT: And you don't know whether Imperial's
8 commitment is still in existence or not?

9 MR. WARD: I really don't.

10 SENATOR CROFT: Thank you.

11 SENATOR RADER: Any further questions? Mr. Carpenter.

12 REP. CARPENTER: Mr. Ward, do you think that a State royalty
13 gas line has any merit?

14 MR. WARD: Mr. Chairman, yes, I do. It has to be in the
15 context of a lot of different things. My personal opinion
16 is that at this point in time it does not have merit
17 because there is not the market, and it just doesn't
18 seem appropriate at this time. There is no denying the
19 fact that if either Alcan or El Paso were certified
20 they would have a better option to deliver State royalty
21 gas in State than Arctic Gas would. That doesn't mean
22 that they're going to deliver it for free, and there is
23 going to be a cost associated with it.

24 A line that would strictly take State royalty
25 gas, whether it's to interior Alaska -- and, frankly,

1 again from my own perspective and my own intelligence,
2 whatever that is -- I do not think it makes a lot of
3 sense to bring Prudhoe Bay royalty gas to tidewater.
4 If there is too much potential in tidewater, why have
5 State gas and resources at tidewater competing with
6 resources to develop the same kind of thing that the
7 State wants to develop and having to amortize an
8 eight hundred mile pipeline to get it there? I just
9 think that the long-range future of the Alaskans,
10 the development options, are too broad and too varied
11 at this time to be insisting that the State royalty gas
12 has to go to tidewater. To answer your question, I'm
13 sorry it took so long -- if there was a market for the
14 gas in interior Alaska and south of the Brooks Range
15 where it all could be used, the line would support the
16 tariff, there's volumes there enough to support the
17 tariff, then it would make it a reasonable deal. It
18 would cost more than El Paso or Alcan, but it could
19 still be viable.

20 SENATOR RADER: Any further questions? Representative Parr.

21 REP. PARR: Mr. Ward, I hate to ask you this question, I'm
22 sure I'm already supposed to know. I've heard con-
23 flicting stories. Does Canadian law require that your
24 pipelines that run through Canada be fifty-one percent
25 Canadian owned?

1 MR. WARD: Representative Parr and Senator, there is a
2 regulation and requirement as part of the body of
3 Canadian law that requires that, yes. It has been
4 waived from time to time. Frankly, we hope that it's
5 not. It's a capital intensive project, and we'd like
6 them to take sixty percent of that.

7 REP. PARR: While I'm asking this question, obviously ---

8 MR. WARD: There is a requirement now.

9 REP. PARR: What has flown from that, of course, is the
10 contention that the Canadian Government obviously could
11 in some way or other see that the gas was delivered
12 in Canada rather than the United States.

13 MR. WARD: I am aware of the argument.

14 REP. PARR: Thank you.

15 SENATOR RADER: Representative Chatterton.

16 REP. CHATTERTON: That led to one question, thank you,
17 Mr. Chairman. Imperial Oil, is it considered a Canadian
18 company?

19 MR. WARD: In terms of Canada's Canadian content, I don't
20 think so.

21 REP. CHATTERTON: Thank you.

22 SENATOR RADER: Any further questions? Thank you very much,
23 Mr. Ward. The schedule calls for El Paso. Yesterday
24 I thought I had explained to El Paso I wanted them to
25 put on their complete case and not come back twice.

1 Because we have so many out-of-town people we were going
2 to try to move immediately to out-of-town general public
3 interest witnesses. I'd like to ask El Paso if you
4 would forego your re-appearance until we have heard
5 from out-of-town witnesses, or do you think that it's
6 necessary or imperative that the remainder of your case
7 be put on at this time?

8 MR. HOLLAND: Mr. Chairman, El Paso's position, I think,
9 is clear enough on the record at this point. I would
10 have anticipated appearance of Alcan and Arctic Gas this
11 afternoon would have instituted a debate on the merits
12 of the pipelines. This has not actually occurred, so I
13 really don't have anything to say at this time, unless
14 the committee has questions of me.

15 SENATOR RADER: Do we have any questions of El Paso? I
16 don't believe we do, do we? Very well, we'll take a
17 ten-minute recess and then go into general public.

other

Testimony

JOINT PUBLIC HEARINGS
of the
ALASKA STATE LEGISLATURE
on

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

"THE PROPOSED SALE OF ROYALTY GAS"

January 31, 1977 - February 7, 1977

Juneau, Alaska

VOLUME V

PRESENTATIONS BY INDIVIDUALS, ORGANIZATIONS, AND
OTHER INTERESTED PARTIES

MICHIGAN-WISCONSIN PIPELINE CO. (2/2/77) p. 1

by: John F. Cota, V.P. of American Natural Service
Company (an affiliate of Mich-Wisc.)

with: Tejindra Bindra

H.A. "RED" BOUCHER (2/3/77) p. 48

DOIS D. DALLAS (2/3/77) p. 67

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ALASKA CONSERVATION SOCIETY (2/3/77) p. 94

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TEAMSTERS # 959 (2/3/77) p. 124

by: Jefferson Barry (further testimony presented at
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ORGANIZATION FOR THE MANAGEMENT OF ALASKA RESOURCES p. 178
(2/4/77)

by: Bob Penney, President
Paula Easley, Executive Director

1 these supplies available to our market areas in the most
2 direct and economical manner. I am also responsible for
3 our Canadian gas supply matters and liquefied natural
4 gas projects which are currently in the planning stage.

5 American Natural Service Company is an affiliate
6 of Michigan Wisconsin Pipe Line Company which is one of
7 the largest natural gas distribution systems engaged in
8 the business of purchasing, transporting and selling
9 natural gas to fifty-two distribution customers in the
10 states of Missouri, Iowa, Illinois, Tennessee, Indiana,
11 Ohio, Wisconsin and Michigan. Both of these companies
12 and Michigan Consolidated Gas Company, the largest
13 distribution company in the State of Michigan, are wholly
14 owned by American Natural Resources Company, which also
15 owns several other companies engaged in the natural gas
16 business or other related activities.

17 I appreciate the opportunity afforded by your
18 committee to submit comments on the proposals concerning
19 the disposition of the Alaska royalty gas. Of course,
20 we are fully cognizant that this is a matter of great
21 importance to the State and its citizens and that their
22 best interests should be a major consideration in
23 evaluating any such proposal.

24 I am here to reaffirm to this committee our
25 System's desire to acquire State of Alaska royalty gas.

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JUNEAU, ALASKA 99801

1 In response to the initial solicitation of bids for the
2 sale of royalty gas, we wrote Commissioner Guy R. Martin
3 in October of 1975 in which Michigan Wisconsin Pipe Line
4 Company expressed its desire to contract for the purchase
5 of any or all of the twelve and one-half percent royalty
6 share of natural gas which is estimated at approximately
7 3.2 trillion cubic feet to be produced in Prudhoe Bay
8 on the North Slope. Again, we reaffirmed on April 27th,
9 1976 in a letter to Commissioner Smith to acquire the
10 royalty gas.

11 So far, as you know, our system has been unsuc-
12 cessful in acquiring any royalty gas of the State of
13 Alaska presumably because our system has been actively
14 involved in sponsoring the Arctic Gas project known as
15 the Trans-Canadian route. Apparently, our lack of success
16 in acquiring Alaska's royalty gas has been because of a
17 general feeling in Alaska that a Trans-Alaska pipeline
18 route would best serve the interests of the State of
19 Alaska. We respectfully submit that the Arctic Gas
20 project is in the best interests of the State of Alaska
21 and the nation as a whole and, therefore, the State of
22 Alaska should direct its efforts towards supporting this
23 project. Nevertheless, and regardless of which route is
24 ultimately selected, it is in the state's best interest
25 to sell its royalty gas to the companies, such as ours,

1 which have expended enormous amounts of time and money in
2 the planning of Alaskan gas delivery systems and which
3 have evidenced a willingness to invest in such systems.
4 Only in this way can the state provide the necessary
5 incentives to finance and construct such a massive project.

6 Our system is one of the pioneers in the formation
7 and organization of the Arctic Gas project. In September,
8 1967, in our offices in Detroit, our system initiated the
9 first discussions to consider the possibility of the
10 formation and construction of an Arctic pipeline to
11 transport the newly discovered Arctic natural gas supplies.
12 Since then our system has continued to participate and
13 made a major contribution in the development of one of
14 the most extensively studied and carefully planned pipe-
15 line projects in the history of the natural gas industry.
16 To date, more than one hundred and twenty million dollars
17 has been expended by Arctic Gas project consortium in
18 conducting environmental, engineering, construction and
19 planning and other work. Of this, about eight million
20 has been expended by our system alone. In addition to the
21 capital expenditures, senior personnel of our system have
22 been actively participating in all of the committees
23 and task groups formed to study and manage the different
24 aspects of the project, such as engineering, environment,
25 financial, tariff, marketing, legal and other matters.

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1 The deliberations and recommendations of these committees
2 and task groups and the regulatory filings, construction
3 plans and schedules, procurement and logistics, tariffs,
4 financing plans and other activities, are regularly
5 reviewed by the management of our system.

6 Needless to say, our system is absolutely convinced
7 that Arctic Gas project represents the most sound and
8 expeditious method of marketing and transporting the
9 Alaskan gas supplies. As the most economical, that is
10 the lowest cost system, Arctic Gas project holds the
11 greatest promise for the producers and the state, as the
12 royalty owner, receiving the highest return on the sale
13 of their gas. As the project which has engaged in the
14 most comprehensive pre-certification planning, Arctic Gas
15 project assures the state the earliest possible flow of
16 its royalty gas. And, as the project which can be readily
17 expanded, it is the only project that assures the maximum
18 total flow of royalty gas.

19 We believe that the Arctic Gas project could be
20 financed and implemented much earlier than the Trans-
21 Alaska routes and thereby generate early royalty revenues
22 for Alaska. As most of us know, the Arctic Gas project
23 enjoys a broad based support and confidence of our system
24 and several other major United States oil and gas firms.
25 Our system and most of the other firms in the consortium

1 have already executed commitment letters and have testified
2 before United States and Canadian regulatory authorities
3 with respect to their willingness to make equity investments
4 in the project. Furthermore, the Arctic Gas project's
5 organization structure of the different elements thereof,
6 the basis of equity investments by the prospective
7 shippers and the financing plans are being continuously
8 and extensively reviewed by the prospective shippers of
9 the Arctic Gas project and these matters would probably
10 be resolved in substance prior to certification of the
11 Arctic Gas project so as to permit final financing plans
12 to be developed and construction commenced promptly
13 after certification.

14 In contrast, the Trans-Alaska routes enjoy very
15 little support from the oil and gas industry. Of course,
16 it is a truism that most of the sponsoring companies of
17 the Arctic Gas project would also, of necessity, have to
18 participate in the financing and implementation of a
19 Trans-Alaska route if such a route is found to be in the
20 public interest. Needless to say, in such an eventuality,
21 equity investments could not be expected to be made
22 unless all elements of such a route have been reviewed
23 and resolved to the satisfaction of the prospective
24 equity investors. Most of these matters would have to
25 be resolved after certification of such a route because

1 virtually all of the prospective shippers are currently
2 sponsoring the Arctic Gas project. Negotiations
3 concerning participation in the organization and financing
4 of such a route would necessarily be very complex and
5 protracted. Obviously, financing and construction of
6 such a route could not commence while the shippers are
7 negotiating the ownership, organization, management,
8 tariffs and allocation of costs with respect to such
9 a route.

10 Another important advantage the Arctic Gas project
11 enjoys in comparison to the Trans-Alaska route is that
12 its system can be readily expanded to transport additional
13 increments of gas. The Arctic Gas project's system can
14 be expanded by increments designed to meet the volumes
15 of additional gas, by adding compressor units, or
16 parallel pipeline known as looping, or a combination of
17 both. This can be expeditiously and economically
18 accomplished for virtually any reasonable increment of
19 additional gas supply. This should be of special interest
20 to the State of Alaska because the Arctic Gas project is
21 the only system which can be readily expanded and provide
22 a means of marketing the royalty gas attributable to the
23 state from the vast amounts of potential reserves cur-
24 rently estimated at more than one hundred trillion cubic
25 feet.

1 In conclusion, I would like to reiterate our
2 desire to acquire State of Alaska royalty gas and our
3 hope that you would give it fair consideration. We
4 sincerely hope that our system's sustained efforts in
5 the development of the best possible transportation
6 system for marketing the Alaskan gas supplies would
7 contribute towards the long-term interests of the State
8 of Alaska and the nation.

9 Thank you, Mr. Chairman.

10 SENATOR RADER: Do we have any questions, any committee
11 members? Senator Croft?

12 SENATOR CROFT: Have you attempted to purchase gas from any
13 of the other owners at Prudhoe Bay?

14 MR. COTA: Yes, we have. We had an advance payment agreement
15 with Exxon at one time until the Federal Power Commission
16 declared that void.

17 SENATOR CROFT: And since that was declared void, have you
18 attempted to purchase any more gas?

19 MR. COTA: Constantly. We have talked with every company
20 that has gas.

21 SENATOR CROFT: Do you have any agreement to purchase any
22 more gas?

23 MR. COTA: No, we do not.

24 SENATOR CROFT: What is the problem with purchasing?

25 MR. COTA: The producers have just not been interested in

1 talking to us. They do talk to us but they told me that
2 they are awaiting unitization is one of the reasons why
3 they are not interested at this time in signing up.
4 The other one is that they want to be assured by the
5 Federal Power Commission that all agreements made at
6 this time as contracts will be honored for the duration
7 of the contract period and several other regulatory
8 problems. But, for the most part that is what they have
9 told me, that they did not desire to sign up at this
10 time.

11 SENATOR CROFT: Your proposal requires or anticipates that
12 sometime after 1985 that you will be obtaining -- or
13 the Arctic Gas proposal, you will be obtaining more
14 than three billion cubic feet a day from the North Slope
15 alone, without regard to the Mackenzie Delta. Is that
16 correct?

17 MR. COTA: That is the designed criteria for the line, yes.
18 Four and one-half billion total with the Mackenzie Delta.

19 SENATOR CROFT: Under the most likely production sales
20 schedule that you have, what do you anticipate will be
21 the loss of oil production from Prudhoe Bay as a result
22 of that high a rate of gas sales in Prudhoe Bay?

23 MR. COTA: I can only go by what I have read in the testimony.
24 I am not qualified to answer that question from a
25 technical standpoint. All I have read there is that

1 there would be no loss up to roughly three billion feet
2 a day. Above that I can't answer that.

3 SENATOR CROFT: What point of the testimony was it that
4 there would be no loss at three billion cubic feet a
5 day?

6 MR. COTA: I can't tell you who testified to that specifically.
7 It was in the testimony by -- I'm not sure if it was
8 your people, the State of Alaska, which was testifying.
9 I can kind of go back to the wording. The testimony
10 went somewhat like at two million there would be no
11 problem, at two and one-half to 2.8 to three it would
12 be their considered opinion that there will be no loss
13 of production above that in the present Prudhoe Bay
14 field.

15 SENATOR CROFT: All right. You haven't conducted your own
16 studies on that?

17 MR. COTA: Absolutely I haven't, no.

18 SENATOR CROFT: And if somebody like the Van Poolen study or
19 the Corps analysis showed that anything above two billion
20 cubic feet a day there would be an oil loss, you wouldn't
21 have any information of your own to contradict that,
22 would you?

23 MR. COTA: Absolutely not.

24 SENATOR RADER: Any further questions? Representative Parr.

25 REP. PARR: Would you mind, Mr. Cota, repeating something

1 you said about one hundred trillion cubic feet. Is that
2 your estimate of the reserves in Prudhoe, or what?

3 MR. COTA: Those are not my estimates. Those are the estimates
4 that I read from the different authorities. The testimony
5 of DeGoyer & McNaughton was one. I am not sure if the
6 State of Alaska has testified to that. The most recent
7 one I saw was estimated at one hundred and thirty-five
8 trillion cubic feet per day.

9 SENATOR RADER: Representative Hayes?

10 REP. HAYES: Yesterday there was some indication from the
11 testimony that one of the reasons the owners of some of
12 the other gas on the North Slope -- some of the reasons
13 they might not be interested in selling at this time was
14 because of the possibility of deregulation at some time
15 in the near future which, in that event, would allow a
16 premium to be paid in addition to that allowed presently
17 by the FPC. Do you think that is a valid reason why at
18 this time some of those companies are not interested
19 in talking?

20 MR. COTA: Of course, that is not a reason that anyone has
21 ever given me when I have talked to them. I would
22 personally say that that would undoubtedly be on their
23 mind, but they haven't given that as a reason for not
24 wanting to negotiate at this particular time.

25 REP. HAYES: But it is your opinion though that that very

1 likely could be a reason?

2 MR. COTA: They are all good businessmen.

3 SENATOR CROFT: Mr. Chairman?

4 SENATOR RADER: Senator Croft.

5 SENATOR CROFT: Following up on our question, did you have
6 a chance to read the news release from the Federal Power
7 Commission concerning Judge Litt's decision that we had
8 available yesterday?

9 MR. COTA: I have read it.

10 SENATOR CROFT: At page ten of that summary at the last portion
11 of the second full paragraph on page ten where he is
12 talking about everybody having their hand out, he says,
13 "the producers' failure to sign sales contracts indicates
14 where their concern lies." Do you know what he is
15 referring to in that regard?

16 MR. BINDRA: I'm sorry, could you tell us what --

17 SENATOR CROFT: That last phrase at the end of the second
18 full paragraph on page ten. The paragraph begins, "All
19 the major participants in this mammoth undertaking."
20 And the last phrase is, "the producers' failure to to
21 sign sales contracts indicates where their concern lies."

22 MR. COTA: No, I wouldn't want to give an opinion on what I
23 think they might be talking about or what he might be
24 talking about. I would assume that their concern lies
25 in getting the most they can for their gas.

1 MR. CROFT: I have no further questions, thank you.

2 SENATOR RADER: Let me ask you, have you made a firm offer
3 to the state for the purchase of gas?

4 MR. COTA: Yes, twice. On October of 1975, Mr. Ray Lynch
5 who is the president of Michigan Wisconsin Pipe Line,
6 wrote to Guy -- Commissioner Martin expressing our
7 interest and we offered to purchase any or all of the
8 state's royalty gas. Then during the Spring of 1976,
9 which was a year ago, when the Royalty Board again
10 expressed the terms under which this contract is being
11 discussed now, which meant you had to actively support
12 the Trans-Alaska pipeline. We again, on April 27th, I,
13 at that time, over my signature, we reaffirmed Mr. Lynch's
14 previous offer and stated to them at that time that that
15 one provision, because of our active support of the
16 Arctic Gas project since 1967, and our firm conviction
17 of having studied the Trans-Alaska, the Fairbanks corridor,
18 or all of the other projects that had been proposed, it
19 was finally in our estimation that the most economical
20 route to transport the gas was the Arctic Gas route.
21 That because of that we couldn't support or offer onto
22 the conditions expressed by Commissioner Martin's letter
23 but we would like to reaffirm again our original offer
24 of buying it under the same conditions that we had offered
25 in 1975.

1 SENATOR RADER: What price did you offer to pay?

2 MR. COTA: We did not do it on a price. We actually in effect
3 -- I can't remember the exact wording of it now but we
4 told him that we would pay whatever the regulated price
5 would be at that time or such other price that was the
6 going rate for gas at the time of signing of the contract.

7 SENATOR RADER: You were here during the testimony of yesterday
8 and the day before, were you not?

9 MR. COTA: Not the day before, just yesterday.

10 SENATOR RADER: Yesterday. Well, have you read the contracts
11 that have been proposed?

12 MR. COTA: I have read them, it has been a few weeks ago.

13 SENATOR RADER: And was your price offer substantially the same
14 as those contained in those contracts?

15 MR. COTA: Again, I --

16 SENATOR RADER: Field price or a regulated price, whichever
17 was the highest?

18 MR. COTA: Right. That is correct, sir.

19 SENATOR RADER: Did it have any other advantages to the state
20 in it that are not contained in those contracts?

21 MR. COTA: No, it did not. They were rather simple letters.

22 SENATOR RADER: Representative Chatterton?

23 REP. CHATTERTON: Thank you, Mr. Chairman. Sir, would obtain-
24 ing Alaska gas be of an economic benefit to your company?

25 MR. COTA: Absolutely.

1 REP. CHATTERTON: Realizing that you have no control over
2 wellhead price or city gate price why would you be willing
3 to entertain some type of a equivalency competitive bid
4 nature of a service in-kind to the State of Alaska or
5 something of that nature in order to avail yourself of
6 this economic benefit?

7 MR. COTA: I'm not quite sure I understand exactly what type
8 of an offer you are talking about. I would say at this
9 particular stage, we feel that there is just a certain
10 price, probably, on the commodity market that could be
11 offered for the gas. Whatever that price is at the time
12 that we could still sell it in our market place and under
13 whatever conditions the state would entertain, we would
14 be willing to enter into any negotiations for the gas.
15 We need the gas, we need it badly, but we don't need the
16 gas if we can't sell it so as you work back to the well-
17 head price that is, in effect, it is going to be a commodity
18 price, and because of the advantages in both the economics
19 of transporting the gas and in the cost of the Arctic Gas
20 system, the price to the state will be higher under that
21 than it would be under any other system that you may build.

22 REP. CHATTERTON: Should the Arctic Gas route be finally
23 selected do you plan to participate in that actual cost
24 of the pipeline?

25 MR. COTA: We have already given a letter of equity commitment

1 to the NEB. It has been filed before the National Energy
2 Board and before the Federal Power Commission and we have
3 committed ourself to it, our equity payments.

4 REP. CHATTERTON: Thank you, sir.

5 REP. PARR: May I ask one more question, Mr. Chairman?

6 SENATOR RADER: First, I'll take persons who have not yet
7 asked a question. Senator Sumner?

8 SENATOR SUMNER: Thank you, Mr. Chairman. You indicated that
9 the Arctic Gas line would be in the best interest of
10 Alaska. How do you find that?

11 MR. COTA: That they in the end will get the highest price for
12 their gas because of the economics of transporting the gas
13 on the Arctic Gas system. As I just mentioned to the
14 Representative here, eventually it has got to be sold in
15 the market place and competition with oil or electric or
16 whatever the other fuel is. It is going to back up to
17 the wellhead on a commodity value so that that project
18 which results in the lowest net cost to move that gas from
19 Prudhoe Bay to the market area of the 48 states is going
20 to end up with the highest wellhead price to the state.

21 SENATOR SUMNER: Since Alaska, though, is interested in some
22 jobs and some economic development, do you agree that the
23 Arctic Gas line is the least favorable to the citizens of
24 the State of Alaska under those terms?

25 MR. COTA: Well, first of all, I think one of the other big

1 advantages that is of benefit to the State of Alaska is
2 the thing that I mentioned in my statement -- was the
3 time element of getting ours under way almost immediately
4 upon certification and financing. We are ready, we do
5 have the organization, we have been working on it, we
6 have been in the design work, we are developing the
7 equipment. So first of all there is a great economic
8 benefit to the State of Alaska, not only on the initial
9 gas of getting it marketed at the earliest possible
10 time, but a line that can move all the rest of the gas
11 you will have available. That will be the benefit to
12 the citizens of Alaska and the people involved.

13 Now, as far as the jobs are concerned, which was
14 I think really the question you were asking, I wasn't
15 trying to avoid it. I was trying to come back first and
16 give the economic advantages. I would have to say that
17 you are comparing a one hundred ninety five mile line
18 against an eight hundred mile line, jobs during construction.
19 I think you are absolutely right, there would probably
20 be economic benefit to the other project, the Trans-
21 Alaska project. But in the long run, I think the benefits
22 to Alaska will be much greater with the Trans-Canadian
23 line.

24 SENATOR SUMNER: How about the job ratio after their
25 construction?

1 MR. COTA: I don't think there will be a lot of jobs with
2 either line.

3 SENATOR SUMNER: Which would have more jobs?

4 MR. COTA: Probably your Trans-Alaska line because again it
5 is a longer line. Again I think your benefits will come
6 from the dollars you can derive from the sale of your
7 royalty gas more than the jobs you may develop.

8 SENATOR SUMNER: One other statement that you made that seems
9 to be inconsistent with some previous testimony is that
10 the Arctic Gas line would be the earliest, would give
11 the earliest flow of gas. How do you account for that
12 inconsistency?

13 MR. COTA: Because of being in a position now with the equity
14 investors and with the staff already assembled, to be
15 into operation at the earliest possible date. Now you
16 go back, let's say the Trans-Alaska, who are their investors?
17 At the present time they do not have equity investors.
18 I don't think anyone has committed to put in an equity
19 investment in it. The people that would invest in the
20 Trans-Alaska line would be the same people that will
21 invest -- the same shippers in the Trans-Canada line.
22 They would have to then start from ground zero towards
23 designing the Trans-Alaska line and towards forming an
24 organization, being convinced after certification that
25 it would be a feasible project. This will take time.

1 SENATOR SUMNER: How much time difference do you see, Arctic
2 Gas to the El Paso approach?
3 MR. COTA: Well, I would estimate two years. I can't --
4 SENATOR SUMNER: That is unique. That is about the same
5 time they estimated that theirs --
6 MR. COTA: I heard the testimony yesterday. You may have
7 read Judge Litt's release too. He agrees that one of his
8 reasons for favoring the Trans-Alaska line is for the time
9 element -- or the Trans-Canada line, I'm sorry.
10 SENATOR SUMNER: Is the financing any easier for the Arctic
11 Gas line in your view than it will be for the El Paso
12 line? Is that what you were saying?
13 MR. COTA: I sure do, mainly because it is a conventional
14 type of construction. We have been constructing lines of
15 that type for many, many years.
16 SENATOR SUMNER: Do you believe that the El Paso project
17 couldn't get financing?
18 MR. COTA: No, I think it could get financing.
19 SENATOR SUMNER: Okay. Thank you, Mr. Chairman.
20 SENATOR RADER: Senator Huber?
21 SENATOR HUBER: I have several questions, Mr. Chairman and
22 Mr. Cota. Are you an engineer, Mr. Cota?
23 MR. COTA: Yes, sir.
24 SENATOR HUBER: I was rather surprised because I noted from
25 your testimony that all the things you indicated that you

1 are ahead on are all of the paper work things toward
2 getting the pipeline built. I would expect an engineer
3 would have been ahead on all of the technical things.
4 I'd like to go into why you think it is in Alaska's best
5 interest for the gas to go via Arctic Gas and it would
6 be an expansion, I guess, on another question that was
7 already asked. But, can you tell me any other state to
8 where the intrastate use of the gas is not more important
9 to their economics than is the interstate shipment of the
10 gas from their wells? Is there other states, could you
11 tell me?

12 MR. COTA: I don't think so.

13 SENATOR HUBER: You understand what I mean in the question?

14 MR. COTA: Well, yes I do. I think what you are referring to
15 is are there other states where it would be of more benefit
16 to the state to ship it in interstate as opposed to
17 keeping it intrastate and using it within their own state.

18 SENATOR HUBER: Considering that your system, by the very
19 nature of the route, precludes any use of the gas within
20 Alaska. Do you know of any other state that it is more
21 economically valuable to him to export than it is their
22 intrastate use?

23 MR. COTA: At this no, I would say not.

24 SENATOR HUBER: Have you -- I noticed also in your testimony
25 that you mentioned environment. Have you considered that the

1 line that you build across Northeastern Alaska opens a
2 whole new area, including the Arctic Wildlife Refuge,
3 to development when it hasn't been opened before? Have
4 you considered that effect upon Alaska?

5 MR. COTA: Our environmental people have considered that, yes.
6 I think too that you are going to find that it is going to
7 be opened no matter which line is built. It is just that
8 we will build ours across there. It will be open once,
9 and there will be other exploration of sea along the
10 whole North Slope. We will have a convenient line for
11 them to tie into. The main line will be built at this
12 time under the most ideal engineering and size construc-
13 tion rather than waiting until you build and do the
14 environmental damage of coming all the way down through
15 the State of Alaska, and then you will still end up putting
16 in a series of small lines out to your Wildlife Refuge,
17 eventually constructing in the same area.

18 SENATOR HUBER: Well, I guess it's a ---

19 MR. COTA: Plus, I truthfully don't think there is going to
20 be any damage, which has been testified to. Judge Litt
21 touched on the same question. But, the studies that have
22 been made, and I have attended, and I am a member of the
23 technical committee -- however, I have been for a short
24 period of time. But I have attended the so-called con-
25 struction panel that has testified at both the FPC and

1 the NEB. I am quite satisfied with the work they have
2 done in their engineering research and the tests they
3 are now making on the North Slope, that they can build
4 the line across there without any permanent damage to
5 the environment.

6 SENATOR HUBER: Well, I guess that is a subjective thing.

7 There are many of us that are interested in the environment
8 of Alaska, that maybe the Arctic Wildlife Refuge --

9 SENATOR RADER: Senator, I am going to ask you to restrain
10 your remarks to questions of the witness, sir, if you
11 would.

12 SENATOR HUBER: Yes, Mr. Chairman. I think you are being a
13 little tight there in consideration with what the other
14 is but I will comply.

15 SENATOR RADER: Well, we are going to run out of time here
16 and we have an opportunity here to hear from people out
17 of town. I don't want these hearings to close without
18 hearing from those people and your expressions of your
19 views or my expressions of my views are not nearly as
20 important at this stage in the proceeding as the expression
21 of the views which will not be available to us next week.

22 SENATOR HUBER: I agree with you.

23 SENATOR RADER: I want you to restrict your questioning to
24 questions of these witnesses that they are prepared to
25 answer.

1 SENATOR HUBER: Yes, Mr. Chairman. I could have had my next
2 question by now.

3 SENATOR RADER: I am thinking about the one after that, sir.

4 SENATOR HUBER: Well, if you are going to tighten up
5 considerably --

6 SENATOR RADER: I do intend to tighten up because I think
7 that we are going to be here indeterminately if we don't.

8 SENATOR HUBER: Well, you have tightened up before on me.

9 Mr. Chairman, my next question is you said the State of
10 Alaska would be better off, the State itself. Can you
11 explain to me how we will be better off in regard to the
12 fact that one line is four times as long as the other
13 one in Alaska, in other words, three-quarters of the
14 length of it that would be in Alaska is in Canada, and
15 our difference in our ability to tax that line? The
16 State of Alaska has an oil pipeline transportation tax
17 which is a considerable amount and it looks like three-
18 quarters of that would go to Canada. Now, can you explain
19 that, how that would be to our best advantage?

20 MR. COTA: What I testified to on your best advantage, I
21 would admit first that ours is one hundred and ninety
22 five miles as compared to roughly eight hundred miles,
23 four times as long and that the tax will be of benefit
24 to Alaska. But, I think your greatest benefit is having
25 available to you a line which will result in the highest

1 wellhead price of your gas, at present three trillion,
2 plus an easily expandable line that will provide for
3 readily transporting all the gas that may be found on the
4 North Slope and in the sea. Therefore, your benefits
5 derived will be much greater from being able to market
6 and move all the royalty gas that is found as opposed
7 to your tax benefits.

8 SENATOR HUBER: I'll let it go at that. I am not satisfied
9 with the answer, Mr. Chairman, but your restrictive rule
10 was such that I can't ask the question.

11 SENATOR RADER: Representative Gruening?

12 REP. GRUENING: I take it from your testimony you have a
13 deep concern with the cost to the customer of the gas
14 because at some point the customer won't pay it. Is
15 that it?

16 MR. COTA: Well, I have a deep concern that we would buy the
17 gas and not be able to market it which is really the
18 same thing. Yes, I guess I have a deep concern for the
19 customer also because it affects the economy of the
20 country.

21 REP. GRUENING: Well, your concern though is at some price
22 the gas will be unmarketable, is that it?

23 MR. COTA: That is correct.

24 REP. GRUENING: And your belief the Arctic proposal is better
25 is that it will produce a lower price to the customer.

1 MR. COTA: Correct.

2 REP. GRUENING: Have you calculated what price the customer,
3 beyond what price he will no longer choose to use the gas.
4 Have you calculated that? This is, of course, on the
5 delivery schedules that you have stated.

6 MR. COTA: These are our own company's internal studies. We
7 have a very comprehensive three year and ten year planning
8 group within our company. We have projected what we
9 feel the cost of domestic gas, meaning the lower 48 state
10 gas, will be in 1985, actually through 1987. We have an
11 application with the Federal Power Commission for coal
12 gas, coal gas gasification plant. We have also studied
13 LNG.

14 In this study we have also predicted what the
15 price of fuel oil would be and electricity in 1982 up
16 through 1987. Internally we have used a figure starting
17 out in 1982, which would be -- the original estimate of
18 when this line would go into service, of One Dollar and
19 Forty-Seven Cents wellhead price. We have escalated it
20 roughly seven percent per year, that is a weighted
21 escalation over that period of years. I believe that our
22 1987 figure for the wellhead price is Two Dollars and
23 Thirty-Seven Cents and then you add the cost of trans-
24 portation. We came out about Four Dollars and Eighty-Two
25 Cents by the time it got to our pipeline, somewhere in

1 that neighborhood. At that price, we feel at the cost
2 of oil and electricity at that time, it is still marketable.

3 REP. GRUENING: Anything beyond that, the customers are likely
4 to go to another fuel source?

5 MR. COTA: Yes.

6 REP. GRUENING: And the result of that is that the line is
7 unfinancable, is that the result?

8 MR. COTA: Well, if you can't sell the gas, yes.

9 REP. GRUENING: Okay.

10 MR. COTA: We have to be assured we can sell it and if it
11 gets to some price that we feel that we can't move it in
12 our system and receive it in our market area at a cost
13 within our planning, we would not go into the project.
14 But at this time, at the costs we have seen, we have not
15 only determined that it is an economically feasible price
16 that we can sell the gas, but we have committed to our
17 equity investment in the Trans-Canadian pipeline and the
18 Arctic Gas project.

19 SENATOR RADER: Senator Butrovich and then Representative
20 Meekins.

21 SENATOR BUTROVICH: Mr. Chairman, when Senator Huber asked
22 Mr. Cota a question, I understood Mr. Cota to say that
23 there was a distinctive advantage to the Arctic route
24 if future discoveries were made and I just wonder how he
25 arrived at that conclusion when the heavy exploration, as

1 I understand it is to the west of Prudhoe Bay, rather than
2 to the east. And, also, there is much exploration planned
3 between Prudhoe Bay and the Brooks Range, which would be
4 south of Pet Four and right now Pet Four is receiving a
5 lot of attention. It would seem to me that the Trans-
6 Alaska line would be just as accessible, if not more
7 accessible, by feeder lines from those regions than with
8 the Arctic line.

9 MR. COTA: What I was referring to, and it also fits into what
10 you are saying, is the expandability of the line itself.
11 In other words, the Trans-Alaska line would have to be
12 increased in size, you would have to increase the size of
13 your liquefaction facilities on the south coast, which is
14 difficult, you would have to add additional ships. The
15 big thing, where you would run into a big problem, is being
16 evidenced right now in California of finding a place to
17 land the additional supplies for your regasification.

18 As I said, our project requires, for the most part,
19 some additional compression which will be easily installed
20 either within the present compressor stations or additional
21 stations in between the compressor stations. It is a
22 relatively simple process, it has been done every day in
23 the conventional lines in the lower 48 states.

24 SENATOR BUTROVICH: However, you do recognize the fact that
25 one proposal does not propose to do that? It proposes

1 to transport it in the same area which you would, or
2 in which Arctic would.

3 MR. COTA: Are you talking about the Alcan proposal?

4 SENATOR BUTROVICH: Yes, sir.

5 MR. COTA: Well, according to the testimony I have read and
6 Judge Litt's opinion, the staff opinion, that line --
7 and I do not want to talk for them on this, I will let
8 them talk for themselves on that, but I am only reading
9 the opinion of the Federal Power Commission is that that
10 line is not expansible.

11 And, of course, you have got another thing there.
12 You have got to move that through third parties in
13 Canada after the Alcan line and it is whether they want
14 to expand their system or not. They have never indicated
15 that they will expand their system to take additional
16 gas. They will do it when they want, under what conditions
17 they desire to do it, and they have also expressed that
18 preferential treatment will be given to Canadian gas
19 supplies, which will be the Mackenzie Delta. It would
20 have to be moved through those lines. We have complete
21 control on the Arctic Gas system of doing our own expanding,
22 which the basic line itself being a forty-eight inch
23 high pressure line would not need to be expanded. If
24 anything, there may be some slight looping but, for the
25 most part, it is adding compression and power.

1 SENATOR BUTROVICH: Mr. Cota, would it be a fair assumption
2 to make that whether or not you acquire our twelve and
3 one-half percent or a portion of our twelve and one-half
4 percent that you would anticipate sharing to some
5 substantial degree in the gas which the producers in
6 Prudhoe Bay are producing?

7 MR. COTA: Yes.

8 SENATOR RADER: I am getting signals that the people in the
9 back of the room are unable to hear so I want to urge
10 all parties to speak up loudly because they are anxious
11 to know what you are saying. Excuse me, I didn't mean
12 to interrupt you, Senator.

13 SENATOR BUTROVICH: No, you didn't interrupt me.

14 SENATOR RADER: Did I interrupt you, Mr. Cota?

15 MR. COTA: No, I just -- yes.

16 SENATOR RADER: I did interrupt you, would you proceed?

17 MR. COTA: No, I meant the answer to the question was yes,
18 we do hope to participate in gas from the producers in
19 addition to royalty gas.

20 SENATOR RADER: Any further questions, Senator Butrovich?

21 SENATOR BUTROVICH: No, I am afraid I would be making a
22 statement, sir. Thank you.

23 SENATOR RADER: Representative Meekins and then Senator Poland.

24 REP. MEEKINS: Thank you, Mr. Chairman. I have got a question
25 in regards to the contract. The real issue here is

1 whether or not to approve the contract that the adminis-
2 tration has tentatively engaged in. Do you have any
3 general statements about that contract? What I am
4 interested in is from your experience, do you see any-
5 thing that we are giving up that we won't be able to
6 gain in the future or opportunities foregone by engaging
7 in this contract? Any concerns that you have or anything
8 you could tell us that we should be concerned with?

9 MR. COTA: I don't believe so, Representative. I don't think
10 I am fully enough informed or advised of the content of
11 the contract. I have read the contract, I haven't
12 studied the contract and I don't think I would like to
13 comment on it.

14 SENATOR RADER: Senator Poland?

15 SENATOR POLAND: Mr. Chairman, Mr. Cota, we were discussing
16 the time element and it was my understanding that you
17 felt that your line could be completed more rapidly than
18 the Trans-Alaska line. But, one of the things that has
19 come up from time to time as we discuss this is your
20 Canadian land claims. Do you feel that you could even
21 predict what delay that might bring your line?

22 MR. COTA: We don't feel that it is going to delay it at all.
23 We think that when the NEB comes out with their order
24 and as you heard here yesterday, I believe it was, the
25 treaty has been signed between the two countries that the

1 land claim issue will be settled but it will not necessarily,
2 and we don't feel it will, hold up the start of construction
3 of our line. There will be some commitments made to
4 continue to settle the land claims issue but the line
5 will not be held up as a result of it.

6 SENATOR RADER: Representative Chatterton?

7 REP. CHATTERTON: Thank you, Mr. Chairman. Sir, have you
8 estimated what your initial economic uninterrupted
9 throughput of your gas line would have to be, sir? In
10 cubic feet or mcf?

11 MR. COTA: That question I think was asked of somebody here
12 yesterday in regard to the other line.

13 REP. CHATTERTON: Yes, it was.

14 MR. COTA: I couldn't give you an exact figure on that. I
15 think possibly Mr. Ward, who is going to appear here
16 later, might be able to give you that figure.

17 REP. CHATTERTON: Thank you.

18 MR. COTA: I have heard some figures but I am not sure of
19 them.

20 REP. CHATTERTON: Well, let me ask you a follow-up question.
21 Whatever that number is, you would not be willing to
22 invest in a transmission line until you were assured
23 you could meet that economic threshold daily volume and
24 it would not be interrupted for at least a fifteen or
25 twenty year period?

1 MR. COTA: I could answer your question yes. You stated it
2 very well but I'll start out first by saying we couldn't
3 finance it without at least a twenty year plus contract.
4 We could not finance it unless we could show that there
5 was sufficient gas moving through the line to service
6 the debt on the line and also service our equity.

7 REP. CHATTERTON: Thank you very much, sir.

8 SENATOR RADER: Representative Gruening, did you have a
9 question?

10 REP. GRUENING: Yes. Have you read that portion of the
11 synopsis of the Litt decision on page ten that says
12 "A field price of \$1.00 per thousand cubic feet is the
13 upper limit, he said: a field price established by
14 contract or otherwise at a level much higher will sink
15 the project". Do you agree with that statement?

16 MR. COTA: No, I don't. Maybe what he is referring to,
17 a field price which has been used now in the -- that is
18 a price they have used in the economics of moving the
19 gas. In other words, the fuel, El Paso's or Trans-Canada,
20 and I know he is referring there to the dollar per thousand
21 cubic feet. However, he is talking about 1974 -- 1975
22 dollars which is all based on that which is kind of in
23 line with when I said, I believe, One Dollar Forty-Nine
24 in 1982 is the dollar field price escalated to 1982 and
25 then on up to 1987. In our own shop these are the