

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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1 figures we have come up with and I have said it under
2 that basis on those prices it would be economical to us
3 at this particular time, based upon escalating the fuel
4 oil prices at the same factors.

5 REP. GRUENING: Given the fact that apparently the Arctic line
6 needs a lot higher capacity to make it financible, as
7 I understand it, could the reverse be true, that the Alcan
8 line, which has a lower volume, at least on conventionable
9 terms, be much more financible? Does that make sense
10 to you?

11 MR. COTA: Well, first of all, I don't think it is as
12 financible to start with. It is not going to move the
13 amount of gas.

14 REP. GRUENING: Well, let me ask, will the private markets,
15 the bonding companies, finance, betting on what the
16 reserves, this hundred trillion cubic feet or whatever
17 the projected reserves are; aren't they going to look
18 very much to what is ninety-nine percent sure?

19 MR. COTA: That is correct.

20 REP. GRUENING: Well, then a line which has a more reasonable
21 estimate of actually what is producible is maybe more
22 financible.

23 MR. COTA: That might be true. I'm not sure I get your
24 question entirely.

25 REP. GRUENING: Well, I got your answer. Thank you. If you

1 want to expand on that, go ahead.

2 MR. COTA: Well, would you repeat the last part of your
3 question?

4 REP. GRUENING: Your answer to the first part of the question
5 that the conventional markets would not rely on the --
6 conventional financing markets would not rely on the
7 projected or estimated reserves, gas reserves. They
8 were going to look at pretty much the sure producible
9 amount and on that basis, a line whose economics were
10 based upon that more reasonable or sure amount, would
11 be more easily financed through conventional methods.
12 Is that a correct assumption?

13 MR. COTA: Well, I think if that was true that would be a
14 correct assumption. What you are saying is the Alcan
15 is based upon the twenty-five to twenty-nine trillion
16 cubic feet that is there or whatever that -- solely upon
17 that amount, and that, therefore, our line is based upon
18 the same amount, if that is what the financial people
19 are looking at, therefore, you indicate a lower cost on
20 the Alcan project as compared to ours, therefore, it should
21 be more easily financed. Is that what you are asking?

22 REP. GRUENING: That and the fact that your line depends on
23 discoveries that are not yet certain.

24 MR. COTA: That is not true. Our line is based on the twenty-
25 five trillion, what is there today, and no financial

1 people are going to give us the money to build it based
2 upon the hundred trillion or the hundred and thirty-five
3 or whatever it might be in the future. And we are not
4 going to invest in anything that couldn't be financed
5 and that would not be feasible, needing gas that is not
6 proven. So ours is based on the twenty-five trillion.

7 REP. GRUENING: Well, if it were a fact -- I'm slightly
8 switching the question but if the rate of daily production
9 could not exceed two billion barrels a day, if that were
10 a fact --

11 MR. COTA: Two billion?

12 REP. GRUENING: Yes. A conservation fact, would not the
13 Northwest line be more financible on that basis?

14 MR. COTA: I don't feel it would be. To start with, and
15 again I said Mr. Ward might be able to answer the question
16 about the amount a little better than I am, but I know
17 that two billion, if that is the figure you are going to
18 take, is within the ball park of an economic feasibility
19 for our line.

20 REP. GRUENING: Anything above that would reduce in loss of
21 oil production?

22 MR. COTA: Let's say anything above that did reduce, we would
23 still have a feasible project based on your two billion.
24 You want to remember too, that we do have one thing --
25 two other points is the Mackenzie Delta gas which could

1 be transported on our system, plus we have a Canadian
2 investment community along with the United States invest-
3 ment community. We have two sources of investors in our
4 pipeline.

5 MR. BINDRA: I might make one observation here. I think one
6 of the factors that the investment community is going to
7 look at is the cost at the market. And to the extent
8 that the Arctic Gas project is going to result in the
9 lowest cost in the market, I think it has a much stronger
10 financiability factor.

11 SENATOR RADER: Did you have any further questions?

12 REP. GRUENING: Well, I am not convinced that it will result
13 in the lowest cost among the three lines but I'll leave
14 it at that.

15 SENATOR RADER: Representative Miles?

16 REP. MILES: Thank you, Mr. Chairman. Going back to Senator
17 Poland's original discussion on native land claims. If
18 the Arctic position, Mr. Cota, gains support in the east,
19 would it be to your benefit, the benefit of the other
20 supporters of the Arctic line to become involved in land
21 claims settlement in Canada?

22 MR. COTA: What do you mean in the east, Eastern Canada?

23 REP. MILES: No, no, no. In Washington. In Washington, it is
24 obviously a Presidential/Congressional decision. So if the
25 position does gain momentum back there, when the President

1 is studying it, when Congress is studying it, would it be
2 to your benefit to become involved in the Canadian land
3 claims?

4 MR. COTA: I don't think the federal government of the United
5 States is involved in the land claims. I didn't know they
6 were.

7 REP. MILES: Not the federal government, no, sir. The industry
8 I am talking about.

9 MR. COTA: The industry, no, I don't think we would become
10 involved.

11 REP. MILES: Not at all.

12 SENATOR RADER: Mr. Carpenter?

13 REP. CARPENTER: Mr. Cota, earlier -- again this will seem like
14 I am shouting at you, but earlier Senator Croft was
15 exploring this question of whether the state is going to
16 lose something by committing its gas now, it will either
17 be the producers not committing their gas, and you said
18 that among the reasons that you felt the producers weren't
19 committing their gas was that they were awaiting unitization.
20 How would that affect them compared to how it would affect
21 the state as a reason for committing or not committing our
22 gas?

23 MR. COTA: Well, I don't think the state has committed a
24 specific amount. They have committed a percentage of the
25 gas that will be produced. You do not have a contract with

1 these three companies that I understand commits you to
2 any specific volume of gas, it is only a percentage of
3 all gas produced by all producers on the North Slope.

4 What I was referring to is, say, Mobil, which is
5 a small producer in the whole scheme of things. If they
6 would sign a contract with us for, say, a trillion cubic
7 feet of gas, and this was presented to the Federal Power
8 Commission. Under some of the contracts that have been
9 presented in the past they may only be able to produce,
10 say, six hundred billion instead of the trillion. What
11 they want to be assured of is that after unitization they
12 will be in a position that they do have that amount of
13 gas, somewhere in the neighborhood of a trillion, and that
14 they will not then have to make that gas up from another
15 source in some other location. That is the differential
16 in your problem.

17 REP. CARPENTER: Therefore, their reason for not committing
18 is not a valid reason for the state to not commit?

19 MR. COTA: That is correct, Representative.

20 SENATOR RADER: Are there any members who have not yet had
21 the opportunity to ask their first question? We will
22 start taking the second line around. Mr. Swanson?

23 REP. SWANSON: Mr. Chairman, noting the existence in the miles,
24 El Paso at one hundred and nine and Alcan at three
25 thousand, I don't have a mileage figure here for the

1 Arctic Gas route, but the thing that bothers me is that
2 they are all at the six billion dollar mark. How many
3 miles is the Arctic route?

4 MR. COTA: Total miles is about thirty-eight hundred.

5 REP. SWANSON: Thirty-eight hundred. Another question, if
6 I may. These figures are based on what it costs us to
7 build the Prudhoe Bay line?

8 MR. COTA: The Prudhoe Bay line?

9 REP. SWANSON: Well, our oil line, the cost of getting the
10 pipeline --

11 MR. COTA: Oh, you mean the cost of construction?

12 REP. SWANSON: Right.

13 MR. COTA: No, they are based upon -- after you get out of
14 the permafrost area in Canada, they are based upon
15 conventional pipeline construction that we do every day.

16 REP. SWANSON: All right. Next question, Mr. Chairman. Is
17 this line going to be similar to the Prudhoe Bay line
18 as a cost plus, plus, plus pipeline in which we are going
19 to have to pay for -- the transportation of our oil is
20 going to be the same way across Canada, or is this just
21 going to be a regular legitimate line in a bona fide
22 contract years and so it is not a cost plus, plus, plus
23 thing like the Prudhoe Bay line?

24 MR. COTA: Our staff of the Canadian Arctic Gas Study Limited
25 Group, which is based in Calgary, advised at the last

1 technical committee meeting I attended that the project
2 would be let on firm bids in the same manner as any other
3 gas line. There may be some problems in the permafrost
4 area where there will have to be some, possibly, stipu-
5 lations in there to cover unforeseen -- for the most
6 part it is a conventional contract.

7 REP. SWANSON: My next question then. The return to the
8 State of Alaska on the transportation cost of this
9 would be less in an Arctic route than would it be the
10 type we have got here in Alaska?

11 MR. COTA: I don't want to get turned around on your question.
12 I want to be sure I say it right because I'm not quite
13 sure how you said it. The cost of moving the gas from
14 Prudhoe Bay to the lower 48 market area on the Arctic
15 Gas system will be less transportation cost of fuel and
16 as a result the price that can go back to the wellhead
17 will be higher to the State of Alaska on the Arctic Gas
18 because of the reduced cost on the line, and, therefore,
19 those benefits will be at the wellhead.

20 REP. SWANSON: Even at the difference, Mr. Chairman -- even
21 at the difference in the length of the lines?

22 MR. COTA: Yes, sir.

23 REP. SWANSON: That is all I have, Mr. Chairman.

24 SENATOR RADER: Any other first round of questions by members?

25 We will take a second round of questions if anybody has

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1 any. Senator Poland?

2 SENATOR POLAND: Mr. President, Mr. Cota, this is probably
3 an extremely provincial question, but as I look at that
4 map up there and I look at your route, I see no way
5 that the State of Alaska --

6 SENATOR RADER: Senator, they are unable to hear you at
7 the back of the room. Would you speak louder?

8 SENATOR POLAND: I am sorry. In looking at the route up
9 on the map for the Arctic line, I see no way for the
10 State of Alaska to be able to take off any gas in a
11 place that it would do the state any good. If we use
12 the Arctic route do you believe that we are going to
13 be in the same old position we are in with our salmon,
14 where we ship it out and ship it back up again, or is
15 there some way that we can take off the line?

16 MR. COTA: I think there may be some ways. I might be
17 premature to talk about the Gulf of Alaska and some of
18 your areas at this time but someone here mentioned about
19 return of gas in-kind, a company that might be active
20 in the Gulf of Alaska on gas supplies or any of your
21 other coastal areas could in effect return gas to you
22 in-kind if they were the people that were exploring
23 off the Gulf of Alaska or one of these areas. That
24 would be about the only way I can see unless -- you
25 have got a threshold of twenty-five trillion which is

1 supporting this line to the 48 states, it depends on
2 how much gas is eventually found up there. Just because
3 you don't build the second line now, the gas line to
4 the south of Alaska or to the Anchorage/Valdez area,
5 doesn't mean you can't support a line in the future,
6 the same as your polar gas line there in Canada.

7 I can see their alternative up there, they talk
8 in terms of a threshold of about thirty trillion needed
9 to build that line. They have reduced it now to some-
10 thing under that. It is somewhere between twenty-two
11 and twenty five. They fully expect at some future date
12 that both lines will be built, the polar line and the
13 line that is now being proposed. I don't think your
14 foregoes go in a second line in Alaska --I think the
15 market is going to be there in the future--just
16 because that isn't the line that might be built today.
17 I think your need for gas in the future date is probably
18 more than it is today, anyway.

19 SENATOR RADER: It is five after twelve. These gentlemen
20 have a two o'clock flight to catch. Do we have anymore
21 questions? Senator Huber?

22 SENATOR HUBER: I had one but I wanted an expansion off
23 Senator Poland's question. Your answer to Senator
24 Poland just now about future lines being able to handle
25 it, how do you take this into account with your original

1 statement that the Arctic Gas line can be expanded to
2 four times more economically? Do you mean to tell me
3 that we are going to go against the economics if you
4 put in the first line and not expand it like you
5 recommend in the future? The two statements confuse me.

6 MR. COTA: Well, what I'm saying is that you have the means
7 to move the gas to market on the Arctic Gas but then
8 also, if you have surplus gas which would support a
9 second line and you have the need in Alaska and you
10 have demonstrated the need, you do have the petrochemical
11 plants or the industrial, whatever else you need. If
12 the gas is there we are justifying the construction of
13 our line on the present twenty-five trillion. There are
14 twenty-nine trillion of reserves available but that
15 doesn't foreclose a threshold amount of gas to build
16 another line across Alaska at some future date.

17 SENATOR HUBER: And, Mr. Chairman, that means that it is not
18 out of line with your original statement. It is just
19 that your original statement, once you build the first
20 line then you can expand it to one hundred million, as
21 you said. It will always be more economically feasible
22 to take it out by Arctic Gas, according to you, but we
23 could do it the other way if we wanted to. Is that what
24 you are saying?

25 MR. COTA: This is correct and you will have the income at

1 an earlier date from the Arctic Gas line to apply to
2 the construction of another line which would come down
3 through Alaska.

4 SENATOR HUBER: I needed to find out another thing, Mr.
5 Chairman, on a different subject, if I may, while I am
6 at it. Do I understand that you still have some agreements
7 with producers on the North Slope to furnish you gas?

8 MR. COTA: We do not. Not since the advance payment agreement
9 was eliminated.

10 SENATOR HUBER: But you are still supporting their line. Do
11 you have some kind of agreements on the back burner?

12 MR. COTA: We have no agreements. In fact it is not their
13 line, it is our line at the present time. We are the
14 project supporters, not the producers.

15 SENATOR HUBER: All right, one more related question to that.
16 You did mention that you were broad based with associates,
17 so I will ask for you and your associates, is there any
18 kind of commitments that may be legal from the Mackenzie
19 River Canadian reserves that go with any of your af-
20 filiates that you still have agreements to take?

21 MR. COTA: Well, they are not back burner. They are very
22 straight forward and they have been filed in the NEB.
23 We do have a contract with Imperial Oil for four trillion
24 of the first sixteen trillion of gas in the Mackenzie
25 Delta, however, unless there is quite a surplus of gas

1 found there, we see very little chance that we will move
2 any of that gas out of Canada, but that contract is still
3 in effect.

4 SENATOR HUBER: That contract is in effect so the making the
5 Mackenzie Delta gas more economically feasible is
6 definitely to your best interest by the Alaska gas going
7 the same route?

8 MR. COTA: Oh, sure. Even if we don't get any of the
9 Mackenzie Delta gas, the four trillion of which we have
10 a contract for and we can't move it to the states, we
11 feel that if Mackenzie Delta gas line is built and that
12 the gas is moved to the Canadian market and on over to
13 Eastern Canada, that will relieve the load right now
14 on the Alberta producers and on other producers in
15 Canada, that the surplus gas that we hope in our contracts
16 which we now have, and the first one expires in 1980,
17 that they will be able to continue at least on a year to
18 year basis, gas to us which is very important to us that
19 the Mackenzie Delta gas arrives in the Canadian pipeline
20 system.

21 SENATOR HUBER: So that then answers that your economic
22 interests are definitely best served by Alaska gas --
23 your Canadian economic interests are best served by
24 Alaska gas going through Trans-Arctic so that it will
25 help you with your Mackenzie River holdings?

1 MR. COTA: I think the economic interests of everyone
2 concerned, including Canada, the United States, the
3 48 customers, all the pipelines involved in the State
4 of Alaska, are best served through the Trans-Alaska
5 project -- Trans-Canada, excuse me.

6 SENATOR HUBER: Mr. Chairman, I did have a question on
7 balance and trade but it has been asked before in other
8 meetings, and so that we can get on with it I'll let it
9 go.

10 SENATOR RADER: I appreciate it, thank you. Representative
11 Parr?

12 REP. PARR: Mr. Chairman, my question is very brief and
13 something Mr. Cota said a few minutes ago. Mr. Cota,
14 looking just purely from a business viewpoint, I get the
15 impression that if you were making the decisions for the
16 State of Alaska you wouldn't sell this gas at all to any-
17 body now, to Michigan Wisconsin, to Tenneco and the other
18 people there, that we would hang on to that gas.

19 MR. COTA: Personally, I wouldn't see any reason for hurrying
20 into anything. I would see what kind of support you do
21 get out of those who are seeking the gas. But, if I
22 did contract to sell the gas to them, it would be on a
23 Trans-Alaska route, and I wouldn't make any commitments
24 to go through another line with it; otherwise, you are
25 not going to get the support you are seeking.

1 REP. PARR: Now I am talking from a purely business stand-
2 point without regard to the support of the Trans-Alaska
3 line or any of those things. I get the impression that
4 what you have implied is that we would be better to
5 hang on to our gas if it takes ten years, as a business
6 venture?

7 MR. COTA: I don't think I said that.

8 REP. PARR: Not in so many words but that is the thrust of
9 your testimony.

10 MR. COTA: No, I don't think I even indicated that. I don't
11 know what statement you are referring to but I still
12 think the commitment of your gas to the market through
13 the most economical pipeline that can be built at the
14 earliest possible date is in the best interests of
15 Alaska.

16 REP. PARR: Thank you.

17 SENATOR RADER: Any further questions? We appreciate very
18 much you gentlemen attending. We will stand in recess
19 until 1:30 promptly.

20 (Whereupon the hearing was recessed at
21 12:10 p.m. and reconvened at 1:30 p.m.)

21 SENATOR RADER: The committee will please come to order.
22 We have as our first general public interest witness
23 Mr. Boucher, H. A. Boucher. Identify yourself for the
24 record, Mr. Boucher.
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1 MR. BOUCHER: Thank you, Senator. My name is H. A. "Red"
2 Boucher. I'm from Anchorage, Alaska, I serve as a con-
3 sultant to people in the construction, also in the
4 architectural and engineering, I serve in a consulting
5 capacity to Energy Company of Alaska, which is a
6 refinery under the North Pole area, also to Pacific
7 Alaska LNG, who is attempting to put a facility together
8 right in the Kenai Peninsula. In the case of Pacific
9 LNG, I have no responsibility other than to assist them
10 with community affairs in the Kenai area, and I think
11 both Mr. Ward and Mr. Holland will acknowledge that
12 that particular company is involved in both of their
13 projects, the parent company of that. I think it is
14 necessary, and I will be glad to answer any questions
15 on that particular subject.

16 I am here as a private citizen and paying my
17 own way and expenses. The sale of royalty gas is a subject
18 I was concerned with during my period of service to the
19 people of the State as Lt. Governor, and I think the
20 Administration and the people who have followed this
21 issue know that I'm pretty much voicing the same thoughts
22 now that I have voiced consistently over the past two or
23 three years.

24 I think what I would most like to do, and be
25 assured I'm going to attempt to sum this up because

1 there are other witnesses who are technicians in the
2 field and I think they will have things of interest to
3 you and to the people of the State of Alaska.

4 For a moment, if I may, and I think it's always
5 wisdom to look to a higher power when we tend to get
6 caught up in the day-to-day things of life -- maybe
7 Ecclesiastes the First or the Second, the Tenth Verse,
8 might kind of place things in focus. Indeed, everything
9 that is happening now has gone before us and really,
10 are we discussing anything new? By that I mean we're
11 talking about removing a resource from the State of
12 Alaska, and this has been discussed with our fish, our
13 timber and other things. It's not whether we should,
14 when we will, but is it in good order and is it in the
15 people's best interest.

16 So I hope here to go back to the basics, the
17 law that you are dealing with. You've had the pipeline
18 issue discussed, which is the best pipeline, and frankly
19 I think to a large degree you resolved that, as a body,
20 before. If you have had a change in mind, I think you
21 might discuss that, whether it is before you to support
22 El Paso, Alcan or the Arctic.

23 I would like to maybe give a larger view as it
24 relates to the petroleum industry. I found them to be
25 gentlemen of good faith. Of course, there are always

1 people who may not deal with you in good order; but by
2 and large, as both Lt. Governor and Mayor of the City of
3 Fairbanks, I have found that if you dealt squarely
4 with them they dealt with you, that they were working
5 for their corporate interests and you, in turn, should
6 be working for your corporate intersts.

7 So I'm going to solve the pipeline issue by
8 saying this, and it's happened in the past -- the very
9 people (as Clark pointed out) who are battling each
10 other today may be working together tomorrow in the
11 common interest of solving what is the most important
12 issue before us, the national energy problem that faces
13 our country.

14 So, maybe Senator Stevens was kind of wise when
15 he said, "Don't throw the baby out with the water."
16 I think it's been debated enough, I don't intend to get
17 into that particular area because, as I understand,
18 you're talking about the sale of the royalty gas, and
19 that is what I would like to address myself to.

20 I think the bottom line is what Senator Croft
21 said earlier, how much do we have in the reservoir,
22 how much can we commit, because it is an oil reservoir
23 and withdrawal of the gas has an effect on that oil,
24 and you need to concern yourselves with it, and you have
25 some of the finest men in the industry in Hoyle Hamilton

1 and Easy Gilbreth, who can give you the answers to
2 that. You do have the control, you have the conserva-
3 tion of that reservoir and its resource, and that's
4 your first responsibility.

5 Secondly, I would like to address myself to
6 Representative Gruening's remarks, "What are you getting
7 for what you are offering," and I would like to add
8 one dimension, "What does your law which you are bound
9 to operate by state?"

10 I'm going to, in the interest of good time, skip
11 over my formal remarks. There are some flourishes in
12 there that I feel at this particular time may not really
13 have any bearing. I think we all know that the energy
14 crisis that we're seeing is just the tip of the iceberg.
15 This nation is ninety percent dependent upon fossil fuel,
16 and it is imperative upon the Nation and the State who
17 soon be its largest producer, who is going to be looking
18 to us to supply this life-giving energy, to get their
19 act together and develop an energy policy, and I think
20 it's as important for Alaska to establish a leadership
21 role in this.

22 Really, that is the overriding consideration that
23 will affect any decision in the next twelve months. It's
24 one which I've been concerned with, as many of you here
25 in the room are; but I think we need to back off and

1 take a look at the larger picture.

2 I feel that Governor Hammond, based on what I
3 can read here, has in good conscience brought a proposal
4 before the people that he thought that the Legislature
5 wanted and they wanted. I would like to say that.
6 I had a talk with him before giving my comments here,
7 and he knows my general feeling in this area. But I
8 would like to emphasize that. I don't think there's
9 any room for what this Administration did, or that
10 Administration did -- let's get down to the basics.
11 We are dealing with something that's not only going to
12 affect every man and woman in this State, but also
13 sister states to the south.

14 I'm going to go through here to the point where
15 I got down to page four at the top. We're talking about
16 the Legislature when it enacted AS 38.05.183. There
17 were gentlemen and ladies who were in the House when
18 that was enacted that are sitting here now. There was
19 one reason for it, to make sure that we set a portion
20 of our fossil fuels, oil and gas, aside for our own
21 energy self-sufficiency and to build an economic base
22 for this State. I don't think one-eighth of it is
23 considered to be selfish, especially when much of the
24 responsibility of developing an energy base for our
25 nation is going to fall upon this State, and we're going

1 to require additional energy to be able to power these
2 pipelines far in greater proportion than, let's say, Iowa,
3 Kansas, or what have you.

4 I think this, when we go before the Congress
5 of the United States, and if this provision of withdrawal
6 is threatened, I think that should be our case. We are
7 up front, we are the steam engine for America in the
8 next decade, and we must have energy beyond our own needs.
9 I think it's fair to state that we should, as a people,
10 and this is what the Statehood Act was all about, have
11 the opportunity to develop a domestic economy that lifts
12 the burden of the Federal taxpayer off his back; in
13 other words, that we become self-sufficient to the
14 maximum degree that we can.

15 I think overall the purpose of this law was rather
16 simple and I, as one who has served with you, I would
17 like to deal with our legal responsibility, my views of
18 why we did it. Now, this is something that concerns
19 me very much, and I'd like to address myself to it, and
20 maybe the answer is here and maybe I've missed it.

21 When the Legislature enacted AS 31.05.183 it
22 specifically attempted to protect the birthright of
23 Alaskans yet to be born. In fulfilling this obligation
24 the Legislature demanded that prior to the exportation
25 (and I emphasis "exportation") of any of Alaska's royalty

1 gas that detailed studies be made, not only as to the
2 immediate needs of our State, but as to its present and
3 projected intrastate domestic and industrial needs.
4 The mandate is simple.

5 When you use "shall" in there, you don't mean
6 maybe, if, and or but. It also demanded that the Alaska
7 Royalty Oil and Gas Development Board determine that the
8 royalty in-kind oil or gas is surplus to the present and
9 projected intrastate domestic and industrial needs.

10 And it didn't provide, and I'm not trying to be
11 facetious here or intimate that there was any back room
12 dealing -- it provided that it be done right out in
13 public, not just a matter of negotiations as to whose
14 interests, and I am not intimating that it be done, but
15 it's mandatory that it be done. And that you report
16 these findings of how you arrived at surplus and you
17 report them in writing in detailed studies to the
18 Legislature within ten days of the convening of that
19 Legislature.

20 I have talked to a number of Senators and Repre-
21 sentatives, and I can find nothing that would indicate
22 a detailed in-depth analysis of in-State use of this
23 resource. We're paying money to find out if a contract
24 is all right and fine, we need to do that, but I would
25 like to see a detailed in-depth analysis as is required

1 by the law. I have tried to gather everything, the
2 comparative study of the gas pipeline proposals; that
3 talks about the route situation, and you should deal
4 with that there. A comparative economic study of three
5 competing routes, that's not talking about royalty gas.
6 Net economic benefits; fine, that's one of your charges
7 in there, and maybe you might be dealing with that, but
8 if you look further back in the laws as to the various
9 things that the Advisory Board is supposed to study before
10 it authorizes the Commissioner to proceed, I don't think
11 it says, "If, and or maybe," it tells you exactly what to
12 do.

13 Then you have Dr. Knudsen's letter to Mr. Owens
14 of Northwest of December 16. It says, "Well, maybe that
15 economic study isn't just exactly what we said," under
16 what appears to be the catch phrase now, scenario,
17 which, as we all know, means, "Let's try another computer
18 run to see if we can make it work."

19 I'd like to get to the bottom line and keep the
20 rhetoric as much out of here as possible. Here you have
21 a letter which followed your various laws, as I under-
22 stand, and Representative Gruening was kind enough to
23 supply me it. You appropriated Fifty Thousand Dollars.
24 In fact, it might be noted here, for those who might
25 think political, Governor Hammond just let this pass

1 without his signature. So, there's room for views on
2 both sides. He had his reservation at that time.

3 I have the minutes of your Gas Pipeline Impact
4 Committee of February 24. You expressed your wishes
5 there, so if you've changed your mind since then I
6 think the public ought to know it. You had the laws
7 that passed. This triggered, I think, the Royalty Board
8 to go into action, (I haven't seen any of their minutes
9 or studies in their deliberations) which in turn
10 triggered Commissioner Martin's action, which is a
11 letter, and as was pointed out here, one of the clauses
12 clearly stated in here, you must support a particular
13 route. Whether that's in good taste or whether that's
14 a proper way to dispense of the people's resources, I
15 don't know. Whether or not it's legal, that's not for
16 me to determine.

17 I think it is for you to determine whether or
18 not it's wise to do that, and whether that's a decision
19 that you want to live with if this thing, let's say,
20 doesn't go this way or that way. I think we're going
21 to find out that the pipeline decision between now and
22 whenever it was made is going to be like a ping pong ball,
23 it's going to be back and forth; Canada makes a decision,
24 press reaction, counter decision in Alaska. So let's
25 keep our cool and let's act responsible before our nation

1 because we have a responsible position.

2 I would ask only that you do this: go back to
3 the basics, (you know what you did when you deliberated)
4 look at your law, and see if you are functioning within
5 the framework of that law. For example, I'll read
6 all of 38.05.183(d): "Oil or gas taken in kind by the
7 State as its royalty share may not be sold or otherwise
8 disposed of for export from the State until the Com-
9 missioner with the approval of the Alaska Royalty Oil and
10 Gas Development Advisory Board determines that the
11 royalty-in-kind oil or gas is surplus to the present and
12 projected intrastate domestic and industrial needs."
13 And further back in your chapter, I won't bother to go
14 into that, it clearly states to arrive at that thing
15 before they make their recommendation there is clear-cut
16 things, social impact, desirability of localized capital
17 investments, should we refine it inside the State;
18 that's where their area of responsibility is.

19 Back a moment, "... Gas Development Advisory
20 Board determines that the royalty-in-kind oil or gas is
21 surplus to the present and projected intrastate domestic
22 and industrial needs. The Commissioner shall make
23 public, in writing, the specific findings and reasons on
24 which his determination is based and shall, within ten
25 days of the convening of a regular session of the

1 Legislature, submit a report showing the immediate and
2 long-range domestic and industrial needs of the State
3 for oil and gas and an analysis of how these needs are
4 to be met."

5 I think you're aware of the law as well as I am.
6 In fact, that's what we who have served or do serve
7 took our oath on, and I'm not here to say you haven't,
8 but sometimes when you pressure things through and rush
9 it in the name of whatever project -- I'm sure there were
10 men who sat here before when our salmon started to go out
11 and said, "We've got to have them out! We've got to have
12 them out!"

13 All I say is, I know and I can appreciate the
14 industry's needs for an immediate decision, and I can
15 understand and respect their needs, but our needs,
16 specifically the people of the State's needs, may be
17 different than theirs, and if they have their respon-
18 sibility to their corporate board, I think that you well
19 know that. I'm not saying you don't. This was my only
20 purpose; could you please get it back to the law that
21 we're dealing with.

22 Mr. Chairman, that concludes what I have to say.

23 SENATOR RADER: Thank you, Mr. Boucher. Questions? Senator
24 Huber.

25 SENATOR HUBER: Thank you, Mr. Chairman. I have a short one.

1 Red, when the Oil and Gas Royalty Board last fall con-
2 sidered this, do you know how long it took them to come
3 to their conclusions?

4 MR. BOUCHER: Are you talking about the meeting that approved
5 the contract, itself?

6 SENATOR HUBER: Well, if you have knowledge of other meetings
7 that took place, I wish you'd include them too.

8 MR. BOUCHER: The Governor gave his speech on the 12th
9 which, to my knowledge, was the first announcement that
10 the royalty gas was locked into a pipeline. Then on
11 November 22 I attended the Royalty Board hearing. I
12 raised objections to that use of the people's resource
13 at that time, and I am on record as doing it then.

14 To the best of my knowledge, the hearing on the
15 contract which the Governor announced was done in one day.
16 It convened in the morning and, in fact, I caught the
17 same plane that Mr. Holland, and Mr. Penney and the
18 others. It was done at 5:30 that evening on a five to
19 nothing vote, approving the contract.

20 SENATOR HUBER: This then, sir, would be part of your doubt
21 that 30.05.183(d) had really been complied with?

22 MR. BOUCHER: No, I think really what I'm saying, to arrive
23 at a decision, any decision to commit the royalty gas
24 or sell it in any way, shape, form or manner should have
25 been preceded by a series of studies, not Economic

1 Development doing one study, and Revenue doing another
2 study, or what have you. This again points out that in
3 energy matters, they're not separate, whether it's the
4 economy, heating fuel, studying of village needs --
5 we must pull it together and develop one program from
6 which energy matters are dealt with. It is essential,
7 it has such a vast effect on our economy.

8 SENATOR RADER: Any further questions? Representative
9 Chatterton.

10 REP. CHATTERTON: Thank you, Mr. Chairman. For a moment
11 I'm trying to frame a question for you, Red. As I heard
12 you read paragraph (d) of 183, it was a matter that --
13 bear with me as I go here -- apparently it was a matter
14 that the Legislature delegated to the Commissioner
15 the right of determining oil and gas as surplus to the
16 State's needs; is that what it says?

17 MR. BOUCHER: No. He determines whether you go competitive
18 with it or not, and that's another ball game I didn't
19 get into. I'm just talking about dealing with it. He
20 can make the determination of whether it is best to
21 solicit bids or the interests of the State are non-
22 competitive bidding. He must do that with the Royalty
23 Board. That triggers the action of developing the sales.
24 Then you must, after they have done that, go through
25 all of this.

1 REP. CHATTERTON: I guess what I'm looking for, Red, is what
2 is your interpretation of the existing statute as to
3 where the final responsibility rests to determine what
4 hydro-carbons, oil or gas, are excess to the State's ---

5 MR. BOUCHER: Right here. It comes down -- because none of
6 this can happen until the Legislature, by concurrent
7 resolution approves all of these, and you know who you're
8 here representing. So this is where the buck stops in
9 this instance.

10 REP. CHATTERTON: Thank you.

11 SENATOR RADER: Any further questions of Mr. Boucher?
12 Representative Parr.

13 REP. PARR: Mr. Boucher, you mentioned your prepared text,
14 and you didn't say very much about it, but you're con-
15 cerned with this provision of letting buyers switch
16 if the State decides to switch. If I understand you
17 correctly, your thinking is that in such case the
18 companies don't really have to put anything in the pot,
19 they put in so little that if they lose out on El Paso
20 and the Governor switches they can't lose on getting the
21 gas anyway.

22 MR. BOUCHER: I stated that, but I feel at the moment what
23 I ought to really do is stick to the law. I'm wondering
24 whether, by going through the switching provision,
25 you're not in violation of the competitive provision.

1 Does the law not require -- can you make two contracts
2 in one, a contract that is an "if" contract? Is that
3 in the best interest? Northwest just got through and
4 said that if it switched over to them they might bid
5 on it, Arctic said. And you haven't said which route
6 you're going to switch to. So go back to your competitive
7 things and see if that is within, once again, the frame-
8 work of the law.

9 I did refer to somebody might get in for nothing,
10 and I would tend to agree that anybody that thinks that
11 given an option on a resource that's worth Four Billion
12 Dollars and its liquid is worth Eighty-Two Million,
13 you know, that's a lot of beans in anybody's language.
14 I think Southern, Tenneco and everybody would agree that
15 if we said that it was for sale tomorrow to whoever gets
16 it, they'd be lined up from here to Anchorage, and don't
17 kid yourself they wouldn't. I mean, that's the most
18 valuable commodity in the United States today and one of
19 the last fields that's discovered and known of its type,
20 and I think Mr. Chatterton, who has a history of long-time
21 service to the industry, would agree with that. There
22 are not too many gas fields like that one; is that
23 not correct?

24 SENATOR RADER: Any further questions of Mr. Boucher?

25 Senator Sumner.

1 SENATOR SUMNER: Mr. Chairman, you're far more qualified to
2 clear up an area that concerns me that he's raised. I
3 get the impression that he's saying we may not be legally
4 in a position to act, that the Legislature might not
5 have done its ---

6 SENATOR RADER: Mr. Sumner, he certainly raises that point.

7 I do recall receiving in some packet of goods from --
8 I thought it was from the Governor and distributed to
9 all Legislators, a number of resolutions that were pre-
10 sented to the Royalty Board and passed by the Royalty
11 Board and transmitted to the Legislature, at least to
12 me as a Legislator. But I don't know whether or not
13 they meet the law that Mr. Boucher cites or not. I have
14 no -- I didn't look at them from that point of view.

15 MR. BOUCHER: It says, "public and the Legislature in writing."

16 SENATOR RADER: I don't know. These were in writing, and I
17 don't know if they comply with the law or not.

18 SENATOR SUMNER: Mr. Chairman.

19 SENATOR RADER: It's a good point though.

20 SENATOR SUMNER: Would you allow me maybe two or three
21 minutes of flexibility to ask him some questions?

22 SENATOR RADER: Well, I suspect that we might ask the Attorney
23 General those questions for his interpretation of the law.
24 Go ahead.

25 SENATOR SUMNER: Mr. Boucher, is there any specific areas

1 under which exist -- you think violations exist with
2 regard to the statutes you mentioned?

3 MR. BOUCHER: I have searched through here, and in fairness,
4 I didn't say the studies weren't done. I can't find
5 them. I asked Senator Kerttula, I asked Senator Gruening,
6 I looked through the ten days of the journal. Normally
7 it's supposed to be laid on the record, and anything
8 that is this important, I hope there's one study here,
9 and if anybody -- there's a study done on April 16 from
10 in-house by the State, and it just consists of, "Can we
11 or can't we use the gas?"

12 SENATOR SUMNER: Mr. Boucher, you're not -- it's not your
13 nature to be subtle, and I get the impression that you
14 distinctly believe that we have not lived, somebody has
15 not lived up to the letter of the law.

16 MR. BOUCHER: Okay, I'm not trying to be subtle or cute
17 in this one.

18 SENATOR SUMNER: I understand.

19 MR. BOUCHER: I would rather raise this question and have
20 everybody here say, "Well, here are your studies," and
21 then be a fool than to keep my mouth shut and see it pass
22 and blow up in your face later on. I'm not to say -- I'm
23 not down here now, but sometimes all of us tend to get
24 so eager and so intense in the emotionalism of an issue
25 we forget to do our homework. Has the homework been done,

1 that's my question, and I think that this whole hearing
2 depends upon the answer to that question. Then, is that
3 homework satisfactory enough for you to commit the
4 resource? You know, you need to get this pipeline away
5 from the royalty gas and make it -- I'll be facetious
6 and say it's like getting a donkey out of an elephant's
7 ear -- but you've got to extract the two issues and deal
8 with them. But I don't have to tell you that.

9 SENATOR SUMNER: But in your research through the journals
10 and whatever, you're under the impression that nothing
11 has come before the Legislature which satisfies that
12 requirement?

13 MR. BOUCHER: It isn't important whether it satisfies that
14 requirement or me; does it satisfy the law?

15 SENATOR SUMNER: That's what I'm saying, the requirement
16 of the statutes.

17 MR. BOUCHER: I can't find it.

18 SENATOR SUMNER: Thank you, Mr. Chairman.

19 SENATOR RADER: Any further questions of Mr. Boucher?

20 Mr. Boucher, we thank you very much for your testimony.

21 MR. BOUCHER: Thank you, sir.

22 SENATOR RADER: The next is Mr. D. Dallas, and I understand,
23 Mr. Dallas, that Mr. Robert Dempsey is an associate of
24 yours and you wish to testify together. Is that correct?
25 MR. DALLAS: He's part of my testimony.

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SENATOR RADER: That's what I understand. All right, if
you would do that.

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1 MR. DALLAS: Senator, we do have a couple exhibits to pass
2 out. We'd like to do that at the beginning of the
3 testimony.

4 SENATOR RADER: All right, fine.

5 (Whereupon above-described exhibits were
6 distributed to the committee members.)

7 SENATOR RADER: Would you gentlemen please identify yourselves
8 for the record and who you represent and what your
9 expertise is?

10 MR. DALLAS: Thank you, Senator Rader and Representative
11 Gruening. My name is Dois D. Dallas, I reside in
12 Fairbanks, Alaska, and I am employed by Tanana Valley
13 Community College. I am here today representing myself.
14 I am paying my own expenses and have taken leave time
15 away from my job. A copy of my resume has been furnished
16 to you along with a copy of a revised contract that I
17 and an associate, Mr. Robert Dempsey, have prepared.

18 Just as a summary on the resume that you haven't
19 had a chance to read, I am a petroleum engineer, I have
20 had some twenty-four years' experience in the petroleum
21 industry in the Royalston Basin of North Dakota, South
22 Dakota, Montana and the Canadian Provinces for the Royal-
23 ston Basin involved, and I've been in Alaska now for a
24 few years.

25 My remarks will support the theme that it isn't

1 the line, it's not the route that matters. But rather,
2 what happens most to a resident of the State of Alaska,
3 is what is going to happen to the State's one-eighth share
4 of those LPG's, the liquefiable petroleum gases, which
5 are in the raw gas stream which will be produced from
6 Prudhoe Bay. It is true that interior Alaska can use
7 a small portion of the dry gas, the methane, but if a gas
8 line goes by Fairbanks the excess methane is going to those
9 Lower 48 States, regardless of which route is selected
10 by the Federal Power Administration.

11 So the important question is: what is going to
12 happen to the State's share of the ethane, the propane,
13 the butane and any of the pentanes that are still re-
14 maining in the raw gas stream when it arrives at
15 Fairbanks.

16 Paragraph IX of the gas contract, as advanced
17 by the Commissioner of Natural Resources to the Oil and
18 Gas Royalty Board, does reserve the right of the State
19 to remove the liquefiable hydrocarbons, but under our
20 recommended revision this paragraph would not be necessary
21 since a gas processing plant would be located near
22 Fairbanks and all the ethane, the propane, the butane and
23 any remaining higher hydrocarbons would be removed at
24 that time, and only the methane would be remaining in the
25 gas stream that the State owns.

1 We have prepared a large chart which lists some of these
2 physical constants with their composition and quality
3 and quantity of the Prudhoe Bay gas as it is expected
4 to be when it is delivered to whichever line finally
5 receives the certificate from the Federal Power Com-
6 mission.

7 I'd like to go to that chart now.

8 SENATOR RADER: I want to ask the reporter, are you certain
9 that you can get his comments without the mike and
10 the rest of it?

11 MRS. SANDERS: Yes.

12 SENATOR RADER: Fine.

13 MR. DALLAS: Please note that the methane is the one that
14 has the least btu, a thousand and ten btu per cubic foot.
15 But it is the largest in percent of that gas stream.
16 The btu increases as we go on down and we get to the
17 pentane, and that one has four times as many btu's per
18 cubic foot, roughly, as methane. But they all increase
19 progressively as we go down the column. But the per-
20 centage is much less. It's the highest in the ethane,
21 which comes next, but it's only 7.7 percent by comparison
22 with the 85.11 percent that is methane, and finally on
23 down to the pentane-plus, it's only twenty-two hundredths
24 of a percent of those heavier hydrocarbons.

25 You will also note that I've got 1.75 percent

1 down here at the bottom. That's nitrogen and CO₂.
2 This composition that we have was given to the Federal
3 Power Commission by an engineer testifying for Exxxon,
4 and he gave this in three stages. He gave it, as it came
5 out, I think, of their first separation stage, and
6 then he gave the composition in between, and finally
7 this composition, which he said was capable of being
8 delivered in the line that Arctic Gas has prepared. In
9 the study that they have prepared this composition of
10 the gas would exist in their system, and he felt that it
11 would probably exist equally as well in the other two
12 systems, or whoever finally were certificated by the
13 Federal Power Commission.

14 In that reservoir there is something like twelve
15 percent of the carbon dioxide, and that has been
16 removed at this step.

17 In my opinion, herein lies the greatest loss to
18 the State of Alaska. A recent article in the Daily
19 News Miner of Fairbanks indicated that a man sitting in
20 his house in Cleveland, Ohio, suffering from a gas shortage
21 would not be happy to learn that the State of Alaska was
22 withholding natural gas to make plastics.

23 This mistake is this: the excess methane will
24 still go to the man in Cleveland, Ohio, but if we don't
25 revise this contract now, this man in Cleveland, Ohio,

1 will go to work the next day in a petrochemical plant
2 and make synthetic automobile tires or plastic pipe,
3 like these samples that I've passed out to you, or hundreds
4 of other petrochemical products. And he will make these
5 products primarily from the ethane and the propane which
6 will be shipped along with the methane from Alaska.
7 These products would then be shipped back to Alaska from
8 Cleveland, Ohio.

9 It is obvious who is going to pick up the tab
10 for transporting the ethane to Cleveland, Ohio, and the
11 return to Fairbanks, Anchorage or Juneau of that same ethane
12 after it has been transformed into a product essential
13 to our daily existence. It's the Alaskan consumer who
14 would have to pick up the two-way transportation charge.

15 We certainly agree that we should provide the
16 man in Cleveland, Ohio, with any methane that is excess
17 to the heating needs of the State of Alaska, but under
18 no stretch of the imagination is the State of Alaska
19 obligated to provide him with a job.

20 The Province of Alberta, Canada, deals with this
21 problem in the following manner, and I quote: "The
22 Provincial Government has a stated policy that resources
23 be processed and upgraded as much as possible in Alberta,
24 so that jobs are not exported with resources. Petro-
25 chemicals are one example of this policy, and the Province

1 is determined to use the feed stock to provide basic
2 plastic and other derivative industries in Alberta,"
3 end of quote.

4 I would strongly recommend that this policy be
5 adopted by the State of Alaska.

6 There are those who will say that this is not
7 economically feasible in the State of Alaska. I maintain
8 that it is, and now that the opportunity is here this is
9 the time to do something about it.

10 I obtained these samples of black polyethylene
11 pipe that you have in front of you, and here's a couple
12 of large samples in which you can see the nomenclature
13 on the pipe. It is Polyethylene Gas Pipe, and it was
14 picked up by me last Saturday from the Alaska Gas and
15 Service Company in Anchorage. This pipe was once ethane,
16 and it was probably produced from some oil field in Texas.
17 At least it passed through a plant in Houston, Texas,
18 and received one of three or more processing and up-grading
19 treatments. It was then shipped to Watsonville, Calif-
20 ornia, where it was extruded into this form and shipped
21 to Anchorage. Just as in the case of Alberta, there is
22 no reason to ship the State's share of the ethane to
23 any of those 48 States and have it go through three or
24 four up-grading processes and be returned to Alaska with
25 a price tag that does not benefit Alaska.

1 The next two examples that I will show you
2 demonstrate that the State of Alaska already has a
3 miniature petrochemical industry and it needs only the
4 encouragement from people like you, ladies and gentlemen,
5 acting in your capacity as State Legislators, for it to
6 blossom into a full petrochemical industry.

7 In this bag are tiny styrene balls. They were
8 made from benzene. You will find it on this other
9 exhibit up here in the light green near the bottom.
10 That's benzene, a derivative of crude oil. They were
11 shipped by Sealand Transport to Western Insulfoam
12 Corporation at 628 Ocean Dock Road in Anchorage, Alaska.
13 At this location these tiny styrene beads were expanded
14 up to forty times their diameter, and here are the white
15 balls that are those tiny little beads that have been
16 blown up some forty times in diameter. This was done at
17 628 Ocean Dock Road in Anchorage.

18 This would not be a particularly interesting
19 story except for the fact that these final two stages
20 of processing were done in Alaska, under severe weather
21 conditions, and so-called high cost Alaskan labor. This
22 finished product is sold at a price which is twenty
23 percent less than the competitive product which was
24 processed in the Lower 48 and shipped to Anchorage in
25 finished form. The secret in this case is this: the

1 shipping of these tiny beads instead of styrene balls,
2 which are forty times as large as the beads. We shipped
3 a small product. Sure, it weighed essentially the same,
4 but we shipped a small, compact product to Alaska instead
5 of a big product that was ready to be sold at a cost
6 twenty percent higher.

7 This last example that we have (not the last,
8 next to the last one), it's the last of the two examples
9 that illustrate that we already have a miniature petro-
10 chemical industry in Alaska. This is a sample of foam
11 insulated pipe which was upgraded and processed at
12 3605 Peger Road, Fairbanks, Alaska. Again, the raw
13 product was shipped after it had received two or three
14 of those processings and finally the last process was
15 done at Fairbanks, and it was only done because he
16 could do it there cheaper than he could ship it up.

17 The last sample that we have in our magic
18 briefcase today was not processed in Alaska, but in
19 eight years from now it very well could be. The label
20 on these ten plastic freezer containers indicates that
21 they were manufactured for Mobil Chemical Company, Consumer
22 Plastics Department, Macedon, New York. I purchased this
23 at Pay and Save in Fairbanks.

24 Thus, the action that I am suggesting you take,
25 is simply to recommend to the Administration that they make

1 a few revisions in the existing contract and locate a
2 gas processing plant (commonly known as a gasoline plant)
3 near Fairbanks, and that all the remaining ethane,
4 propane and any heavier hydrocarbons be removed from
5 the State's one-eighth share of Prudhoe Bay gas. This
6 could amount to as much as twenty-three thousand barrels
7 of liquids per day, depending upon how much of the heavier
8 liquids might be removed at Prudhoe Bay.

9 Enough methane would be withdrawn to satisfy
10 the heating requirements of interior Alaska. Some of the
11 propane would also be available for heat in the outlying
12 and bush areas where it is not economically feasible
13 to extend the distribution system. The balance of the
14 liquids would then be available for sale to a large
15 number of corporations engaged in up-grading and processing
16 these liquids into usable products. It would not be logical
17 to locate all of these plants near Fairbanks. Perhaps
18 half of them would be located (and maybe more than half
19 of them) in the Anchorage vicinity.

20 An article several weeks ago in the Oil and Gas
21 Journal stated that, "Construction has begun on phase
22 one of a 1.4 Billion Dollar petrochemical development
23 in Canada's Alberta Province." If you change the date to
24 1980, the place could be Alaska, and the amount could
25 stay the same, 1.4 Billion Dollars.

1 The Board of Directors of Dow Chemical Company
2 are meeting this week in Michigan. According to their
3 West Coast general manager, they will have under con-
4 sideration a proposal to look again at Alaska.

5 Yesterday morning I called Coy Hood, Director
6 of Hydrocarbons, in New York City for the Celanese
7 Corporation. He stated to me that his firm would be
8 interested in purchasing approximately one-fourth of the
9 State's methane for use in the State of Alaska under a
10 firm ten to fifteen-year contract.

11 The revisions we have made in the proposed
12 royalty gas contract are essential if the State of Alaska
13 is going to realize the greatest possible value from
14 this gas. Briefly these revisions are as follows,
15 and I think at least the committee members all have
16 copies of these suggested revisions. I'd like to just
17 review the highlights on these.

18 To begin with, when you go into the document
19 about six pages, or the seventh -- it isn't numbered
20 seventh page, but it is the one that I've headed up the
21 top "Proposed Excess Royalty Residues Sales Agreement."
22 The one that's been presented to you was just Royalty
23 Gas Sales Agreement. This, I would suggest be entitled
24 Excess Royalty Residue Gas Sales Agreement.

25 The reason that I make that statement is if a

1 plant is located at Fairbanks, a gasoline plant is
2 located at Fairbanks, and you are able to strip out the
3 liquids and sell only the methane, that methane is not
4 gas as defined in the contract you now have. It is
5 residue gas, it will be what's left over after these
6 other products be removed. So the residue gas is what
7 you'd be selling, and throughout this contract then
8 where I saw the word "gas" meaning the wet gas that you
9 were going to sell, I changed that to "residue." You know
10 I may not have caught them all, but I think in most
11 of the cases where gas, meaning the gas that you were
12 going to sell, I changed that to residue gas. Under
13 my proposed revision you wouldn't be selling any of the
14 ethane, the propane, the butane and the pentanes plus.

15 The companies all admitted, they weren't here
16 for that purpose anyway; they were here wanting to buy
17 from you methane, and we are selling them the whole
18 works.

19 About two pages later I underlined where the
20 gasoline plant access at a point no closer than ten
21 miles or more than twenty-five miles from Fairbanks,
22 Alaska. We added two sections, which we've indicated,
23 they're new paragraphs. They're there primarily for
24 the purpose of setting out early in the contract what
25 the State is selling is just going to be this residue gas,

1 the methane that these gas companies indicated they
2 wanted to buy. The liquefiable hydrocarbons and non-
3 excess gas is what we would then be selling.

4 I guess there's a later place where we emphasize
5 the petrochemical aspect of this. That page should be
6 page three, then four, five, and on page five there
7 are several deletions. The deletions are primarily
8 because under our suggested revision there is no reason
9 to ever refer to taking back the liquids or taking back
10 the methane. We are only going to sell what is excess
11 at that plant at Fairbanks.

12 So on page five we've made some deletions that had
13 reference to that; and page six, there's some more
14 excess royalty residue gas rather than just royalty
15 gas. On page seven we did make one, what I feel wouldn't
16 be drastic if it stayed the same. We changed from
17 twenty-four months to twelve months the time that the
18 State could call back a portion of their gas, and I
19 feel that that's a more reasonable time. If you didn't
20 reserve any of it and you let it all go and then all
21 of a sudden you needed to take back a large chunk of it,
22 maybe they do need twenty-four months in order to make
23 their necessary plans. But if we're already removing the
24 liquids and they're only getting the methane that's
25 residue, then I think twelve months should be a sufficient

1 time for them to be noticed that we're going to use
2 a little more of it.

3 Paragraph 3.5, this says that we're going to sell
4 only that residue gas that's excess after it is pro-
5 cessed there at Fairbanks.

6 Paragraph 3.7(a) and (b) I have deleted completely.
7 I simply cannot understand -- if Representative Gruening,
8 one of the questions he asked, what are we giving up and
9 what are we getting in return -- I simply can't under-
10 stand how officials looking after the interest of the
11 State of Alaska would commit gas that might be discovered
12 some day in the Copper River Basin which is a short distance
13 from Point Gravina, the hauling charge should be much less
14 at a point like that than from Prudhoe Bay. Yet we're
15 stuck with any excess gas that we call back, in repaying
16 that to them at Prudhoe Bay prices, which may be a lot
17 lower than the price of gas would be, for example, in
18 the Copper River Basin. I see no reason to give that
19 kind of a plus to them. So I delete paragraphs 3.7(a)
20 and (b), 3.10 and 3.11. Those four paragraphs, we don't
21 need those at all.

22 I think we deleted part of paragraph 4.2. As I
23 recall, that had to do with the reserve gas. Under my
24 suggested revision there wouldn't be any reserve gas.
25 You're only going to sell what you're not then using,

1 and you would still have the right to call it back.

2 The one paragraph that I suppose the three
3 companies will scream the loudest, and I wouldn't blame
4 them for screaming the loudest, but when I heard all
5 three of them the last three days at this desk, they
6 told you, "We want that gas and we want it bad." If
7 they do, then I think paragraph 4 is not going to be the
8 paragraph that will kill them. They may say it will,
9 but I think, especially in Tenneco's case -- he said,
10 "We weren't even asked."

11 I checked the letters up in the Commissioner's
12 office and it's true, they were not asked if they were
13 interested in establishing any industry in the State of
14 Alaska. So he told you the truth when he said he was
15 not asked if he were interested in establishing some
16 industry in the State of Alaska.

17 Paragraph 4.4 states, "Buyer will construct and
18 operate a gasoline plant at a point not closer than
19 ten miles or more than twenty-five miles from Fairbanks,
20 Alaska. Such gasoline plant will be capable of processing
21 at least three-tenths of a billion cubic feet of gas
22 per day. All liquefiable hydrocarbons obtained by pro-
23 cessing gas through the gasoline plant shall be placed
24 in storage to be erected by buyer at a plant site and
25 shall be sufficient capacity to contain a ten day supply.

1 Ownership of all liquefiable hydrocarbons shall remain
2 with seller, however, nothing in this agreement will
3 prevent the buyer from bidding for the purchase of the
4 liquefiable hydrocarbons and non-excess methane for use
5 interstate domestic/industrial and/or petrochemical
6 industry in the State of Alaska." You may ask why I
7 single out the petrochemical industry. I did it for
8 this reason: if there is any legal mistake about the
9 difference between industry and the petrochemical industry,
10 then this change at least is in favor of the State of
11 Alaska. There is some question about whether you say
12 using this gas in industry means for heat purposes.
13 The petrochemical part of it converts that ethane to
14 something else that's no longer heat. It's not any
15 longer energy. So if there was any mistake about what
16 industry we could really use this in Alaska under this
17 revision, there would no longer be any question but that
18 petrochemical would be a use that would be acceptable
19 under the contract.

20 Further down in that paragraph, "Any excess
21 residue gas shall be sold to buyers in accordance with
22 Section 6.1. Seller will allow buyer to deduct a trans-
23 portation charge of (and I have Thirteen Cents, but I
24 have a question mark after that) per gallon for all
25 liquefiable hydrocarbons removed and 46.2 (and I have a

1 question mark after that) Cents per mcf for all non-
2 excess residue gas retained by seller, or if there is
3 a net deficiency owed by the buyer to the seller, then
4 the seller will remit to the buyer the deficiency."

5 Those two question marks simply mean that I
6 didn't have the time and the resources to go out and
7 come to you and say that these are firm costs that are
8 reasonable for transporting and processing that gas
9 at Fairbanks. I think they are reasonable, but I certainly
10 wouldn't quarrel with a few cents up or a few cents down.
11 If the State can convince the buyers that those prices
12 that I've used here are too high, fine. If the buyers
13 can convince the State that they're too low, fine. But I
14 think they're reasonable based upon what preliminary
15 work that I did on those prices.

16 Section 5.1 ties the heating content to one
17 thousand btu, exclusive of any acid gas. I don't think
18 there is any reason that the State of Alaska should be
19 forced to consider that carbon dioxide, that twelve
20 percent or whatever it was, still in there at Prudhoe
21 Bay. If it's not removed we should merely, you know,
22 be paying what is reasonable on a btu basis, and that
23 revised paragraph 5.1 makes that fairly clear. I think
24 it's been indicated here that the contract probably
25 protected us in that regard already.

1 Section 6.2 deals with the price set by the FPC.
2 We made a change there, and this change makes it certain
3 that if of all those producers at Prudhoe Bay, if they sell
4 their gas in the Lower 48 and the person that ends up
5 with the highest price, we can determine that he has some
6 connection, such as was mentioned here yesterday, with a
7 sister company or a good friend down there that has been
8 exchanging gas with him somewhere else and he really
9 doesn't get the highest price that the State of Alaska
10 could get. It is our opinion that we need to be able
11 to determine that through arbitration and not through
12 pre-set price. So under my provision it would be
13 possible for the State to even get a higher price than
14 is being paid to the highest priced producer in Prudhoe
15 Bay.

16 I think this covers most of the revisions that
17 we have made. Throughout there you'll see that we
18 changed gas to residue gas, and finally back at the end
19 under "Definitions" we've added three definitions that
20 weren't in this contract, and those three definitions --
21 the first one was "residue gas".

22 Yes, I'm sorry, it's about the third or the
23 fourth from the last page, it's an unnumbered page, but
24 it would be the fourth from the last one. The term
25 "residue gas" shall mean that portion of the gas entering

1 the plant which remains after the extraction of plant
2 products and which is not used for fuel and treating
3 in the said plant.

4 Then the term "excess royalty residue gas" shall
5 mean any of the seller's royalty revenue gas remaining
6 after seller completes contracts for intrastate domestic,
7 industrial and/or petrochemical uses within the State
8 of Alaska.

9 Then the last one, the term "acid gas" shall mean
10 carbon dioxide, nitrogen and hydrogen sulfide, and I'm sure
11 that any other impurities that might happen to remain
12 in there that could or should be taken out at the plant.

13 That, I think, covers the revisions. You may
14 have some questions about those.

15 I'd like to conclude then, since it is now possible
16 that the Arctic Gas route will ultimately receive the
17 certificate from the Federal Government, the State of
18 Alaska should firm up alternate plans to have its share
19 of Prudhoe Bay gas delivered at least to Fairbanks.
20 During the spring semester of 1976 at the University of
21 Alaska, Mr. Robert Dempsey, working under my supervision,
22 undertook an independent study in a class in Petroleum
23 Economics to determine just the cost to transport the
24 State's one-eighth share of the gas, that stream of
25 gas that's up on that chart, to Fairbanks. Since Mr.

1 Dempsey is here today, I would like for him to discuss
2 that report with you.

3 MR. DEMPSEY: Thank you, Mr. Dallas. Senator Rader and
4 Representative Gruening, you all have copies of this.
5 I have given it to the secretary for the record. So
6 rather than reading at length from it, I think if you
7 have any questions I can address myself to that.
8 Just a little background, the study of transmission of
9 gas ---

10 SENATOR RADER: Just for the record, I don't have the exhibit
11 number on that. Would the secretary assign it Exhibit
12 Number 15, have you?

13 MRS. SANDERS: 15.

14 (Whereupon Exhibit 15 was duly marked.)

15 SENATOR RADER: Just so we know what you're referring to there
16 would you get all through and try to go through this?
17 I don't know whether we've received copies of what
18 you're talking about or not. Representative Gruening
19 was saying all he really needed was more paper.
20 If this is going to be an exhibit then you need not
21 read it, it will be attached to and made a part of the
22 record, and you can just summarize or depart, as you wish.

23 MR. DEMPSEY: Thank you, sir. As I said, the studies of
24 the transmission of gas to the interior are not new.
25 As far back as 1952 the Alaska Planning Commission

1 undertook similar type studies and generated data on
2 them. However, most of it, and most of the studies
3 that we've done, came up with an extremely high price
4 for delivery of gas to the interior. Mr. Bob Ward
5 referred to that today when we heard him say that he
6 thought a royalty gas line at some time was feasible.
7 And we concur, that it will be feasible.

8 What I found to be the failing of those studies
9 is that they usually dealt just with sufficient gas
10 to heat the interior and, therefore, denying the scale
11 of economics that would normally go along with it. So
12 what we have done is base this study on the delivery
13 of almost the total amount of the State royalty gas to the
14 interior for work there.

15 What we've come up with is a figure that reflects
16 itself in last year's dollars at about a Dollar and a
17 Quarter per mcf for delivery of gas to the interior.
18 This would reflect -- I think the major pipelines,
19 Trans-Alaska and El Paso, usually are in the range of
20 about Thirty Cents. So this reflects the difference
21 in a smaller pipeline. But it does deal with the larger
22 amount of gas. We covered the State's royalty at Fifty-
23 Two Cents per mcf. The transportation cost is about
24 Seventy-Five Cents.

25 SENATOR RADER: Very good. That will be distinctly helpful,

1 particularly that does open up some other options to us
2 that had not been presented to us earlier, I think.
3 I don't know, I'm not sure about the relevancy of this
4 except your suggestions as to the contract, the legalities
5 of course, will be referred to Mr. Rush Moody, of our
6 independent staff, and the Legislative Counsel staff,
7 and the Attorney General, I assume, will have something
8 to say about this too as to your suggestions there.
9 The committee, I don't think, will try to write the
10 contract in its legal form, or even -- we may go into
11 that. But we do appreciate your remarks. Are there
12 any questions of the gentlemen?

13 Mr. Parr.

14 REP. PARR: Mr. Dallas, when you were talking about, you
15 used the figure of maybe twenty-three thousand barrels
16 a day of liquids, what was the gas figure? What gas
17 figure were you talking about, two billion feet a day
18 or what?

19 MR. DALLAS: I think we were using these figures, and I
20 believe two billion cubic feet per day. It might have
21 been a little more than two billion, I'm not sure.

22 REP. PARR: The reason I asked the question was not just
23 idle curiosity. Mr. Boucher had given us something for
24 liquids, and for the two billion cubic feet a day he
25 would have gotten about thirty thousand barrels, and the

1 unit plan developed for Prudhoe says, strangely enough,
2 ten to fifteen barrels per million cubic feet, which
3 only comes out to twenty-five hundred to thirty-seven
4 hundred fifty barrels. We've got an awfully big wide
5 range of estimates and I was just wondering, isn't there
6 a firm figure pretty much as to how many barrels a day
7 you would have of this stuff?

8 MR. DALLAS: Well, I think it's been presented to the
9 Federal Power Commission, and I think that something
10 like thirty thousand barrels a day of liquids, the
11 equivalent of liquids would be there if you still had
12 the CO₂ in it. I think this is a reasonable figure,
13 the sales gas.

14 REP. PARR: But ten to fifteen barrels per million cubic
15 feet doesn't sound right.

16 MR. DALLAS: I don't have that rule of thumb before me,
17 I'd have to stop and do some checking on that one.

18 REP. PARR: Thank you.

19 SENATOR RADER: Any other questions? Senator Huber?

20 SENATOR HUBER: Thank you, Mr. Chairman. What I would like
21 to ask, you said you had the charts showing the percentages
22 of everything that was available in the raw gas. I think
23 you said there was three charts. I wonder if you would
24 supply the committee with those extras, because that
25 answers some of the questions I have asked of other people.

1 MR. DALLAS: Yes, that's an Exxon exhibit before the Federal
2 Power Commission, and I'll be happy to make a copy of
3 that available for the committee.

4 SENATOR HUBER: Thank you.

5 SENATOR RADER: Any further questions? Representative
6 Gruening.

7 REP. GRUENING: If the total amount of liquids from our
8 royalty gas were delivered to either Fairbanks or
9 Anchorage, or a combination, what kind of magnitude
10 of processing, petrochemical processing plants are we
11 talking about? This 1.4 billion plant that you mentioned
12 in Alberta, how many barrels did that process?

13 MR. DALLAS: You see, that wasn't one plant; that was a
14 large number of plants doing a lot of things, and that's
15 exactly what I'm talking about for the State of Alaska.
16 We can't do it all with one plant located at Fairbanks.
17 I'm sorry, it could be done but it wouldn't be logical,
18 economically feasible to do it. At Anchorage is where
19 a lot of this, if we manufacture, take out the ethane
20 at Fairbanks, and then it is converted -- I have an
21 ethane products tree there, and if you will see, the
22 center of that tree is ethylene. That's one step
23 removed from ethane. And out around from the center
24 of that ethylene products tree is about four rings of
25 processing that we need to go through before we get any

1 of those finished products, and those stages can be
2 anywhere along the way after the ethane is turned to
3 ethylene, a liquid that can be shipped. We could also
4 ship ethane as ethane, but we've got to keep it cold
5 to do that.

6 REP. GRUENING: Well, I'm trying to understand what the magni-
7 tude of all these liquids are in our total royalty gas
8 stream.

9 MR. DALLAS: It's roughly a billion pounds a year, and that's
10 the amount that you hear -- I'm sure you've heard it
11 before, that the petrochemical industry says that we
12 need roughly a billion pounds a year a product to make
13 a petrochemical complex feasible.

14 REP. GRUENING: Of the total complex?

15 MR. DALLAS: Total complex.

16 REP. GRUENING: So in a State like Texas, which uses about
17 the size of our total royalty gas every year, consumes
18 that much gas internally, it would use probably more
19 than a billion pounds in its industry?

20 MR. DALLAS: Yes, several billion I would say.

21 REP. GRUENING: One other question. In the opening statement
22 in your presentation here, which was very thorough and,
23 I think, well done, you mentioned in the second paragraph
24 that while there is no intent to criticize the State's
25 motives, only the methods used, you point out that you

1 thought that an uncomplicated well thought-out political
2 document could have accomplished the State's end.

3 What did you mean by that?

4 MR. DALLAS: My associate will help me with this. Why don't
5 we let him answer that question?

6 MR. DEMPSEY: What I had in mind, Representative Gruening,
7 was that -- I think exactly what we're reflecting here,
8 the complexities that come up with a contract when its
9 stated end is a political document. I think that's been
10 made quite clear that that's what we're trying to do, is
11 use it as a political document, and I just throw that
12 out as an option for what it might be worth, that we
13 might have been able to execute a document that optioned
14 the right to negotiate for our gas based upon political
15 support and the result that we gain from that. I don't
16 know if it was possible or if it ever could have been
17 negotiated, but I do say that it might have been a
18 possibility. I don't know even whether it was explored
19 or not.

20 REP. GRUENING: Thank you.

21 SENATOR RADER: Any further questions of these witnesses?

22 We thank you both very, very much for your distinct
23 help this afternoon. We'll take a ten-minute break and
24 be back promptly in ten minutes.

25 (Whereupon the hearing recessed at 3:45 p.m.)

1 MS. VIRGINIA DAL PIAZ: Mr. Chairman, Committee Members,
2 my name is Virginia dal Piaz and I am representing the
3 Alaska Conservation Society, and I'd like to make a
4 brief aside and just commend the committee members that
5 are left here for great perseverance and patience in
6 getting to the bottom of this issue. I, personally,
7 having sat here for four days, have learned quite a lot
8 and I know a lot of the other people have too. I do
9 appreciate the opportunity.

10 The Alaska Conservation Society is the oldest
11 conservation organization in Alaska, being founded in
12 1960. We have over eleven hundred members in the State
13 and nine chapters Statewide. Our purpose is to secure
14 the wise use, protection, and preservation of the scenic,
15 scientific, recreational, wildlife and wilderness of
16 Alaska.

17 As it pertains to this hearing and as Mr.
18 Thompson from Alcan mentioned earlier, we are an inter-
19 venor in the FPC decision, along with three other
20 environmental groups. As a matter of fact, ACS was
21 founded to help fight for the creation of the Arctic
22 National Wildlife Range and to protect it after its
23 enactment. So, therefore, the results of the Litt
24 decision are being looked at very carefully by our
25 organization, and a decision on the possible alternatives

1 to be pursued are being evaluated.

2 The Alaska Conservation Society has also been
3 following closely the oil and gas development in the State.
4 We are on record publicly, numerous times, speaking out
5 against ill-conceived, unplanned-for development of these
6 types of industry in Alaska before a comprehensive look
7 has been taken and a public consensus reached as to
8 what kind of Alaska we want to have; that is, what values
9 Alaskans want reflected in their economic, social and
10 environmental spheres of activity.

11 The purpose of these hearings is to determine
12 approval or disapproval by the Legislature of the pro-
13 posed royalty gas contracts between the State and three
14 companies, Tenneco, El Paso and Southern Natural Gas.
15 Yet, a much greater problem than this exists, which reflects
16 the current indecision.

17 In the late 1960's events were put into motion
18 that are culminating now in 1977; that is the construc-
19 tion of the Trans-Alaska oil pipeline and the subsequent
20 problem of also having to deal with the natural gas
21 that accompanies such a field. At that time and to
22 present, this country (it has also been pointed out
23 earlier, and to what extent this testimony is repetitious,
24 I apologize) -- at that time and to present, this
25 country has had no national energy policy (witness the

1 current tragedy on the East Coast and in the Midwest
2 for which crisis decisions are having to be made) and
3 the State of Alaska has no State energy policy that we
4 are aware of. The point is, that without a firm direction
5 with criteria established by which to base such a
6 decision as to what to do with our oil and gas, Alaska
7 is then placed in a position of having to respond to
8 pressures to sell her oil and gas in a context that is
9 premature and possibly uneconomic. Decisions such as this
10 should be based on long-term energy requirements and
11 fully identify the environmental consequences.

12 Producers, pipeliners, taxers, consumers, ethnic
13 groups, social and natural scientists, developers and
14 conservationists, all alike, should be able to agree
15 upon several basic points.

16 First, the most natural gas in the Arctic will,
17 given time, become economic and will be extracted.
18 However, the when and the how are controllable.

19 Second, as a resource, natural gas should provide
20 the maximum benefit at the least cost to everyone involved.

21 Third, the net energy production should be maxi-
22 mized, commensurate with other views.

23 Fourth, the fossil fuel should last for the
24 maximum time possible under the political realities of
25 our time.

1 And fifth, other values which could be harmed
2 by this project should be identified so that inventive
3 minds can be directed toward minimizing any damage.

4 The correct routing of a large pipeline is a
5 very complex matter, but the project should serve the
6 largest possible number of present and future gas fields;
7 it should be built and operated so as to use a minimum
8 of resources and cause a minimum of disruption to the
9 earth and its life; the pipe should have the longest
10 possible lifetime; and the petroleum resources should be
11 delivered to the markets where the greatest benefit to
12 all people will result.

13 With these criteria in mind, and from our con-
14 siderable study of the matter, Alaska Conservation Society
15 does not support any company, but of the three routes
16 considered by the FPC, the Alcan route looks the best.
17 However, the present state of the art ability to plan
18 Arctic petroleum development, extraction and transporta-
19 tion to market does not match the ideal nor the possible.
20 Most likely, none of the proposals made so far are close
21 to optimum. None considers the entire petroleum province
22 development.

23 Under no circumstances would the Alaska Conser-
24 vation Society support a line crossing the Arctic National
25 Wildlife Range and we will fight actively against it.

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1 As we think the Alcan route looks the best of
2 the so far proposed routes, as we would not support a
3 line going through the Wildlife Range, and as we have
4 very serious questions about the El Paso proposal,
5 specifically the LNG tanker marine leg of the route,
6 we, therefore, conclude that we must urge the Legislature
7 not to approve these contracts. We do not doubt that
8 the State got the best price under the circumstances or
9 that they do not have good reasons for their position.
10 The problem is in further locking in the State, both
11 through the Administration and the Legislature, into a
12 route (in this case El Paso) that we believe is not in the
13 best interests of the State and its environment.

14 In other words, maybe you are asking the right
15 pragmatic question concerning the contracts while the
16 real question goes begging -- not how should we sell the
17 gas, but why. Promoting the El Paso line through the
18 State, as the results of these contracts will do through
19 the lobbying clause, will produce economic activity
20 in the State, which seems to be the real excuse for
21 all of this; possibly even promote a petrochemical
22 industry in the State, as you heard from the gentlemen
23 earlier. These same types of arguments were used for
24 our current huge Six Billion Dollar cost overrun project,
25 the Trans-Alaska oil pipeline. And has it rescued

1 Alaska's economy? If so, what a price we're paying!

2 Be sure you realize the full consequences of
3 these contracts before you approve them, for they go far
4 beyond the actual selling of the gas. They carry a
5 commitment, if successful, for heavy development in
6 Alaska -- more people, more demands for services,
7 environmental degradation and concomittantly, more
8 government to regulate and deal with the development.

9 We hope the Legislature will give some careful
10 thought to the real costs of approving these contracts.
11 They start something in motion that goes beyond wielding
12 political influence. The State and its people will pay
13 heavy costs, both socially and environmentally, if the
14 all Alaska gas pipeline route is successful.

15 In a state that still can't answer "how" to
16 waste and sewage disposal, adequate water supplies,
17 decent housing and wildlife management, must we add the
18 further burden of non-indigenous technology before being
19 able to solve even our basic problems of existence in
20 Alaska? There are no overriding reasons why the trans-
21 portation system must become too costly because of
22 environmental lawsuits, must be routed through wilderness
23 that should be protected forever, must be the death
24 knell for subsistence cultures, or must become an
25 important factor in the extinction of any species or

1 ecologic zone.

2 Industry is rightly responsible for the economic
3 benefits to be derived from developing resources.
4 But profit alone does not justify socially nor environ-
5 mentally irresponsible actions. The public is fast
6 becoming aware of the limit of natural resources and
7 are asking questions concerning all growth being good
8 and all development being a blessing. Government is left
9 in the role of responsible planner and arbitrator of
10 contesting value systems.

11 We believe much more public discussion and
12 presentation of alternatives, as through possibly the
13 Alaska Public Forum, is needed before a final decision
14 can be reached since it will be outside the context
15 of an energy policy which does not exist in the State.
16 We are on record to making this request to Governor
17 Hammond in a letter dated July 26, 1976, asking that
18 this be done.

19 The Alaska Conservation Society opposes any
20 sale at this time as premature. It narrows the State's
21 options for agreements that might be of more economic
22 and environmental benefit in the future.

23 Thank you.

24 SENATOR RADER: Do we have any questions of the spokesman
25 for the Alaska Conservation Society?

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MS. DAL PIAZ: dal Piaz.

SENATOR RADER: dal Piaz, yes. Questions? Thank you very
much. The next witness will be Mr. Gillam, City of
Fairbanks.

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1 MR. SCHOLES: My name is Peter Scholes and I'm the Alaska
2 representative of the Wilderness Society.

3 The Wilderness Society is a conservation organiza-
4 tion dedicated to the preservation of the wild land and
5 waters of our nation. About five hundred Society members
6 live in Alaska, including our President, Celia Hunter,
7 a long-time resident of Fairbanks.

8 Allow me to present a view of the issue being
9 considered here. Backed by several more or less con-
10 clusive studies and under great political pressure, the
11 Governor and the State's Royalty Oil and Gas Development
12 Advisory Board have suggested a sale of the State's
13 royalty share of Prudhoe Bay gas. It is proposed that the
14 gas be sold to three companies that have agreed to lobby
15 in behalf of the Trans-Alaska gas pipeline system.

16 The Administration's position is made much more
17 complex because it involves a choice among three
18 alternatives, two of which appear to be almost equally
19 advantageous for the State, the third being much less
20 beneficial. The Administration has not only ruled out
21 the unpopular alternative, it has chosen among its
22 first choice and what it considers a good second choice.
23 In making the choice between El Paso and Northwest and
24 using the sale of the State's royalty gas as a method
25 of promoting its choice, the Administration hopes to

1 substantially affect the gas pipeline sweepstakes.

2 Now let me explain the Wilderness Society's
3 position in this matter. We are not primarily concerned
4 with the sale of the State's royalty gas. From the
5 beginning, three years ago, our objective has been to
6 assure that the most environmentally sound natural gas
7 transportation system is designed and built, following
8 a route that minimizes impact.

9 Like the State, we are unalterably opposed to the
10 gas pipeline route backed by Arctic Gas. The notion of
11 a pipeline across the Arctic National Wildlife Range or
12 its proposed extensions to the south and west within
13 Alaska and eastward into Canada would be a travesty of the
14 greatest proportion, an affront to the very purpose of
15 the Wilderness Society. The Governor understated the
16 significance of the Wildlife Range when he referred to
17 it as "one of the last undisturbed wilderness areas in
18 the State."

19 However, here the views of the Hammond Adminis-
20 tration and the Wilderness Society diverge. Our evaluation
21 leads us to support the Alaska Highway route and to rank
22 the Trans-Alaska LNG route second. The use of already
23 developed corridors is a definite plus for both routes,
24 and we recognize that under any circumstances construction
25 of a gas pipeline across the State will impact the

1 environment unfavorably.

2 In looking closer at potential environmental
3 impacts we found that the hazards and risks of the Trans-
4 Alaska LNG route are greater than those of the Alaska
5 Highway route. Consider the following list of impacts
6 that apply only to the Trans-Alaska LNG proposal:

7 The project crosses an inventoried roadless and
8 undeveloped area in Chugach National Forest. Though it
9 has not been selected as a Wilderness Study Area, the
10 stretch of forest traversed by pipe could be designated
11 as Wilderness.

12 Second, the liquefaction plant at Point Gravina
13 poses several environmental threats not shared by an
14 all-land transportation system; for example, thermal
15 pollution and the potential for plant destruction or
16 damage resulting from seismic activity.

17 Third, the LNG tankers will add to the prolifera-
18 tion of marine traffic in Prince William Sound and the
19 northern Gulf of Alaska, thereby increasing the risk of
20 collisions and accidents.

21 Fourth, there are potential threats to the
22 environment and to human safety involved in the whole
23 process of LNG transportation. It is a relatively new
24 technology, especially with large tankers.

25 Fifth, the California Coastal Commission's adopted

1 Coastal Plan policy on the siting of LNG terminal
2 facilities includes the following language: "Until
3 the risks inherent in LNG terminal operations can be
4 sufficiently identified and overcome and such terminals
5 are found to be consistent with the health and safety of
6 near-by human populations, terminals shall be built only
7 at sites remote from population concentrations."

8 And sixth, we find that many Californians wish
9 to protect the last few undeveloped stretches of the
10 State's coast; hence, the strong opposition to terminal
11 facilities and regasification at Point Conception.

12 The environmental considerations favoring the
13 Alaska Highway route over the Trans-Alaska system seem
14 to have been noted by the Governor, for he acknowledges
15 that, "the Alcan proposal has certain desirable environ-
16 mental aspects." The Wilderness Society feels that these
17 considerations are persuasive.

18 However, we look also at the mood of the nation,
19 and we think this is an important consideration as the
20 Legislature reviews the proposed royalty gas sale.
21 The route taken by the gas pipeline has become a matter
22 of concern to elected officials in Washington, D.C.,
23 and putting Judge Litt's decision in proper perspective,
24 we feel that the Alaska Highway route will continue to
25 have broader national appeal than the Trans-Alaska system.

1 The big news in the Midwest and on the East Coast
2 is cold weather. Every day of last week the Washington
3 Post ran front page articles on the weather and the
4 ensuing natural gas shortage. Factories have been
5 forced to shut down and schools closed. People are
6 being asked to turn their thermostats down and take other
7 voluntary action to save fuel. In short, as we see it,
8 a few jobs in Alaska are not going to begin to balance
9 the impact on employment that the natural gas shortage
10 is having in the Eastern United States.

11 And, as demonstrated by the Congressional vote
12 on the controversial Western Leg, people do not trust
13 displacement as an alternative to direct delivery.
14 We anticipate that Midwestern and Eastern members of
15 the Congress will have little patience for a gas pipeline
16 system that delivers natural gas from the North Slope
17 to California, and thereby shift other supplies to
18 Eastern markets.

19 But Californians are not supporting the Trans-
20 Alaska system either. This situation was reflected in
21 the thirty-nine to zero vote of California Members of
22 the House of Representatives on the Western Leg amendment.
23 Speaking for the California Public Utility Commission,
24 Leonard Ross said, "On the merits of the proposed trans-
25 portation systems, our own preliminary assessment is that

1 the Arctic Gas Transportation route as presently proposed
2 would be preferable."

3 Ross went on to say, "Another concern raised by
4 the El Paso project has to do with liquefied natural gas.
5 Two LNG projects involving Indonesia and South Alaska
6 have already been proposed by the Southern California
7 Gas Company, Pacific Gas and Electric, and their
8 affiliates. Certification of El Paso Alaska would
9 increase California's dependence on LNG to as much as
10 ninety percent of our gas supply by the mid-1980's.
11 Presumably, gas from the Southwest would be backed off
12 and the existing pipelines either abandoned or used for
13 reverse flow. The net effect would be to make California
14 exceedingly vulnerable to any LNG supply interruption..."

15 Second in the running for major catastrophes
16 of the winter are tanker accidents. We see the ARGO
17 MERCHANT having spilled 7.6 million gallons of fuel when
18 it ran aground on the Nantucket Shoal. The DAPHNE ran
19 aground off Puerto Rico. The OLYMPIC GAMES suffered a hull
20 puncture and spilled a hundred and thirty-four thousand
21 gallons of oil when it ran aground in the Delaware River.
22 And, the SANSINENA exploded in Los Angeles harbor,
23 killing five people.

24 Staff for the United States Senate is presently
25 drafting a bill to regulate commerce by establishing

1 procedures for the siting and operation of liquefied
2 natural gas facilities. In the working paper's
3 Declaration of Policy is this statement: "The siting and
4 operation of liquefied natural gas facilities must be
5 preceded by careful planning and evaluation of costs,
6 dangers, and benefits, because liquefied natural gas
7 is extremely hazardous. Current procedures for the
8 approval of such facilities by the Federal Government
9 are inadequate to meet the Government's obligation to
10 prevent, or to reduce to the lowest possible level, the
11 risk that such importation of natural gas will result
12 in injury or loss. Such current procedures are also
13 fragmented and slow."

14 We speculate that if Congress is serious about
15 this piece of legislation it may be less inclined to
16 approve the Trans-Alaska LNG gas pipeline system at
17 this time.

18 The natural gas pipeline sweepstakes is far
19 from over. There are many more steps in the comprehensive
20 decision-making process prescribed by the Alaska Natural
21 Gas Pipeline Transportation Act of 1976.

22 The Wilderness Society's recommendation to the
23 Legislature is this: for environmental, as well as
24 national political reasons, the Alaska Highway route
25 is preferable to the Trans-Alaska system, both being

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vastly superior to the Arctic Gas route. We urge the
Legislature to reconsider its unswerving and unconditional
support of El Paso's project.

SENATOR RADER: Do we have any questions of Mr. Scholes?

Mr. Scholes, we appreciate very much your remarks.

MR. SCHOLES: Thank you.

SENATOR RADER: The next witness is Ms. dal Piaz.

1 MS. HORTON: Good evening. I'm Allison Horton and I was
2 asked to read the Friends of the Earth testimony because
3 Jim Kowalsky couldn't be here. I'd be happy to relay
4 any questions back to Mr. Kowalsky for response if
5 this raises any.

6 Friends of the Earth is pleased to present these
7 written comments to the Alaska State Legislature on
8 Governor Hammond's proposals to sell the State's share
9 of its royalty gas to the Tennessee Gas and Transportation
10 Company in exchange for support of one of the three
11 competing natural gas pipeline proposals.

12 FOE, a national conservation organization ---

13 SENATOR RADER: Excuse me. Is this the same testimony that
14 Exhibit No. 5, do you know?

15 REP. GRUENING: Mr. Chairman, it may be, but we at that time
16 reserved their wish to read it into the record.

17 SENATOR RADER: If they want to read it into the record
18 then we might as well delete it though as an exhibit.
19 That's what I was thinking. Is this the statement, would
20 you take a look?

21 MS. HORTON: I assume that it is.

22 SENATOR RADER: It is the same testimony?

23 MS. HORTON: I believe the original copy was sent to
24 Representative Gruening. Right.

25 SENATOR RADER: Well, if you're going to read it and make

1 it a part of the record, then make a notation on Exhibit 5
2 that it was read into the record and will not appear as
3 an exhibit. In other words, there will be a blank
4 Exhibit 5, a blank sheet for Exhibit 5 saying that it's
5 in the record. I think that would be the proper way
6 to handle it. That way we'll have the interrogation
7 and the rest of it all in the proper place. Would you
8 proceed?

9 (Whereupon Exhibit 5 was duly withdrawn.)

10 MS. HORTON: FOE, a national conservation organization with
11 sister groups in a number of leading foreign nations,
12 has an Alaska membership of approximately two hundred
13 persons. The office of the Alaska Representative is
14 located at 1895 Pioneer Way in Fairbanks.

15 FOE has a long-standing major interest in the
16 matter of gas and oil development in Alaska. Jim Kowalsky
17 and our Washington staff have lobbied vigorously in
18 Congress in 1975 and 1976 to prevent any progress on a
19 bill to authorize the Alaskan Arctic Gas pipeline proposal
20 sponsored by then Senator Walter Mondale of Minnesota,
21 and ultimately defeated, or abandoned. Our major interest
22 in the Arctic Gas proposal is the inevitable, ongoing
23 destruction of the wildlife resource which would result
24 from a whole cycle of developments which the Arctic Gas
25 proposal would bring to the Arctic National Wildlife

1 Range, which it would cross if built as proposed.

2 The committees may also recall that FOE was one
3 of the leading plaintiffs in the Trans-Alaska oil pipe-
4 line lawsuit, which accompanied and stimulated the debate
5 over which route would be preferable for the construction
6 of that pipeline. At that time we argued that an all
7 overland oil pipeline from Prudhoe Bay through Canada,
8 directly to oil short regions of the Midwest was the only
9 pipeline system which made any sense at all. We also
10 argued that a surplus of oil would occur on the West
11 Coast as a result of the Trans-Alaska pipeline/marine
12 tanker system, thereby making it necessary to ship oil
13 to Japan. Our studies showed the surplus would result,
14 and so did other research which was performed to find
15 this information.

16 All this was ignored, and yet we note now that
17 the wisdom of our arguments has been proven. So have
18 our objections to the marine oil tanker system, a system
19 which now appears to have turned from a string of promises
20 of unique, modern, safe tanker and navigational system
21 to a trail of broken promises.

22 We urge the committees of the State Legislature
23 to listen to what we have to say in the matters of
24 petroleum development in the North.

25 FOE has not endorsed any specific gas pipeline

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1 proposal. We have, however, expressed our preference
2 for a pipeline to parallel the Alcan Highway, even
3 before there was a proposal to build it.

4 FOE opposes the Hammond Administration's proposal
5 to sell the State's share of its royalty gas to
6 Tennessee Gas and Transmission Company to purchase
7 support, as it were, for the El Paso pipeline proposal.
8 This position is based upon our observations in Washington
9 that a proposal to bring gas directly from Alaska to the
10 mid-continent is imminently more acceptable and more
11 preferable than the El Paso project.

12 In other words, the Hammond proposal commits
13 the State to sell its own resources in order to seek
14 what we see as a failing project which never did capture
15 the imaginations of the Nation's lawmakers who, under
16 existing procedural gas pipeline legislation, will make
17 the ultimate decision on the authorization of a gas
18 pipeline route. Although FOE and all other major con-
19 servation organizations which we know about would prefer
20 any proposal which does not breach the Arctic National
21 Wildlife Range, we have also learned that Congress has
22 been pre-conditioned to accept the direct pipeline con-
23 cept, and to reject the end-run concept embodied by the
24 El Paso proposal.

25 In a large part, this pre-conditioning has resulted

1 from the very early-on persistence on Capitol Hill of
2 Alaskan Arctic Gas, who began their informational campaign
3 there as early as the fall of 1973. It was at that time
4 that FOE representative Jim Kowalsky first observed
5 Arctic Gas literature in the offices of the Congressmen.

6 By contrast, El Paso has been virtually invisible
7 on Capitol Hill, even notwithstanding our personal plead-
8 ings with their Washington staff to take a much higher
9 profile. As a result of this entirely lackluster El Paso
10 campaign, we received immediate reactions against this
11 project, justified on the grounds of the perceived
12 unacceptability of LNG tanker technology, as well as the
13 unacceptability of the round-about routing of the El Paso
14 proposal.

15 Meanwhile, the Northwest/Alcan proposal emerged.
16 We believe that this proposal will very likely represent
17 the acceptable compromise in the minds of the Nation's
18 decision-makers, who have heard the rash of objections
19 to the Arctic Gas proposal which many of us have raised,
20 and the rash of objections to the El Paso proposal
21 which Arctic Gas has very effectively raised.

22 The unacceptability of LNG technology was
23 always an immediate objection raised by almost every
24 staff person for the Congressmen we visited to press for
25 consideration of a non-Arctic Gas proposal, for which

1 El Paso, at the time, was the only alternative.

2 FOE does recognize that the El Paso proposal is
3 much more acceptable for the overlapping interests which
4 we and the Hammond Administration seek to protect.
5 But we do have considerable reservations over the LNG
6 technology which accompanies that proposal, such as the
7 loss of energy and the complications of tanker traffic
8 in the coastal areas of the United States. The Alcan
9 proposal, on the other hand, is the compromise which
10 meets all the objections to LNG technology and to location
11 which have been raised to us over and over and over again,
12 and which seems to meet the criteria on which earlier
13 expressions of preference for the Arctic Gas proposal
14 are based.

15 We also note that the State of Alaska doesn't
16 seem to have its information completely in hand on the
17 competing proposals, witnessed by a recently commissioned
18 study by the State to further study various benefits
19 to the State from each proposed pipeline.

20 As a practical matter, we feel that Governor
21 Hammond is wasting his breath and yours trying to sell
22 the State's interests to gain favor for a proposal for
23 which so very, very little grass roots support exists.
24 Tenneco doesn't purchase the grass roots. Neither does
25 any other pipeline/petroleum conglomerate when the

1 sentiment is elsewhere to begin with.

2 We respectfully suggest that the Governor and the
3 Alaska State Legislature would do well to join us in the
4 support for a more practical overland route which has a
5 much higher degree of acceptability already built into
6 the inevitable process, a process which began several
7 years ago, long before Tenneco happened upon the scene.

8 Thank you for the opportunity to present these
9 views.

10 SENATOR RADER: Any questions of Ms. Horton? Thank you
11 very much for your testimony.

12 MS. HORTON: Thank you.

13 SENATOR RADER: We have Dennis Schlofeldt of the Chamber of
14 Commerce, Fairbanks Chamber of Commerce. Is Mr.
15 Schlofeldt present? Going once, going twice.

16 SENATOR HUBER: He was here earlier.

17 SENATOR RADER: Carolyn Berg, I have her name down as a
18 witness. Ms. Berg is not present.

19 That concludes the list of witnesses, at least
20 as delivered to my staff or to me. Are there any other
21 witnesses in the audience who wish to testify, any other
22 persons who wish to testify, other than those fellows
23 who have to stay until tomorrow?

24 I think we all better take our materials with
25 us tonight because tomorrow we will reconvene in the

1 courtroom, the State Courtroom right across from the
2 Capitol Building, hopefully at 11:00 o'clock.

3 (Whereupon the hearing was adjourned at
4 5:45 p.m.)
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