

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

511 SCOMM15: HOUSE/SEN. SP. COMM. SALE ROYALTY GAS 1977-7851

1 and reconvened at 4:00 p.m.)
2 SENATOR RADER: The committee will reconvene. I have sug-
3 gested to witnesses that they switch the order when it
4 suits their mutual convenience. I have not felt that
5 I should take it upon myself to deny and push contending
6 witnesses or competing witnesses out of order. The
7 order in which they're scheduled here is approximately
8 the order in which we received a request for testimony.
9 I understand that Mr. Hendershot has agreed to switch
10 with Mr. Jeff Barry. Mr. Jeff Barry, you have the
11 floor.

12 I want to suggest though, so that people under-
13 stand where I think we are in this situation -- I think
14 that tomorrow at 11:00 o'clock we're going to have to
15 start with our experts that we've hired. Tomorrow is
16 absolutely the last day that they'll stay. They've
17 already stayed over-due; we cannot hold them beyond
18 tomorrow, which means that we will go into our expert
19 testimony tomorrow of Dr. Swanson, Dr. Kilgore and
20 Mr. Rush Moody. I have a memorandum from Commissioner
21 Martin that he will be forced to leave sometime tomorrow
22 for Anchorage, if we wish to hear any rebuttal from
23 him. Mr. Boness leaves Sunday for Washington, D.C.
24 on an FPC reply brief, and Mr. Hamilton and Mr. Gilbreth
25 are in Anchorage and can come down with notice. Mr.

1 Jack Byrd, our consulting attorney, has to leave tomorrow
2 also, which means this to me: as far as tomorrow, I
3 think it is going to have to be devoted first to our
4 consultants who we have put over, put out of order, and
5 to a rebuttal by the Administration. The citizens who
6 have indicated their desire to testify, I suspect that
7 what we will do is, frankly, just stay at this table
8 this evening until people either walk away or get tired
9 of talking, and they can say whatever they want to for
10 as long as they want to, or else they can do it and
11 come back next week. But I see no other alternative
12 to that because we absolutely cannot lose our Thirty
13 or Forty Thousand Dollars worth of expert witness testimony
14 that's due tomorrow.

15 I am willing to stay here as long as we have
16 a witness that wants to testify of the general public,
17 and I will ask the recorder if she can do the same.
18 Those of you on the committee who wish to stay will stay;
19 those of you who do not will absent yourselves. We will
20 at least develop a record which will be available for
21 later examination by anyone who cannot stay. It's my
22 thought that we might as well go straight through and
23 give everybody an opportunity to talk.

24 Again, if they wish they may have an opportunity
25 to speak in front of the Senate Finance Committee or

1 Senate Resources next week. I do not know, that will
2 be up to Senator Poland and Senator Sackett. On the
3 House side I understand it has been referred to Finance,
4 and that would be up then to Representative Cowper to
5 decide what he wanted to do there. I don't know of
6 any other alternative. I'm open to suggestions.

7 Senator Poland.

8 SENATOR POLAND: Mr. Chairman, I just wish to support your
9 statement there, that anyone who wishes to testify
10 in front of Senate Resources will be most welcome at the
11 time we look at the bill.

12 SENATOR RADER: Yes, Mr. Chatterton.

13 REP. CHATTERTON: I feel it's incumbent upon me to represent
14 a constituent that is here. The time frame that you
15 gave did not include the name, of necessity, for tomorrow
16 of Mr. Hoyle Hamilton being here, and I'm wondering
17 if maybe the committee could see its way clear to let
18 him come back at a future date so he could testify.

19 SENATOR RADER: Mr. Hamilton, I believe, was to testify
20 as to the reserves and the probable and possible volumes
21 of gas that we can expect reasonably to be contracting
22 for out of the reserves; is that not correct, sir?

23 MR. HAMILTON: That is correct.

24 SENATOR RADER: Now the question, he's here at the convenience
25 of the committee. If the committee wishes to hear more

1 on that then we would ask Mr. Hamilton to come back,
2 or hear him today, or else we would not. I, frankly,
3 think that I've heard enough on that myself. He's
4 testified on that matter in front of the Pipeline Impact
5 Committee last year, he testified earlier this week on
6 it, and I'm sure he can repeat himself once more, but
7 I don't think it's necessary. Is there any other
8 committee member who desires further to hear from Mr.
9 Hamilton? Senator Huber.

10 SENATOR HUBER: Mr. Chairman, there just may be further
11 information from him. I may not want to hear from him
12 at great length, but there may be further information,
13 and new, that pertains to these sales only; so I
14 would ask that he not be removed.

15 SENATOR RADER: Well, the question is, he lives in Anchorage,
16 and the question is, do you want him to stay here
17 while you're thinking about this?

18 SENATOR POLAND: We can bring him back for Senate Resources,
19 John.

20 SENATOR RADER: We can bring him back for Senate Resources.

21 SENATOR HUBER: He could best answer that, sir, being he's
22 here.

23 SENATOR RADER: Well, can you read Senator Huber's mind and
24 best answer the question he's not yet asked?

25 SENATOR HUBER: I said ---

1 SENATOR RADER: Ask him the question then right now. I
2 don't know whether he can ---

3 SENATOR HUBER: The question is, Mr. Chairman, that if
4 he thinks what he has to say is pertinent to these and
5 that it isn't repetitious from before, then we can
6 make our decision.

7 SENATOR RADER: Do you think what you have to offer now
8 has already been presented to the committee or not?

9 MR. HAMILTON: Basically it has. We have made some new
10 computer studies that we will be presenting the results
11 probably in a few weeks, but they don't change much
12 from what we presented here before.

13 SENATOR RADER: When you say have not changed much, how much?
14 Ten percent? Five percent? Fifty percent?

15 MR. HAMILTON: We're talking basically about the same gas
16 take-off rates as we've talked about before, previously.

17 SENATOR RADER: Does it change the position at all in the
18 presentation of the Department of Natural Resources
19 presentation of the contracts to them or their position
20 on the desirability of them?

21 MR. HAMILTON: No, it does not.

22 SENATOR RADER: Then for our considerations that is immaterial,
23 in your view?

24 MR. HAMILTON: That's right.

25 SENATOR RADER: Would you present yourself in case there is

1 someone here who thinks it is material, as I understand it?

2 MR. HAMILTON: Yes, I will.

3 SENATOR RADER: Is there anyone who wishes to hold him here
4 for that reason? Mr. Hamilton, we appreciate very much
5 your staying, but feel free to pursue your other business.

6 MR. HAMILTON: Thank you very much.

7 SENATOR RADER: We do appreciate your concern. We'll hear
8 from Mr. Jeff Barry. Mr. Barry, would you identify your-
9 self for the record? I know you've been here, so I know
10 you'll keep your remarks as brief and to the point as
11 possible.

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1 MR. JEFFERSON BARRY: Thank you, Senator Rader. My name is
2 Jefferson Barry and I'm representing Teamsters 959 through
3 the delegation by Jesse L. Carr. Our union has collective
4 bargaining agreements for more than twenty thousand Alaskan
5 residents. We also have service facilities for attendants,
6 hospital, medical, legal services, pensions and recreation,
7 so that the total peoples, numbers, that we serve, both
8 fraternally and economically, is in excess of forty-five
9 thousand Alaskans.

10 I am really speaking for the people that I repre-
11 sent and, hopefully, also to speak for the people of
12 Alaska that you represent.

13 When this first sale was announced it was received
14 with a good deal of appreciation because, really, the
15 words "only surplus royalty gas are sold" really presents
16 the thing that the obverse is true, that there are going
17 to be uses made of the gas that is not surplus.

18 Mention has been made of Commissioner Martin's
19 statement about the poor gentleman down in the Lower 48
20 that was sitting at home because of the gas shortage and,
21 with the exception of Cook Inlet, I think that -- and as
22 a matter of fact, you would spend a Hundred and Fifty
23 Million Dollars in communications, and a lot of people at
24 Bethel with low lights and television sets, and in the
25 background is an oil generator pumping away, and they're

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1 looking at the same guy, and they see that he has hot
2 water, he has heat in his house, he has lights and he has
3 facilities, what we call the higher quality of life.
4 I think that that's the decision that this committee has
5 to make, is whether the needs of the people of Alaska --
6 certainly from a construction standpoint, we are interested
7 in the jobs that will be generated, but we also are looking
8 for the services that are generated because our whole
9 history of our union, in fact of all the labor unions, has
10 been to upgrade as much as possible and give as much
11 security to the better things of life. And one of the
12 things of life is to be able to have a decent style of
13 living.

14 I haven't heard testimony to the effect, for
15 instance, that if this line were to go to tidewater it
16 wouldn't only create certain jobs from the thing, but it
17 would also make available to every single person in the
18 State of Alaska, if the people wanted it and the State
19 approved it, this Legislature, to have either shipped to
20 them, up rivers and down the coasts, or barged down the
21 rivers out of Fairbanks and the Yukon, to every village,
22 to the public buildings, to schools because, really, there
23 isn't any place else that has as low a standard of living,
24 and what we have always strived for is to be free at
25 last, you know, like the Civil Rights thing.

1 When the discovery was made at Prudhoe Bay it was
2 made on our land. It's our gas, that twelve and a half
3 percent royalty. There has been testimony, and I believe
4 it to be true, that any future lines that may be constructed
5 would follow whatever line is going to be constructed
6 this time. If it goes through Canada we are, in effect,
7 having our gas, our life blood for a standard of living
8 that can be achieved fairly soon expropriated just as
9 though we were a foreign country.

10 After carefully reading the Governor's proposed
11 sale, I think it is flexible and somewhat fainthearted.
12 I would much rather have seen the appropriate person, like
13 that Tarryton ad and the black eye, and I would much rather
14 fight than switch because we believe that the only way
15 possible to make this vital resource available to all
16 Alaskans is for it to reach tidewater.

17 I don't think that this committee has too much
18 of a decision to make on this until they make the very
19 first decision and really a commitment to it, and that is
20 of whether you want this gas in Alaska or not. Speaking
21 for the Teamsters, we do, we want it to be made available,
22 and we think that the overwhelming majority of Alaskans
23 want to have access to their own gas. You know, it would
24 be a terrible thing to have an oasis and you've got the
25 coolest water in town, you live and die and you're always

1 drinking from somebody that brings it by warm camel.

2 I don't think that there is likely to be a chance
3 at all that this gas line goes in Alaska, in either Alcan --
4 in fact, I think the only way that Alcan could get it is
5 if they could cause some kind of a French and Indian up-
6 rising east of British Columbia. I don't think that this
7 El Paso line is going to get it unless something more than
8 to send mercenaries back to lobby is going to achieve it
9 for us. In fact, I think it will take a miracle to do it.

10 I've been in Alaska long enough to have seen two
11 miracles occur in such a fashion as this. I'd like to take
12 you back to Statehood days. In 1955 the Legislature
13 convened the Constitutional Convention, there was an
14 election, and we performed a Constitution. Then in 1956
15 it was to be ratified. The then Governor of Alaska didn't
16 propose any positive action, but the Legislature did,
17 people just such as yourselves.

18 We had about a Six Million Dollar budget, and they
19 did the extraordinary thing of sending what they called
20 the Tennessee Plan back to Washington, two Senators and
21 one Representative. There was the same kind of three
22 options that we have now. There were those who were for
23 statehood; there were those who were for commonwealth,
24 which is the alternative that got rid of the income tax;
25 and there were those who said, "Hey, we don't have a

1 goddamn thing to say about it anyway, they're going to do
2 it in Washington."

3 But I'll tell you -- for the first time in seventy-
4 five years, I believe, is when Earnest Gruening, Bill
5 Egan and Ralph Rivers went back and did so impress the
6 Congress and the President that within two years Congress
7 voted the Statehood Act, and on January 3, 1959, President
8 Eisenhower proclaimed that we were a state. It was a
9 miracle that was done by the people of this state because
10 they all wanted to create their own destiny, to be free
11 really. And the nicest thing that's said in the Statehood
12 Act, and those words really come alive, that Alaska is
13 declared admitted to the Union on an equal footing with
14 all of the other states in every respect.

15 Then in Section Six, Congress clearly recognized,
16 because only one percent of the land was owned in Alaska
17 by private interest, so they awarded for the development
18 and the economies of the communities four hundred thousand
19 acres without mineral rights surrounding some urban areas,
20 and four hundred thousand acres with rights that we got
21 if they weren't already taken, and a hundred and two
22 million five hundred and fifty-five thousand acres with
23 all mineral rights. They did that, and the words are
24 used that this is a compact between the United States
25 and said State for the development and the economic well

1 being. That's what we're really facing here now, how
2 much do we want to guarantee that every citizen in this
3 state has an opportunity from that immense wealth that's
4 the largest gas and oil field on the North American
5 continent. We may not ever be able to get anything out
6 of it unless we buy it in the canned and manufactured use
7 in Houston, Texas.

8 I don't think that the State's action is going
9 to change radically what has already transpired. We're
10 faced with a decision already being made by the staff
11 report of the Federal Power Commission, we're faced with
12 Judge Litt's decision. And really, it's a very complete
13 and logical decision for what he was studying and the
14 records indicate. In it he calls attention to the fact
15 that we have already -- both the staff statement and his
16 statement, that we are supporting the El Paso proposal
17 on economic grounds, bargaining with the pipeline purchase
18 of its royalty gas to release portions of that intrastate
19 industrial use.

20 As I say, I think a miracle can occur if this
21 Legislature will cause it to occur as it did in 1956.
22 And I should have said the second miracle was reconstruc-
23 tion after the earthquake.

24 We have never been treated badly by Congress nor
25 any president. Who we have been treated badly by is

1 Big Brother, and I term Big Brother the departments,
2 the bureaucrats, the Secretary of Interior. For instance,
3 out of that hundred and three million acres that we were
4 to get in twenty-five years, we're going into the nineteenth
5 year and have received less than twenty percent, and
6 they're already withdrawing a hundred and forty-six
7 million more acres before we get to choose the remaining
8 amount.

9 The Department of State has treatied our fish
10 away. The Department of Interior and Forestry have
11 shoved us out of some of the most productive forests in
12 Alaska. But always Congress has said that, "We want to
13 make you whole, we want you to be economically viable."
14 I think that we can create another miracle, and that's
15 the reason that I think, first of all, that the Governor
16 really has done no more than send mercenaries.

17 I don't know what other enabling legislation
18 this state contemplates, but I know from the report that
19 it's not going to affect the Commissioners, and we have
20 some suggestions to make to you. Besides being in the
21 people business we also have learned to negotiate contracts,
22 and I can tell you gentlemen and ladies that you have
23 the most powerful weapon in the world to really knock
24 out a hell of a good contract on the basis of this other.

25 The one door opening, I should say -- they closed

1 the front door on us, but Judge Litt opened the back door.
2 What he says is that the financial plan prepared by
3 Arctic Gas does not outstrip the capacity of any of these
4 markets and is generally feasible. He concluded, however,
5 that the magnitude of the capital investment is such
6 that the gas transmission company sponsors cannot provide
7 the institutional lenders with the security necessary to
8 warrant financing. There must be reliance upon both the
9 consumer and the taxpayer to guarantee the project will
10 be completed and the debt service will be secure against
11 any sustained outage.

12 Legislation to protect tracking of rates to the con-
13 sumer level and to approve U.S. participation is necessary
14 if the project is to be built. He made the following
15 recommendations: consumer participation in guarantees on
16 capital costs, but only for debt service; the equity
17 holder should accept the usual risk of equity investment;
18 and the Federal Government should entertain an insurance
19 or completion guarantee arrangements to facilitate raising
20 project debt capital at a more reasonable cost.

21 What we're suggesting to the Legislature that
22 they immediately, because I agree that you must act in
23 haste if we are to get a line -- I would open further
24 negotiations with El Paso and ask to be included on an
25 option plan as a full partner so that when you go to

1 Washington before the Commissioners you can say, "Hey,
2 this is the State of Alaska that is going to build this
3 equally with El Paso," and you can get that from El Paso
4 for free.

5 What your kicker is and what's the most powerful
6 weapon that you have is that you can issue the general
7 obligation bonds exactly as he says the Federal Government
8 has to do. I spoke with Mr. Holland earlier today and
9 he thought that approximately Five Billion Dollars is
10 necessary in the State of Alaska, 2.4 Million for the
11 line down to Gravina, 2.6 about, or 2.5 for the completion
12 of that terminal. That's El Paso Alaska, and that's
13 who has made this complex.

14 Taken over a twenty-year period you're going to
15 save, by debt service on tax exempt bonds, you're going
16 to save Several Billion Dollars. That's your equity to
17 ownership, just the same as you gave them equity in our
18 royalty gas only for actively supporting your Governor's
19 selection. That's what we call bargaining, and when you
20 go back with such a project to the Commissioners and the
21 Federal Power and to the President and to Congress all
22 over again you're an equal partner. You're reducing the
23 debt service on that gas line, you're maintaining the
24 integrity during construction and operation, you're
25 participating in the management level of the rate structure.

1 Incidentally, Judge Litt's proposal said that there
2 was fifteen to seventeen percent profit built into it.
3 I don't think that there is any other possibility, really,
4 of changing dramatically or actually, from an essential
5 standpoint, anything to the Commissioner, the Federal
6 Power Commission, without having a different project in
7 mind. They've already recognized that we have a contract
8 on this royalty sale.

9 You also have one other extra powerful tool.
10 This proposed contract, I believe has been testified to,
11 amounts to about a Billion Dollars. Under the Permanent
12 Fund twenty-five percent of that goes into a bank of
13 investment that must be for income producing purposes. I
14 can think of no higher rate for the people of Alaska, to
15 be able to pledge the receipts of that fund against any
16 outages that might occur; but more than that, to agree
17 to purchase if the general public doesn't.

18 You started a State Industrial Bank for
19 political subdivisions in the state. The City of Valdez
20 has sold bonds of about Two Hundred Million Dollars
21 worth now. They have a proposed thing of Two Billion
22 for the facilities at the terminal site. Those bonds
23 were, I am told, a little over seven percent, and they
24 were just snapped up.

25 The State of Alaska could sell revenue bonds

1 as you do, for instance, for the airport. Those are
2 about one point higher than the bonds that you sell under
3 the G.O. The last bid you got, I believe, was 5.08 and
4 there have been some last year at the airport that were
5 about 6.1, which was one percent higher. But it made
6 a difference in that Forty Million Dollars -- in the
7 Twenty Million Dollar bond issue of Three Million Dollars
8 of the debt service.

9 The debt service on Five Billion Dollars is a
10 terrific amount of money over twenty or twenty-five
11 years.

12 Mr. Holland said that El Paso's testimony was
13 that they anticipated they could get the money from the
14 general public for nine and a half percent. This is a
15 way for them to get money at six percent, and for you,
16 and I, and all of the people of the State of Alaska
17 that own half that gas line. Half that gas line means a
18 terrific thing for the state.

19 It's not a unique thing for governments to par-
20 ticipate. In almost a similar circumstance British
21 Petroleum is a Crown corporation sixty percent owned
22 by the British Government. They entered into a contract with
23 SOHIO in order to get the money to finance their portion
24 of Alyeska BP Alaska, and in so doing they took options
25 that, as their oil that came from their ground was

1 produced to SOHIO they began to acquire stock in SOHIO,
2 until they were going to become a majority stockholder.

3 I hope you understand that this is a suggestion
4 that can be done. But I don't believe that there is any
5 other manner, any other manner at all, that there will
6 be a gas line through Alaska with access unless the
7 Legislature takes the action to do it.

8 I know that I haven't addressed myself to the
9 particular contract in those three companies. It's just
10 that I am really very superstitious, and Tenneco happens
11 to be Tennessee, and a Tennessee Plan was a hell of a
12 lucky thing for us. If we went back to the Commissioners
13 with such a proposal of a half ownership and then Tenneco
14 and Southern would have a whole new thing to use their
15 political clout for, perhaps the Governor's decision
16 was wise in the essential parts of the contract that he
17 made.

18 SENATOR RADER: Any questions of Mr. Barry? Representative
19 Hayes.

20 REP. HAYES: Just to boil that down to the issue before us,
21 I have concluded from what you've said that the question
22 before us -- that your feeling about the question before
23 us, which is whether or not we should approve these
24 contracts, is that you're recommending that we not approve
25 them.

1 MR. BARRY: No, I'm not at all. I'm recommending that you
2 examine the contracts, and whatever portion that you're
3 going to approve, that you will put enabling legislation
4 that those contracts become a part of that enabling legis-
5 lation.

6 SENATOR RADER: Representative Chatterton.

7 REP. CHATTERTON: Thank you, Mr. Chairman. Mr. Barry, as I'm
8 told, and correct me if I'm wrong, I have two options
9 I guess, two alternates. The way through the mechanics
10 of this system I can either vote "yes" or vote "no" on
11 these gas sales contracts; I cannot modify. Is that
12 your understanding?

13 MR. BARRY: Well, no, that's not been my understanding. I
14 suppose that from a technical nature, if you voted to
15 modify that you would be making a change and sending it
16 back to see if that would be approved by the Governor
17 and the Gas Advisory Board.

18 REP. CHATTERTON: Thank you.

19 SENATOR RADER: I've made preliminary inquiry in that regard,
20 and there seems to be the feeling, preliminarily anyway,
21 that what Mr. Barry says is basically correct, and that
22 is that if we suggested modifications it would be a
23 rejection in the nature of a counter offer which is really
24 not within the terms of the statute, which gives us only
25 an ability to confirm an existing contract, which means

1 that they would probably start the process again and
2 come back through with an additional resolution asking
3 us to approve it outright. I don't know if that's correct
4 or not, but that's a preliminary opinion that was given
5 to me that perhaps could be changed.

6 REP. CHATTERTON: Thank you.

7 REP. GRUENING: To comment on that, Mr. Chairman, I also heard,
8 maybe from the same source, that we could change through
9 Bill the procedure by which these contracts would again
10 have to be approved so that you could have an expedited
11 approval process.

12 SENATOR RADER: We can pass a bill that changes on anything
13 we're doing here, you know; that's true. Any further
14 questions of Mr. Barry?

15 Mr. Barry, we thank you very much for your
16 distinctly new approach to this problem.

17 Our next witness -- we have a change, as I
18 understand it between the Alaska Conservation Society
19 and the Wilderness Society. Scholes, I believe, is
20 going to testify next, P. Scholes, Peter Scholes.
21 Mr. Scholes, please identify yourself for the record
22 and who you represent.

1 MR. STAHR: Senator Rader and Representative Gruening, and
2 Members of the Committee. I am Thomas Stahr, I'm manager
3 of the Anchorage Municipal Light and Power Department.
4 I have some brief written comments which I think have
5 been passed out, plus a little amplification on it,
6 and I will read this.

7 Natural gas is the primary source of energy or
8 heating and electric power generation in the Anchorage
9 area. While there is no question but that we must
10 ultimately develop renewable energy sources, the time and
11 money required to do this are great. Therefore, it is
12 essential that in-State requirements for natural gas are
13 given the highest priority. The proposed contracts for
14 royalty gas sale appear to adequately provide for in-
15 State use, but I believe the Alaska Legislature should
16 additionally make a strong statement of policy that
17 in-State use of all royalty gas is to have continuing
18 preference.

19 The price received by the State for royalty gas
20 exported from the State should be as high as permissible
21 and proper. The proposed contracts appear to maximize
22 our options for a good price. Royalty gas for in-State
23 consumption should be priced so that it neither penalizes
24 or subsidizes consumers and other tax payers.

25 The exchange provisions of the proposed contracts

1 may be even more important if an inaccessible pipeline
2 route is chosen. If the Arctic route is selected this
3 may be the only way that Alaskans can obtain direct
4 benefit of this energy source. We must be certain that
5 our options for this possibility are maintained and
6 enhanced.

7 When we observe what has happened in the Lower 48
8 this past winter due to having supplies inadequate to
9 meet the demands imposed by a severe weather condition,
10 we must take steps to insure that Alaskan royalty gas is
11 made available for Alaskan needs.

12 To amplify on this, for life to exist in Arctic
13 and sub-Arctic environments a high energy consumption
14 is a basic prerequisite. For all except the most rural
15 areas near total reliance must be on commercial energy
16 delivery systems.

17 The energy supply future for the Anchorage area
18 is far from secure. The economic availability of North
19 Slope gas is contingent on the pipeline route selected.
20 Export of large quantities of Cook Inlet gas is also
21 being actively pursued. It is entirely possible that
22 South Central Alaska will not be left with sufficient
23 gas for its long-term needs, much less gas for the
24 industrial development required to provide a productive
25 employment base.

1 The development of alternate energy sources
2 takes a long time and is extremely expensive. Major
3 hydroelectric developments require ten to twenty years
4 to complete. While they will yield the lowest long-term
5 energy costs, the initial investments required are very
6 large. Coal based plants of the size necessary to
7 replace natural gas as a primary energy source take six to
8 ten years to construct, yield high energy costs, second
9 only to oil, and require large initial investments.
10 Capital costs for coal based energy are in the order of
11 fifty percent of hydro, and there are large ongoing
12 fuel and labor costs.

13 Conservation of a depletable resource is by
14 definition not a long-term solution. However, when
15 properly applied, conservation of depletable resources
16 can yield immediate social and economic benefits.
17 Anchorage has under construction a waste heat generation
18 facility which will save three billion cubic feet of
19 gas annually. This will benefit our consumers economically,
20 but as large as the saving is, it is not large enough to
21 significantly affect the gas supply problem. Conserva-
22 tion alone is not a solution.

23 When we look at the most pessimistic picture,
24 as we must, we are left with the Cook Inlet royalty gas
25 as the only sure potential addition to the gas reserves

1 committed and accessible for Alaskan use.

2 Just as reputable stock brokers advise prospec-
3 tive clients to have adequate insurance and savings
4 before investing in the market, I urge that we insure
5 our energy future by firmly committing Cook Inlet and
6 all other accessible royalty gas to in-State use
7 before investing the North Slope gas.

8 Thank you.

9 SENATOR RADER: Do you have any questions of Mr. Stahr?

10 Representative Parr.

11 REP. PARR: Mr. Stahr, how long do you have gas for now,
12 in your guess? I'm sure you're looking ahead in your
13 job with the Anchorage Municipal Light and Power; what
14 are you looking at, a five-year supply, a ten-year,
15 a fifty-year, or what right now?

16 MR. STAHR: Representative Parr, it looks that in the mid
17 '80's the gas supply situation is very questionable.
18 Part of this has to do with some ongoing negotiations
19 for royalty gas which, for reasons inexplicable to me,
20 seem to be going very slow and poorly.

21 REP. PARR: But from your existing actually Cook Inlet and
22 so forth gas, in the mid '80's you'll start running out,
23 perhaps?

24 MR. STAHR: These are the gas reserves that are committed
25 to our supplier. I believe the other, Chugach Electric,

1 may have somewhat longer gas reserves. But the gas that
2 is committed for the use of the Anchorage area, the
3 people of that area, sometime in the mid '80's that
4 gas will run out. There is still uncommitted gas.

5 SENATOR RADER: Any other questions? Representative Gruening.

6 REP. GRUENING: Mr. Stahr, do you have any hesitation about
7 the contracts that are before us in terms of protecting
8 in-State use and particularly your problems?

9 MR. STAHR: Representative Gruening, it seems to me that so
10 much is dependent upon the route that certainly if the
11 route, if the contract would help lead to a route
12 accessible, this is good. If it doesn't -- I think the
13 point I'm trying to make, and I know it's somewhat
14 tangential to what you gentlemen have to do, is this:
15 the use of this energy source in the State has to be the
16 most important consideration.

17 REP. GRUENING: Have you considered the possibility of an
18 exchange as being an in-State use; in other words,
19 exchange even though we may not have a pipeline going
20 to Cook Inlet from the North Slope, but exchanging,
21 in other words, as the gas goes out whatever, Alcan route,
22 or the El Paso route or the Arctic route, we could exchange
23 that gas so that you could have greater access to Cook
24 Inlet gas?

25 MR. STAHR: This would certainly be a very desirable thing.

1 It may, in fact, be one of the only feasible ways in the
2 long run. In regards to that, I don't see, and I'm not
3 an attorney, how -- the contract provides for it, but
4 it doesn't provide any means to enforce this, and this
5 is an excellent thing that should be pursued.

6 REP. GRUENING: Thank you.

7 SENATOR RADER: Any other questions of Mr. Stahr?

8 Representative Chatterton.

9 REP. CHATTERTON: Thank you. Mr. Stahr, are you speaking
10 for the Anchorage utility, are you speaking for the City
11 of Anchorage, the municipality of Anchorage, or for
12 yourself?

13 MR. STAHR: Representative Chatterton, I am speaking for the
14 utility only, not for the municipality.

15 REP. CHATTERTON: Thank you, sir.

16 SENATOR RADER: Thank you, Mr. Stahr. I'd like to ask the
17 reporter, I understand that the remarks by Mr. McCutcheon
18 were somewhat abbreviated. Did he give you a full copy
19 of his statement and did you intend to include it in
20 your transcript?

21 MRS. SANDERS: Yes.

22 SENATOR RADER: Under those circumstances, his full remarks
23 will be included in the transcript and it will not be
24 necessary to make it a supplement or an exhibit.
25 Is that correct?

1 MRS. SANDERS: Yes.

2 SENATOR RADER: Okay. I didn't see you writing at the time,
3 so I thought that he was -- fine.

4 Our next witness is Allison Horton, Friends of
5 the Earth.

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1 MR. GILLAM: Senator Rader, Representative Gruening, Members
2 of the Committee that are left. I'm Harold Gillam, Mayor
3 of the City of Fairbanks, and that makes me an expert
4 on nothing. I do appreciate the opportunity to speak
5 before you.

6 I first wish to state that I, as eighty-five
7 percent of the Alaskans are, am in favor of seeing that
8 we get the maximum of construction work done within
9 the State of Alaska. So I favor either the Alcan route
10 or the El Paso route, and my third choice, as is prevalent
11 in Alaska, is the Arctic gas route. I am, however, a firm
12 believer that the resources within the State should be
13 developed, but in being developed that we, as a state,
14 have an obligation to make sure that the maximum utiliza-
15 tion of that resource is made within the State.

16 A proposal was made, and I don't know that it
17 was a valid proposal or not because it was never explored;
18 but it was made to utilize the royalty share of the gas
19 to processing fertilizer in the Big Delta area. This
20 proposal was not at all considered by the Administration.
21 I believe the excuse given was that it was received too
22 late. However, this is the type of development that we
23 must encourage. Such utilization would put Alaskans to
24 work, and I see nothing wrong with that. It would also
25 provide a source of southbound freight, the lack of which

1 is the reason that high freight costs are pressed on
2 the Alaska trade.

3 I wish to commend the Governor for his efforts
4 to date. I believe that both he and Representative Young
5 earned their keep by getting the ability of the State
6 to retain control of their royalty share. I think it's
7 almost unheard of elsewhere. Since we got that right,
8 I don't think we should forfeit it and give it away.

9 I do wish to testify in opposition to the pro-
10 posed contract to Tenneco at all. I believe that the
11 sale is premature, and I see no over-powering reason
12 that it should be concluded. I believe that the political
13 clout that Tenneco and all profess to have will be, in
14 any event, exercised in favor of the El Paso route, for
15 the simple reason that it is in their own best interest.

16 If the Arctic gas route prevails they will probably
17 not get a whiff of the gas, and the other routes at
18 least give them a chance. I believe in just keeping
19 our complete options open.

20 So I'm opposed to the proposed contract for two
21 prime reasons. We're not going to get the maximum
22 utilization of a non-renewable natural resource and,
23 secondly, nothing is more odorous to me than sale of
24 a natural resource in exchange for some dubious political
25 clout.

1 That concludes my testimony, sir.

2 SENATOR RADER: Any questions? Representative Chatterton.

3 REP. CHATTERTON: Yes, sir. You were speaking, Mr. Gillam,

4 for the City of Fairbanks?

5 MR. GILLAM: No, this is not. If you know the City of

6 Fairbanks, you know no one man ever speaks for the City

7 of Fairbanks.

8 SENATOR RADER: Do you speak for the City Council?

9 MR. GILLAM: Again, if you know the City Council, this is

10 not a unanimous position of the City Council.

11 SENATOR RADER: Is it a majority position of the City Council?

12 MR. GILLAM: Certain statements that I made are a majority

13 position, some are a minority.

14 SENATOR RADER: Okay. Any other questions?

15 REPRESENTATIVE GRUENING: You're speaking for yourself today?

16 MR. GILLAM: I speak for myself, as I think anybody who

17 knows me knows that I do that.

18 SENATOR RADER: Senator Huber, have you got a question?

19 SENATOR HUBER: Yes. Harold, your statements, you do make

20 them with the of your abilities in the engineering

21 business, particularly where it comes to using petro-

22 chemical products? You didn't set any stage for that

23 other than the Mayor of Fairbanks.

24 MR. GILLAM: No.

25 SENATOR HUBER: Would you like to comment on it?

1 MR. GILLAM: No comments. That's well beyond my expertise.
2 I think that we should get the maximum utilization of
3 our resources. I don't think that we have been firm
4 enough in our past policies in doing this. I think
5 that any sales of the royalty gas and oil should be
6 conditioned on the maximum utilization of employment
7 within the State of Alaska. Beyond that I guess I just
8 have no further comment.
9 SENATOR RADER: Any further questions of Mr. Gillam?
10 Thank you, sir, very much.

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9 SENATOR RADER: Any further questions of Mr. Gillam?

10 Thank you, sir, very much.

11 Our next witness is Carl Heinmiller of Haines.

12 I haven't seen Carl around recently, I don't know if
13 he's here or not.

14 The next witness will be Mr. Jerry McCutcheon.

15 MR. McCUTCHEON: Mr. Chairman, I understand that you're
16 going to have the hearings continued on tomorrow, and
17 since I'm stuck here for another day now and I would
18 like to listen to some of the State's witnesses before
19 I speak, I wonder if I could appear tomorrow.

20 SENATOR RADER: I can't at all guarantee you that you
21 can appear tomorrow, sir. Our difficulty is that we have
22 about Forty Thousand Dollars worth of experts that
23 we've hired that have to testify tomorrow, and also we
24 have to hear from the State rebuttal tomorrow. If you
25 want to take the chance of appearing at the tail end of

1 tomorrow's testimony you can do so, but you would be
2 at the tail end.

3 MR. McCUTCHEON: I was hoping to get on the front end so
4 that I could catch the plan out of here. Actually I
5 don't think it's an unreasonable request, after waiting
6 for four days.

7 SENATOR RADER: I also have another request from OMAR for
8 the same request. I can only tell you this: tomorrow,
9 as far as I'm concerned, if the committee wants to over-
10 rule me they can -- but tomorrow we absolutely have got
11 to start in with our Thirty or Forty Thousand Dollars
12 worth of expert witnesses and get their testimony.
13 We're staying here this evening to try to accommodate
14 anybody else. If there is time tomorrow we will be
15 more than happy to accommodate you, but I'm going to take
16 that other testimony first.

17 MR. McCUTCHEON: Well, I believe it will go long past plane
18 time tomorrow.

19 SENATOR RADER: I'm afraid it probably will too, and that's
20 why I think you should do it now.

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1 MR. McCUTCHEON: For the record, my name is Gerald McCutcheon,
2 my mailing address is Box 2340, Anchorage, Alaska 99510.
3 I'm a life-long Alaska resident. I represent nobody
4 but myself. I'm not paid by anybody else. I'm down
5 here at my own expense.

6 I will start with some remarks which were made
7 here . It seems to be a giddy thing to talk about the
8 Trans-Alaska oil line and the surplus oil on the West
9 Coast, and Mr. Tussing's remarks, and he knew this in
10 '72, and rocks were thrown at him, etc. That is not a
11 fair statement. There were those of us who knew that
12 in 1969. There were us who knew where the terminal
13 would be in 1969 before it was announced, and there
14 are those of us in this room who also purchased property
15 down there in 1969 before the terminal was announced.

16 So we did have some idea where it was going.
17 We put our money in there. The fact that the Native
18 Land Claims interceded, for some people in the State it
19 left a very confusing situation; you were on both sides
20 at one time. It's sort of like watching your mother-in-law
21 go over the cliff in your brand new Cadillac. I was
22 one of those people in that position.

23 What I guess I'm saying is simply that they have
24 a complete track record, this way or that way. There was
25 a man by the name of Hal Galliett, who spoke during that

1 period of time, and he went from one luncheon to the
2 next luncheon begging for a place to speak, anywhere
3 he could, and he was talking about the other line and
4 the surplus oil on the West Coast. So it was a known
5 fact. It was just that the intervening State Adminis-
6 trations have seen unfit to take any remedial action,
7 and that's the real problem. It wasn't that we didn't
8 know it; it was known. And I think if you'll rummage
9 around in the old newspapers you will find some remarks
10 by Senator Stevens at that time when there was a wrangle
11 in Congress, that he didn't like the prohibition of
12 export of oil to Japan on a temporary basis. It still
13 is the more reasonable solution to the trade of Alaska.

14 Now, as to the Trans-Alaska pipeline and whether
15 or not it should have gone in the other direction, I would
16 be very happy to debate anybody publicly anywhere on
17 that decision. We made the right decision at that time,
18 and it's still right today. If we had made the other
19 decision, the costs would have been enormous, the building
20 would have been greater, and I believe the wellhead value
21 would probably have been zero. It's more than three
22 times as long, and to deliver the oil there you can
23 expect three times the charges. If we had to pay for
24 three times the charges we would not have the wellhead
25 value of any sufficient amount.

1 Now, I'd like to see the Governor, or whoever
2 else, come back and answer that one.

3 Going now now to this one: the determination
4 of whether or not the State should sell its gas, or that
5 anybody's gas should be allowed to be withdrawn, is
6 dependent upon the best management of the reservoir.
7 The oil companies look at the reservoir from the stand-
8 point of present value. While the State also can do the
9 same, the State must remember that the discount rate
10 for the State and the oil companies is very different.
11 No one had refuted Tanzer's estimation of the discount
12 rate of the oil companies with respect to the pipeline
13 and the reservoir. It will be an almost unbelievably
14 high rate for any kind of a business or industry; in
15 short, an exorbitant profit. The State, on the other
16 hand, is hard pressed to show a discount rate much above
17 zero, and some of us believe that it is negative.
18 After what the public believes to have happened to the
19 Nine Hundred Million Dollars, I am sure the public would
20 agree.

21 The State has not only the need to see that the
22 field is operated to the best interest of the State, but
23 also that the best long-term interests of the Nation
24 are also served. Again, America's interest and the
25 oil companies' interests are not the same. I will

1 skip part of that.

2 Multinational oil interest are not our
3 interests, monetarily or otherwise. Thus, the State
4 being the second largest holder in the reservoir and
5 having the power to control the way the reservoir is
6 produced, should operate the reservoir to maximize the
7 State's own interest first and last, for that is exactly
8 what any other oil company would do if they had control.
9 We are now an oil company, and we are one of the
10 largest oil companies in the world.

11 There are 19.1 billion barrels of oil in that
12 reservoir, and that somehow seems to escape a number
13 of people. What we are trying to do is maximize recovery
14 from that reservoir. The maximum oil recovery occurs
15 with total gas reinjection, ninety-two percent.
16 I've heard here recently now there are some figures
17 that that has been reduced. There's new material out,
18 they can't get that much gas to liquefaction. No one
19 disputes this. This is the maximum oil recovery. Other
20 computer runs were done to show sales of two billion
21 cubic feet a day, and these are portrayed as only being
22 a little less than the total reinjection run of Run No. 10.

23 While there appears to be not much real difference,
24 a closer examination revealed that it is sophistic for
25 computer run No. 10 was not done the same way that the

1 other runs were done. The operational limits were changed
2 to a more favorable procedure in those which show a high
3 recovery with gas sales. Fifteen thousand cubic feet
4 was used as the upper limit for runs under No. 19, while
5 twenty-five thousand cubic feet per stock tank barrel
6 was allowed for runs 20 through 29. From computer run
7 No. 10 the gas-oil ratio never got above four thousand
8 cubic feet , while some of the other computer runs
9 were actually allowed to reach fifty thousand cubic
10 feet per barrel before being terminated. Obviously, if
11 you allow a blowing down of the reservoir in one case
12 and not the other, the two will not be comparable for
13 considerable more oil will be produced under the blow
14 down operational limits.

15 An analogous situation might be used in clarifi-
16 cation. Pacific Lighting bought some old exhausted
17 reservoirs in California for use as gas storage. When
18 Pacific Lighting removed the gas during the winter, up
19 came the oil. These were reservoirs that were exhausted.
20 They pumped the gas down, and when they recovered their
21 gas up came some more oil.

22 I have another problem with the water injection
23 and fluid displacement. At first reading one does not
24 observe things that take place in the reservoir. It is
25 not until one begins to calculate the net fluid

1 withdrawal that one observes what takes place in a
2 reservoir. In computer run No. 26, the most likely
3 producing situation, with gas sales of two bcf, by the
4 twentieth year more fluid is reinjected in the reservoir
5 than has been withdrawn. However, in computer run No. 10
6 total gas reinjection, the one that's used for standard,
7 there is 3.2 billion barrels of fluid more had been
8 withdrawn, than had been withdrawn than reinjected, and
9 that was 3.2 billion barrels, over a three billion
10 barrel difference in the net amount of fluids withdrawn.
11 I believe this is bound to have a pronounced effect
12 on the reservoir.

13 There were two additional well groups added near
14 the gas-oil contact in the fourth year. This was not done
15 in computer run No. 10.

16 While computer run No. 10 is used as a standard
17 against which other runs are weighed, run No. 10 is not
18 really comparable for it did not receive the same favor-
19 able treatment. The question becomes, how much higher
20 would oil recovery be above the current 8.2 billion
21 barrels. I had speculated that it would be more than
22 nine billion barrels. For more than a year now I've tried
23 through various legislators to have additional computer
24 runs performed. These gaps in knowledge were never filled,
25 although there was admission by the Administration that

1 they should be done.

2 I have found further evidence which moves the
3 question from statements of a layman to statements of
4 a professional. This finding was a graph which plots
5 oil recovery versus gas sales. This was obtained from
6 Alcan Gas, who apparently obtained it from the State
7 of Alaska, and it bears the VanPoolen Report label.
8 You gentlemen, I think, saw that yesterday.

9 It is a graph based on the State's VanPoolen
10 report. In an extension of this graph we find a little
11 over nine billion barrels of oil as a probable amount
12 of recovery when the operational limits are changed to
13 those above computer run No. 19. From this we can see
14 there will be, at gas sales of two billion cubic feet
15 a day, a 1.4 billion barrel loss of recovery.

16 This is almost twenty percent of the anticipated
17 recovery to give up. One out of every five or one out of
18 every six barrels of oil for a gas line is too high a
19 price to pay. Gas in the South 48 States is shut in
20 and today AMCO is flaring substantial amounts of gas in
21 the Rocky Mountain states from a recent discovery.
22 Their statement was, "It wasn't worth building a line
23 for." That's important gas and oil, gentlemen.

24 Earlier the State Administration testified
25 before the Oil and Gas Taxation Committee that they could

1 predict forward with some certainty that the producibility
2 of Prudhoe Bay equalled the number of years of experience.
3 Thus, when they've had one year's experience they
4 will be able to predict the second. When they have had
5 five years' experience, they can predict another five
6 years.

7 Alaska is nine months to a year away from pro-
8 duction and we have no experience. You are trying to
9 make a decision on Prudhoe Bay producibility, which will
10 commit the State for the life of the field to a project
11 can only be met under the most optimistic conditions
12 and which will still be a very substantial sacrifice
13 in oi. The amount of oil is equal to a giant field,
14 twice over.

15 Today data is being gathered for additional
16 computer runs. These will not be available until next
17 month, if the Administration is willing to release them,
18 and I understand that was what Mr. Hoyle Hamilton was
19 to testify about. But there are some discrepancies there
20 because it was known that reruns were actually back, that
21 the material was supposed to be gathered, and they're
22 not supposed to be run; new runs were not supposed to
23 be run until about the middle of next month.

24 My question is, shouldn't you wait until these
25 runs are available, until all the information is in?

1 There are problems with heavy oil, tar, at the
2 gas-oil boundary, and this week I learned there is a simi-
3 lar problem at the water-oil contact zone. Should we
4 not have some production history before any gas is
5 released from the reservoir?

6 Although the previously mentioned computer runs
7 called for water flooding, there are no plans for water
8 flooding nor will the industry start serious consideration
9 of water flooding until after production begins according
10 to the State Administration. The Oil and Gas Journal
11 hinted that the oil industry is going to resist the
12 State's request for water flooding. Without water flooding
13 the recovery would fall as low as 6.4 billion barrels
14 of oil at two bdfd, computer run No. 5. This would be a
15 loss of recovery of 2.7 billion barrels of oil.

16 Should we not wait until the oil industry has
17 determined whether or not it's going to water flood and
18 the method of water flood? After all, it will take four
19 or five years to construct the plan after it's devised.
20 Should we not wait until the industry determines whether
21 or not there is going to be general water injection,
22 peripheral water injection, or spot water injection?

23 This committee does not have current information,
24 and I defy any one person on this committee to show me
25 where he has basic information with reference to the

1 reservoir which is not at least two years old.

2 Why is the Legislature considering gas sales
3 when we don't even know the producibility of the reservoir
4 or have access to the latest information?

5 The Hammond Administration has refused to let
6 a reservoir engineer appointed by the Legislature to
7 review the proprietary information that went into the
8 State's decision-making process. Thus, you are con-
9 sidering a sale of the State's royalty gas on blind
10 faith and committing the State to a course of action
11 which is irreversible.

12 The pipeline is not economically feasible. It
13 requires government guarantees of financing and of
14 customers, and I'm hearing today now for the first -- it's
15 not the first time, but again we have the question of,
16 "We want to get the State involved in the financing of
17 this line." It's very strange that the oil industry
18 did not want us in, and they fought us over entering
19 the oil line. It's strange how the industry doesn't
20 want us in on that which is possible, and some of the
21 people would like to have us in when it's not possible,
22 not profitable, and it's the only way they're going to
23 be able to finance that, is with some kind of a government
24 agency holding the golden sack for them. It requires
25 government guarantees of financing with customers.

1 El Paso requires even more; it requires the State to
2 subsidize it with its royalty gas, to buy El Paso a
3 tanker fleet, and to forego any substantial use of the
4 royalty gas within the State.

5 The economic studies done by the State require
6 eight-eighths of the gas for the El Paso line, and as
7 we're all aware, there is a study done by the State
8 showing any use of the gas within the State of Alaska --
9 and don't you think you gentlemen should have that
10 information to see what happens to the line?

11 The Federal Government will guarantee the cus-
12 tomers through an all-events tariff. The customers will
13 be forced to pay for the gas line from the time the
14 construction starts, including costs, interest and
15 profit, and continue to pay even if the line is never
16 completed.

17 BLM's economic analysis shows the pipeline
18 requires 2.5 bdfd, rising to 3.5 bdfd in order to meet
19 the minimum economic requirements of a Seven or Eight
20 Billion Dollar line. On page 149 the BLM states the
21 figures they use for costs, Seven or Eight Billion
22 Dollars, are not possible for they are predicated upon a
23 hundred percent engineering perfect line. This so-called
24 engineering perfect line of Seven or Eight Billion Dollars
25 has a port of entry average cost of Two Dollars and

1 Sixty Cents per mcf. And I think you gentlemen at this
2 juncture should find out the difference between cost
3 of service and cost averaging of it, because you're
4 faced with cost averaging in the future, and if you think
5 with cost averaging you're going to be able to benefit
6 the State of Alaska, I really don't.

7 Since even the State admits the gas system will
8 cost Fourteen to Sixteen Billion Dollars, the real
9 expected cost would be Five Dollars and Twenty Cents per
10 mcf. Even if a Dollar was considered to be the wellhead
11 price and subtracted from the delivered cost, the price
12 would be Four Dollars and Twenty Cents per mcf, and we
13 Alaskans will be getting nothing for our gas. That
14 price is still three times the highest interstate price,
15 and two times the highest intrastate price. I'm not
16 talking about the small quantities of gas presented to
17 this committee in December of a year ago, I believe it
18 was, where they said the gas of Five Dollars was sold.
19 That's true, they sold Five Dollar gas, but they forgot
20 to tell you how much Thirty-One Cent gas was sold with
21 that Five Dollar gas. There's a big difference.

22 Five Dollar gas is Thirty Dollar oil and Eighty
23 to Eighty-Five Dollar a ton coal. Coal is currently
24 Thirteen to Fifteen Dollars a ton in the South 48 the
25 last time I looked through the Wall Street Journal for it,

1 and Twenty Dollars a ton in Fairbanks. Do you really
2 think you're going to take that kind of gas to market?

3 The market for gas drops rapidly as the price
4 rises. At a Dollar Eighty Cents per mcf the market has
5 dropped nineteen percent. If the market drops nineteen
6 percent there is no market for Alaska's royalty gas
7 at the current time. Interesting enough, in the dis-
8 cussion the other morning -- I believe it would be
9 Wednesday morning -- on the radio, there is currently
10 apparently some twenty-five percent of the gas reserves which
11 are held in and held intrastate. Now, those gas reserves
12 will come on line when the price rises high enough, and
13 if we go to full deregulation the gas problems in the
14 South 48 States will resolve themselves, I think.

15 By Two Dollars and Forty Cents it drops another
16 twelve percent; with a rise of another Forty Cents, to
17 Two Dollars and Eighty Cents, the market has dropped
18 another twelve percent, for a total loss of fifty
19 percent of demand. With South 48 gas at a little more
20 than half the price of Alaska's gas delivered to the
21 South 48, the market for gas is only one-half the
22 current demand. Even at a Dollar Eighty Cents, there
23 is no need for Alaska's gas. Thus, if we sell the gas
24 and deregulation occurs, Alaska's royalty gas will have
25 a wellhead value of zero. Governor Hammond, Commissioner

1 Martin and Attorney General Gross have all admitted
2 that this is a strong possibility, but pointed out
3 (in Gross' case) it is the ad valorem taxes with which
4 they hope the State will make money.

5 The cost of gas delivered to Fairbanks will be
6 higher than the current highest interstate price.

7 Do you gentlemen believe that a petrochemical industry
8 based on gas will locate at Fairbanks?

9 There is extremely little likelihood that Alaska
10 will be allowed to keep its royalty gas. Senator Stevens,
11 along with Senator Hollins, Senator Stevenson and Senator
12 Jennings, have already introduced a bill which would
13 appropriate gas from anywhere, in interstate or intra-
14 state, in the case of emergency. This will be the
15 harbinger of things to come. That's our own Senator.
16 No petroleum petrochemical plant is going to locate in
17 Alaska based on interruptable gas.

18 Another question which has not been raised is
19 the fact that the BLM proposal calls for cost averaging,
20 not cost of service, and that is probably what is going
21 to happen. So the users of the gas within Alaska will
22 have to pay part of the cost for delivery of gas to the
23 South 48 States. If these previously mentioned things
24 did not preclude the use of gas within Alaska, the cost
25 averaging alone would make the use of gas in Alaska

1 prohibitive. And remember, it is the Federal Power
2 Commission that gets to set the rate for Alaska's gas,
3 for Alaska's charges, and if you take something out
4 of that system, part of that system, you're going to
5 get to pay for that part of the system.

6 The State of Alaska should use all its gas
7 except that which is needed for equipment fuel and the
8 gas liquids to pressurize the reservoir. Oil field
9 pressurization is, without a doubt, the highest and
10 best use of Alaska's gas at this time or in the foresee-
11 able future. There is no reason for Alaska to allow
12 the withdrawal of gas from the reservoir until a water
13 flooding plan is not only completed but also under
14 construction, and all the plans for the gas line should
15 be shelved until that time. The gas will still be there.
16 It won't have gone anywhere.

17 Petrochemical plants are now being built in the
18 Middle East. The world's largest construction project
19 is in Saudi Arabia, not Alaska -- gas injection, water
20 flooding and petrochemicals, Fifteen to Sixteen Billion
21 Dollars.

22 It is interesting to note that an LNG plant that
23 was to be built in Iran for a project of two bcfd was
24 cancelled. The partners were Iranian National Gas,
25 DISTRA Gas and a company by the name of El Paso. You

1 might recognize that name El Paso. The project was can-
2 celled when the costs rose to Six Billion Dollars, and
3 the project became economically unfeasible. Iran stated
4 that the highest and best use of their gas was for field
5 pressurization. If a two billion cubic feet plant a
6 day LNG project at Six Billion Dollars failed, how are
7 we going to build this project of two billion cubic feet
8 a day at a Fifteen Billion Dollar charge and have it
9 economically feasible -- I'll add in here -- without a
10 great screwing of the American public?

11 Middle East gas costs more to deliver than the
12 value of the gas at the point of delivery; thus, they
13 are turning to petrochemicals. This is true for Alaska
14 too. Petrochemical companies are finding it is cheaper
15 to go to the source of supply. The market for petro-
16 chemicals will rise from One Hundred and Six Billion
17 Dollars to Three Hundred and Fifty Billion Dollars by
18 1985. The market for petrochemicals will go up.
19 Thus, there will be plants which must be built to
20 supply an additional Two Hundred and Fifty Billion
21 Dollars in petrochemicals by 1985.

22 I believe it was in a report in the summer, of
23 the Oil and Gas Journal, that said that roughly, say,
24 six percent of our oil and some seven or eight percent
25 of our gas is being used for petrochemicals now, and

1 this will rise to approximately fifteen, sixteen percent
2 by about 1985. That just happens to be about what might
3 be on the North Slope at that time.

4 I don't know of any reason why Alaska should not
5 go after part of those petrochemical plants and look out
6 for the long-term interest of Alaska. Those plants
7 belong on the North Slope with a railroad to serve them.

8 There is now economic justification to build the
9 railroad to the North Slope, even without the petro-
10 chemical plants. Thus, a railroad would be assured to
11 the petrochemical industry; it would be there when the
12 petrochemical industry was ready to move in.

13 That concludes my testimony.

14 SENATOR RADER: Any questions of Mr. McCutcheon? Mr.
15 Gruening.

16 REP. GRUENING: Jerry, I take it that your major theme in the
17 presentation is that natural gas is too valuable to burn.

18 MR. MCCUTCHEON: Well, that's a true statement; at least
19 that's what the Arabs think at this juncture, and they're
20 going to do their best to stop burning it, or shipping
21 it to somebody and letting them flare it under a boiler,
22 if you want to put it that way. Just ten percent of the
23 petrochemical increase in the petrochemical market
24 built on the North Slope where the exhaust gases could
25 be placed in the reservoir and used for the beginning

1 of tertiary oil recovery, ten percent of that would be
2 Twenty-Five Billion Dollars a year and, hell, that out-
3 weighs royalty gas or anything else we've got, and that
4 would be year in, year out. Take methanol, for example,
5 three-quarters of the equipment that's used for methanol
6 would be also adapted for coal. You know, we've got
7 more coal on the North Slope than any form of energy
8 that the Arabs have got in the Middle East. With that
9 reservoir tied in, the United States wouldn't be buying
10 it.

11 SENATOR RADER: Any further questions? Mr. McCutcheon,
12 have you discussed any of this with the Department of
13 Natural Resources or Commissioner Martin or any of the
14 people involved in this?

15 MR. McCUTCHEON: Have I discussed it with them?

16 SENATOR RADER: Yes. Do they agree with your analysis,
17 or do they disagree with it, or what?

18 MR. McCUTCHEON: They run for cover.

19 SENATOR RADER: You've talked about highly technical matters
20 which I don't claim to have near the expertise on either.
21 I'm wondering, what do our oil and gas people say though
22 when you present these arguments to them?

23 MR. McCUTCHEON: Well, those that will discuss it privately
24 agree this is the way it should be done, and those who
25 do not work for the State I've discussed it with who are

1 in a similar position in the Federal Government also
2 agree it should be done.

3 SENATOR RADER: How do you account for the fact that they
4 won't publicly state it?

5 MR. McCUTCHEON: Political suicide. It depends on who the
6 Administration is. When Wally Hickel was in the Adminis-
7 tration some years back, he got his back up over the
8 gas that was being flared in Cook Inlet and he made the
9 oil companies bring it ashore. Now, some people may
10 have condemned him because he had an interest in an
11 Alaska interstate and, consequently, he had an interest
12 in the gas company. But I don't give a damn which way
13 you cut it, at least he did a service for the State.
14 He made them start bringing it ashore, and out of that
15 we wound up with a lot of condensates in the line,
16 and we had troubles for a while, but they've gotten
17 resolved.

18 Now, all of that came along about that period
19 of time, to prohibit flaring of gas on the North Slope,
20 and anticipating what is happening now. Just let me
21 finish, John. Then came the further intervening
22 Administration which turned around and looked the other
23 direction over flaring on the North Slope, and actually
24 went out of their way to make it possible for the oil
25 companies to flare the gas on the North Slope by putting

1 in deliberately false information.

2 SENATOR RADER: Does anybody else have any further questions.

3 Representative Hayes.

4 REP. HAYES: Jerry, the relationship you mentioned between,
5 was it methylene and coal?

6 MR. McCUTCHEON: Methanol and coal.

7 REP. HAYES: Methanol and coal, yes. You mentioned some
8 use of common equipment. Are you talking about trans-
9 portation equipment?

10 MR. McCUTCHEON: No, manufacturing process equipment. As a
11 matter of fact, your best combination is to use some
12 coal along with your natural gas in the manufacture of
13 methanol. The problems which have always been dynamiting
14 methanol have been they've always took a look at methanol,
15 converting it to methanol, taking the whereofs back,
16 and then converting methanol back to gas again, and then
17 using that, and that's a very inefficient method of
18 utilization of gas. What they can do on the North
19 Slope is an improvement on the spectrum of all the
20 alcohols of the various gases, ethyl alcohol, propyl
21 alcohol, etc. And you can use them in an automobile.
22 Using straight methanol in a country like Alaska in a
23 gas tank is disastrous -- the first drop of water, the
24 two go separate. But with your longer chain alcohols
25 they remain in a mixable state, or an emulsion there, if

1 you want to call it that. These could be used in an
2 automobile. I don't have the figures on that, but if
3 you turned the whole thing into methanol, shipped it
4 down to the South 48 States, and then used it in gasoline
5 at, say, ten percent, they would absorb it, the whole,
6 all of it that way.

7 I don't really even think -- the more I've looked
8 at this thing the less I see that it's appropriate at
9 this juncture to commit Alaska's gas or to make any
10 determination of what we're going to do with that North
11 Slope gas field, and the gas cap gas, and the solution
12 gas, because its highest and best use at this time is to
13 run that reservoir. And I think it's more appropriate
14 when we determine what else we've done in there. We
15 can't even get information on the reservoir, we can't
16 get information on the lisburn formation. Those are there,
17 and we can't get any information on it. You know, you
18 go talk to the Gas and Oil Division and they absolutely
19 dummy up. As a matter of fact, there's two billion
20 more barrels of oil there, and they've never bothered
21 to tell you people. But you can find it in John's
22 little report there, if John will go look in his report;
23 it's there, it shows up in one little paragraph,
24 and it even gives production rates. But the State of
25 Alaska -- and it's attributed to them -- the State of Alaska

1 doesn't even go out and try to find that information,
2 and they deny it.

3 SENATOR RADER: Representative Gruening.

4 REP. GRUENING: Jerry, you might be aware of the fact the
5 Administration just last Thursday commissioned a
6 Thirty-Four Thousand Dollar study to look into the
7 in-State uses of this gas, and I'm assuming it includes
8 petrochemicals. Do you expect that study will produce
9 some of the findings, or agree with your findings?

10 MR. McCUTCHEON: No. It will be not too unlike the last
11 study which Dobey did.

12 REP. GRUENING: It isn't Dobey's study, it's another one.

13 MR. McCUTCHEON: I know, but I suspect it will come out the
14 same way the last one did. It came out and all of a
15 sudden it bounced around. I sat down and did some
16 calculations on it and said, "Hey, man, you can't do
17 those things with State royalty gas that you think
18 you're going to do. You haven't got the gas to get it
19 done."

20 I'd like to go back and calculate it again
21 because I've heard today here, and I think your accountants
22 will tell you, the State does have enough royalty ethane
23 gas to run a billion pound plant; but I question that.
24 I'm old and rusty and I'd have to go back and polish up
25 on it. I'm not an engineer, so it takes me some time to

1 struggle around with. But I don't think the State's got
2 enough ethane gas in its ethane to run a billion pound
3 plant, and I think it's going to have to bend. That
4 might be a way to do it, you might be able to trade some
5 of the methane for ethane and make some trades in there.
6 But I don't think that you're really going to see petro-
7 chemicals up here until until such time as -- so long
8 as the State keeps parading its resources out on a long
9 leash like a bitch in heat, you've got everything coming
10 around that except what you really want, and I think
11 if you hold it back and say, "This is what we want and
12 this is what we're going to do, and we're going to wait
13 until it's there," then I think you'll see something, and
14 I think you'll see something worthwhile.

15 SENATOR RADER: Senator Huber.

16 SENATOR HUBER: My question, I think, Mr. Chairman, is very
17 much like Mr. Gruening's except rather than asking you
18 if you know of a State study, asking if you know and can
19 relate of any industry interest or industry study in this
20 direction.

21 MR. McCUTCHEON: Are you leading me to the Westinghouse Study?

22 SENATOR HUBER: The Chairman doesn't allow me to lead. I mean
23 Westinghouse, I mean Wentworth Brothers, I mean all areas
24 that you know about in regards to methanol and all other
25 petrochemicals.

1 MR. McCUTCHEON: One of the ways to look at this, the State
2 of Texas will be a net importer of oil and gas in 1985,
3 and I think one of those places that oil is going to
4 come from is a place called Alaska. We should be doing
5 what they're doing.

6 Now, Arthur Little did a study for the State of
7 Texas, and I have never seen it, but I would suggest
8 to you, Senator Rader, that you might have your committee
9 get their hands on it from the Texas Delegation -- and
10 that study shows the various profitability of what
11 happens. A barrel of oil in the State of Texas is worth
12 Five Dollars when it's produced. When it's processed
13 it's worth Fifty Dollars. But when it's made into
14 material or other things, it becomes worth Two Hundred
15 Dollars a barrel.

16 SENATOR RADER: Mr. Chatterton, do you have a question?

17 REP. CHATTERTON: Thank you, Mr. Chairman. One question -- I
18 think I heard you right, but I would to double check.
19 When you said, I think using your language, we should
20 hold our gas back, I gather you mean not only our
21 one-eighth tail but also the seven-eighths dog; is that right?

22 MR. McCUTCHEON: You bet! Right under our -- we have control
23 of the reservoir and there's nothing they can do about
24 that. And the question is a good sound matter of
25 conservation, and I think we should practice it first,

1 and then go from there. I don't mean to threaten any-
2 body that we're going to withhold our gas, and I don't
3 mean to pirate anybody around, because I don't think
4 we should engage in that kind of game. But I think that
5 we should run our reservoir in a tight-fisted manner.
6 Remember, we're the second largest holder up there.
7 You may think that twelve and a half percent -- but
8 remember, we've got eight percent in taxes too at this
9 juncture, and you subtract that from what Exxon and
10 ARCO have got and all of a sudden we become second and
11 they're third and fourth.

12 SENATOR RADER: Mr. Parr.

13 REP. PARR: One brief question, Mr. Chairman. Mr. McCutcheon,
14 I hope I heard you wrong, but I'd recheck. Early in
15 your testimony, if I heard you right, you said that an
16 engineer hired by the Legislature was refused data on
17 the reservoir. I would like to know if I heard you right,
18 and then who is the engineer if that's the case?

19 MR. MCCUTCHEON: Let me state this in expanded form and
20 maybe it will become clear. There was a proposition
21 which was passed by the Oil and Gas Taxation Committee
22 to hire a reservoir engineer, a person who normally
23 deals with proprietary information and does it every day.
24 This person was to be responsible to the Legislature.
25 This was Senator Croft's committee, and my position was

1 that the man should be hired. Approval was for the man
2 to be hired. Then the next question of my position was
3 that he should be hired but that he should not proceed
4 further untill such time as there was access to the
5 proprietary information because we've had enough people
6 going down exactly the same corridor but without the
7 proprietary information and, thus, a question -- Mr.
8 Martin wouldn't let him see. First the question was
9 bounced off and, yeah, they would. The next time
10 around when it came in formally, formalized in writing,
11 no, they would not. And I think that this committee,
12 or any other committee having a person who normally
13 handles this thing -- I don't mean anybody, but I mean
14 a man industry-wise who does this all the time, should
15 have access and should be responsible only to the Legis-
16 lature, the same way as Congress has got access if it
17 really want's to buckle it down to anything that the
18 United States Government has got, little secrets that
19 they're supposed to be holding back from them. And I
20 think that the same damn thing applies to the Legislature.
21 I don't think we should have an Administration which can
22 withhold information. True, if you've got to have one
23 thing and the information the man comes back with to
24 you is going to have to be secret, he can give you an
25 opinion of what he has seen because he can't release the

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1 information, that has to still remain proprietary.

2 But the Legislature should have a man that has access
3 to proprietary information when it applies to the
4 Legislature.

5 SENATOR RADER: Representative Parr, any further questions?
6 Any further questions of Mr. McCutcheon? Thank you
7 very much, Mr. McCutcheon, we appreciate your patience
8 and your testimony.

9 We have in addition to those listed on our
10 agenda several others whose names have been added since
11 then. We will continue. Mr. Penney sent me a note
12 at 4:50 saying that he had another commitment, that
13 he couldn't testify. After that we have Mr. Thomas
14 Stahr of the Anchorage Municipal Light and Power.
15 Is Mr. Stahr still here? Mr. Stahr, do you wish to
16 testify?

1 MR. PENNEY: Yes, that would be fine, Mr. Chairman. Chair-
2 people, if that is the correct term, my name is Bob
3 Penney, and I'm President of the Organization for the
4 Management of Alaska's Resources. On my left is Ms.
5 Paula Easley, she is our Executive Director.

6 This month OMAR is two years old. It was started
7 some two years ago, with the idea of having some citizenry
8 input into what happens to the development and/or the
9 management of Alaska's resources. One of the first goals
10 and projects that we took on was the issue of this
11 natural gas line, and since then we've spent many, many
12 hours and an awful lot of time trying to at least get
13 a layman's understanding of what's really happening.

14 We have an office in Anchorage. The address is
15 the Fourth Avenue Theater Building. We have a one-man
16 office in Fairbanks, Alaska National Bank, and this
17 next month we'll have an office in Seattle, and we have
18 an associate office in Washington, D.C. under USA, Alaska.
19 We have forty-nine directors from all over the State,
20 and we have an executive board of eleven people, and the
21 executive board meets once a week. We have public
22 meetings once every Thursday in the Anchorage office.

23 I'd like to start off by saying OMAR doesn't
24 really say who builds the gas line, we never have.
25 We don't care where it goes, through what cities it may

1 pass; we just say it must go to a tidewater, ice-free
2 port within the State of Alaska. And our second point,
3 in our estimation, Prudhoe Bay gas is going to be
4 produced. Now, it's produced with the oil and, as we
5 understand it, we don't own one-eighth of the gas,
6 we own one-eighth of the production and initially,
7 unless we take it in like kind, we own one-eighth of
8 the revenue. And, as we understand it, if we elect
9 to take it in like kind, as Commissioner Martin has done,
10 we then can take one-eighth of that production of that
11 gas in like kind or take the gas itself.

12 (b) Per Atlantic Richfield Company engineers
13 (Chat was at the meeting) it will cost nine to ten and
14 a half percent of the gas to reinject it into the ground.

15 (c) It's against the law to flare it, as it
16 should be.

17 (d) Eighty-seven and a half percent of the gas
18 is already sold to others. It will leave the State,
19 the rest of the country will demand it. There is a
20 Federal law that sets a time frame for delivery of this
21 gas. The gas is going to be produced.

22 Our share, as brought out by Mr. Moody, of the
23 estimated three and a quarter trillion cubic feet,
24 we have in this contract before you sold or are endeavoring
25 to sell eighty percent of that gas, or 2.6 trillion feet,

1 and that amounts to eighty percent of the gas. Somebody
2 said the other day they thought only seventy-five percent
3 should be sold, and this is approximately eighty.

4 Our surplus royalty gas has to be sold for a
5 period of time; that's what our observations have given
6 us. We can't use it all right now in the State. I
7 believe the State of Alaska looked for four and a half
8 months trying to find a user for that gas specifically
9 within our State. OMAR really feels this, and the reason
10 we feel we're for this line is as follows.

11 We feel that the eventual use of the royalty gas
12 within our State is the number one reason and benefit
13 that Alaskans will accrue from this gas line.

14 (b) At a flow of three hundred million cubic
15 feet a day, this royalty share equals, according to our
16 figures, 2.2 times the amount of gas presently being
17 used by forty percent of our population, the Anchorage
18 Bull.

19 Last year the State could not find, nor is there
20 a user at this time, who will agree to use or develop
21 all the gas within our State.

22 (d) OMAR concluded over a year ago that we have
23 to sell our surplus gas in order to have it back again
24 some day. The eventual use in our State, as we stated
25 before, the eventual use in our State of that gas should

1 be our number one priority.

2 Number Four: Prudhoe gas is going to market
3 and the routing of that gas line will be a political
4 decision finally decided by the Congress of the United
5 States of America.

6 (a) We initially started working for a royalty
7 gas contract at the recommendation of Senator Stevens
8 and Representative Young over one year ago. They told
9 us the route would probably be a political decision,
10 just as the oil line one was.

11 (b) El Paso's application, in our opinion, is
12 the overall number one choice for Alaska. Let's face
13 it, they're a pretty small company in the big picture,
14 when compared to the forces and money behind Arctic Gas
15 at this time.

16 (c) We have been urging Commissioner Martin
17 and the Administration since last February to conclude
18 a royalty gas sale as recommended by the Congressional
19 Delegation. As far as we're concerned, Guy Martin
20 took a long time, worked on it very thoroughly, and
21 went through extensive negotiations. We believe that
22 last April 14 the contracts were almost signed and would
23 have possibly been included for review by the last
24 Legislature, but they were not completed until this
25 November.

1 A sale, to be most effective for our State,
2 should have been concluded, in our estimation, last
3 spring. It has taken twelve months to get this contract
4 before you in the steps it's in. Six to eight months
5 from now it will all be over, the decision for the
6 routing will have been made.

7 (d) The FPC Judge stated many times during the
8 testimony and asked, "What's Alaska going to do with its
9 gas? Is their gas going to go into the system? Are
10 they going to keep it?" This contract you have before
11 you was entered into the FPC record in its rough draft
12 on the last afternoon of the last day before public
13 testimony was closed.

14 (e) If all the gas goes to Arctic and if our
15 State found no new reserves for some reason, wouldn't
16 it be something if Alaska ended up some day like
17 Louisiana, some years hence, with a shortage of gas? It's
18 not probable, but it is conceivable.

19 (f) A political decision? Alaska is using all
20 the forces we can to affect a Congressional decision.
21 Do you mean like we did for the oil line? Or like we
22 did for Statehood? You bet we are! If we don't stick
23 up for our own state, I don't really think anybody else
24 is going to.

25 Here are some of the letters we have received

1 from Senator Stevens, Senator Gravel and Representative
2 Young dated November 2, November 5 and November 17, 1976,
3 mandating a royalty gas contract.

4 MS. EASLEY: Last fall when we were getting pretty nervous
5 about whether the royalty gas contracts would be concluded
6 in time to be included in the FPC record, we asked Don
7 Young and Ted Stevens and Mike Gravel to meet with us,
8 and we did separately. And we asked them each a very
9 important question. We said, "Do you still consider the
10 royalty gas contract critical to the success of the
11 Trans-Alaska gas line."

12 Ted Stevens told us that if we did not have the
13 royalty gas contracts we didn't have a chance to win.
14 Don Young said the same thing, and Mike Gravel said
15 the same thing in different words. So we were convinced
16 then, as we are now, that that is the most important
17 thing that we need in order to do our job in committing
18 the funds that have been contributed to our organization
19 to carry this fight to the nation.

20 MR. PENNEY: November 2 in a letter to Honorable Jay Hammond
21 from Mike Gravel: "In response to a request from the
22 Organization of Management of Alaska Resources, I am
23 putting on paper my position with respect to the commit-
24 ment of Alaska's royalty gas. I have enunciated this
25 position on numerous public occasions, both in Alaska and

1 Washington, D.C. Without doubt, the commitment of
2 Alaska's share of the Prudhoe Bay natural gas could
3 bring us allies in our cause if only because the
4 beneficiaries would thereby have a proprietary interest
5 in the success of our endeavor, designation of an all-
6 Alaskan gas line."

7 November 5, in a letter from Senator Stevens,
8 to Paula Easley at OMAR: "Dear Paula: I am writing
9 to confirm to you my feelings that Alaska's royalty gas
10 should be committed so as to pick up as much support
11 as we possibly can gain in the Congress, in the South
12 and in the Southwest. As you know, I have not expressed
13 any opinion on the question of that share that any
14 respective purchaser receives. However, these commitments
15 will only make sense if they are associated with support
16 for the all Alaskan line, and to get that the share to
17 the new supporters must be credible." That's the time
18 when we were being asked by, for instance, Senator Stevens
19 wanted to see Tenneco, I think, at the time get it all,
20 and Senator Gravel was thinking that El Paso should have
21 gotten half. But it was a decision of what the percentages
22 was, was left up to the State Administration. In fact,
23 we didn't make any comments because we don't think that's
24 within our vein.

25 "The recent report of the Berger Commission's

1 staff recommendations (continuing with the Senator's
2 letter) reinforces my feeling that we have a real chance
3 to win, and when the review of Alaska's gas transportation
4 system comes before Congress we will need all the help
5 we can get."

6 November 17 from Don Young to the Honorable Jay
7 Hammond, in addition to a wire he had sent the prior day.
8 "It is timely that the State has taken this action to
9 achieve the goal of an all Alaskan route and to preserve
10 the State's option for use of its royalty gas in the
11 State. In the past, FPC Hearing Judge Nathan Litt has
12 repeatedly inquired about the disposition of the State's
13 royalty gas. It has been argued that if the State sold
14 its gas it would be an unrefutable indication that the
15 State is willing to do all that is in its power to
16 commit itself to an all Alaskan route. Now at last
17 this is the case and any reservations on this point can
18 be swept aside."

19 Political decision? It is. If we don't listen
20 to and seek the feelings of our Congressional Delegation
21 as to what should be done on an issue decided in
22 Congress, then who should you ask.

23 Number A: I would like to take a moment out
24 at this time to do the same thing that Russ did, and I
25 would like to publicly say how much I thought Bob Ward's

1 testimony was really right on the button yesterday, and
2 he renewed my respect for him so much -- that he just
3 told it like he really thought it was. I thought that
4 was probably one of the nicest presentations I ever
5 heard anybody give, particularly when they've got to
6 have the least desired position of anybody involved.
7 I thought it was well done.

8 We concur with that thinking. We thoroughly
9 endorse the concept of these contracts. As we said,
10 it's taken twelve months to get this far. We weren't
11 privy to the negotiations. When last April we asked
12 Commissioner Martin how negotiations were to be handled
13 he told us no one was going to be involved but the
14 four companies and the State. We understood and agreed.
15 It took almost seven months to conclude these negotiations.

16 We really can't answer the questions as to the
17 technical terms and things that you've heard now. The
18 only thing that we can do is address ourselves to the
19 concept of the contracts, which was initially told to us
20 by the Congressional Delegation.

21 We have some concerns about the switching
22 clause, and we've dicussed it at some length. We have
23 a couple of suggestions after, if you want to. It's
24 hard now for us to judge what's going to be hindsight
25 in two to three years from now, and I'm sure it was

1 awfully hard for Commissioner Martin and the attorneys
2 to judge now the best contract to draw for probably
3 1982. But I think from testimony I've heard here, I
4 think the contract is probably as well done as it could
5 have possibly been.

6 After all our encouraging Commissioner Martin
7 to finally conclude a sale, we have to admit we think
8 on an overall basis the contract really exceeds in many
9 ways our best expectations. We think overall that he's
10 done a fine job and actually has done the best he possibly
11 could for our State, particularly under the circumstances.

12 One of the points that, as we understand it --
13 in essence if this contract is inked and it goes for
14 approval, or if it doesn't go for approval but if Congress
15 eventually approves the all Alaskan route as it's pro-
16 posed, as we understand the contract, the next day our
17 Governor could say, "We have the route now; however, we
18 have an in-State use for the gas and two years from
19 now we're going to take it back," and then two years
20 hence, even before the line is even built, before it's
21 ever constructed, we can cancel out the terms of the
22 contract. I just have a feeling that there's got to
23 be a little faith on both sides, because I don't know
24 how I'd sign it if I were a gas company. But evidently
25 they did think it was all right.

1 One other point that hasn't been brought out
2 and I don't know why they don't want to talk about it,
3 but I'm going to talk about it because I think it's
4 very important. But El Paso, in essence, and I think
5 you'll find that as we go into this the next six months
6 and some more testimony, if you want it, will show
7 that the financing of either one of these three routes
8 is going to be one of the major critical things, and
9 we think at this time it is the major critical stumbling
10 block for Arctic Gas. And we have testimony, if you
11 want to review that further.

12 But El Paso, in essence, has already got twenty-
13 five percent of their system financed, as we understand
14 it. Their tankers are going to cost 1.6 Billion Dollars,
15 which is a quarter of their project, and under the
16 Maritime Act (I don't remember the name of the Act) there
17 is a low interest rate available for that, and also
18 in a Federal insurance. So, in essence, they've already got
19 twenty-five percent of their package cut and done. I
20 don't know if that's been brought out before, I don't
21 think it has.

22 In summation, don't forget, we won't have any
23 accessible surplus of royalty gas if Arctic is certified,
24 and I really think people lose sight of that. We will
25 just have dollars of revenue from then on, because Mrs.

1 Jones is going to be cooking eggs in Ohio for the next
2 twenty-five years with our royalty gas.

3 And (b), we think this is almost as important:
4 if either Canadian line gains approval, you will then
5 have an established corridor from the heartland of our
6 State funneled directly to the South 48. If we ever
7 want or choose then to see Pet 4 or other resources used
8 or developed within our State, the chances of doing so
9 will become much, much more remote. Whatever you do
10 with this contract, somebody, some day is going to buy
11 a portion of our surplus royalty gas, and we think that
12 if El Paso, Southern and Tenneco would be foolish enough --
13 they would be foolish, they'd be unfair to their stock-
14 holders, and less effective for Alaska if they publicly
15 review their game plan for approval of the Trans Alaska
16 line. If they do, they're almost sure to read again
17 about it in Jack Anderson's column or else somewhere else
18 in national print. If you haven't heard about the
19 column, I'll tell you about that.

20 They are large companies, they need the gas,
21 and "no ticket, no laundry." If they don't work with
22 us they very probably will get no gas. So we have to
23 have some reliance on their ability to perform.

24 (e) To me, personally, this contract is also
25 important nationally, as it's like the tapping of a pencil

1 on the negotiating table by the State of the Far North,
2 that we're not asleep, we are interested in our own
3 destiny, we do want a say in the use of our own natural
4 resources, in our way of life, we do want to get off
5 the Federal dole, and we do want to direct our own
6 heritage.

7 We have over one hundred and fifty press
8 clippings. Somebody asked if this was going to be
9 news across the nation, and I'll let Paula enunciate
10 on that. This news of the royalty gas sales has already
11 been in most of the major papers in the United States.

12 MS. EASLEY: I'm sure most of you are aware of that, and
13 unfortunately it has been reported and accepted as an
14 already concluded situation, and quite a few of the
15 articles have mentioned that the contracts do have to
16 have the stamp of approval of the Alaska Legislature.
17 But the way it is stated, it's just been that it is an
18 assumed fact. And we are concerned about this element
19 of it, should the contracts not be approved, the effect
20 of that at the national level in indicating to the public
21 and to the Congress that Alaska is not behind the pro-
22 posal that it professes to be, and that eighty-five
23 percent of its citizens say they are.

24 MR. PENNEY: Last, review, assess, discuss, make sure it's
25 right for all of us, if you have to, this contract. The

1 final terms are in your hands. But, if you will, pass
2 it out as soon as you can with a large majority. Affirm
3 and then make it your first step in the fight for our
4 own gas line.

5 Then second, (that's the first step) pass an
6 appropriation bill to be used nationally in an effort
7 to tell the Alaskan side of the story, that the all
8 Alaskan U.S. route is the best one for all of the United
9 States.

10 Then thirdly, we respectfully ask that you do
11 everything you can legislatively to see that it's
12 "easier" to go through Alaska with our gas than through
13 the middle of another country.

14 SENATOR RADER: Thank you both. Any questions? Senator
15 Huber.

16 SENATOR HUBER: One short one. Bob, you didn't agree with
17 Bob Ward's testimony so much as to agree with his bottom
18 line, did you, that it wouldn't make any difference?

19 MR. PENNEY: No, John, but if you'd like to -- some of the
20 points he brought out we think were very valid, partic-
21 ularly as far as the part that gets into problems in
22 Canada, and we researched those very thoroughly. We
23 subscribe to two clipping services from Canada, and it
24 keeps one person busy just reviewing those, and we think
25 we have a pretty good grasp or feeling for what is taking

1 place in Canada, at least as far as the press reports.
2 And if you want to get in and talk with some of that,
3 we can tell you where we think some of the tough parts
4 and some of the good parts will be.

5 SENATOR HUBER: You at least agree that he was very candid?

6 MR. PENNEY: Yes, sir.

7 SENATOR HUBER: As far as the last line -- I wanted to be
8 sure you didn't agree with his last line.

9 MR. PENNEY: That's true, John, but I was very impressed
10 with his testimony. One other aside, there has been
11 some mention in talk made about the treaty here, and
12 last February 1, I believe, Aron Tussing brought this
13 up, so we will be able to see how his suggestion worked.
14 But February 1 we sent a letter to Senator Gravel,
15 Senator Stevens and Don Young, and in essence said this,
16 that while we understand that the U. S. and Canada are
17 agreeing to the treaty in which no line will be taxed
18 any different than somebody else's line, as we all
19 know the -- just let me read the paragraph. "We at OMAR
20 are concerned that the provinces through which the Arctic
21 Gas or Alcan Pipeline might pass have not ratified nor
22 endorsed this treaty between U.S. and Canada. We are
23 all aware the provinces of Canada have unusual taxing
24 powers when compared to those enjoyed by each of the
25 states of the United States. We ask that you consider

1 a proposal requiring each province through which a
2 Prudhoe Bay gas line might pass to give a written pledge
3 to support these treaty provisions before the U. S.
4 Senate ratifies the treaty itself."

5 SENATOR RADER: Any further questions? Senator Sumner.

6 SENATOR SUMNER: You mentioned an appropriation. Did you
7 have a figure in mind or have you gone through some
8 other channels with that?

9 MR. PENNEY: Senator Sumner, Mr. Chairman, yes, we have.
10 We've projected out two or three different things that
11 could be done. But if the State were to hold down its
12 expenses as closely as possible, we think it's going
13 to require a Three Hundred Thousand Dollar contribution
14 just on the part of the State itself to do any kind of
15 effective job. But there are so many things we could be
16 doing in the next six months to try and win this thing.
17 There are so many avenues we could explore. We've asked
18 the Governor, and Lowell Thomas is going to take another
19 trip now for thirty days. We have to raise the funds
20 to take care of his airplane tickets. He was very
21 effective last time. He's written letters to every one
22 of the other Attorney Generals throughout the United
23 States -- or Lt. Governors, excuse me, asking them about
24 the Alaska route. There's an awful lot we could be
25 doing. We're going to have two more flights going back

1 to Washington, D.C., about a hundred and ten people,
2 later on this spring and early summer, as soon as our
3 Delegation tells us. And there is so much we could be
4 doing, but if we don't start doing it, and if we don't
5 start doing it right away, and really if we do nothing,
6 and we get nothing, that's just about what we deserve.

7 SENATOR RADER: Any further questions?

8 MR. PENNEY: Thank you very much.

9 SENATOR RADER: Thank you very much. We have a number of
10 exhibits that we need to introduce. Let me just identify
11 them. We have a letter from United States Senator Mike
12 Gravel supplementing his wire of several days ago. That
13 will be Exhibit 20. I won't read it, it will be attached.
14 Exhibit 21 is a series of correspondence including
15 a letter from the Lt. Governor of the State of Alabama,
16 a letter from George E. Smith, Alaska Chapter of
17 Associated General Contractors, a letter from Robert L.
18 Hardick, Anchorage Chamber of Commerce, a telegram from
19 A. L. Swalling of Anchorage, Alaska, a telegram from J.
20 A. Sproul, a telegram from Richard L. Maullin, a letter
21 from Mrs. Jeanne Wilson, President of Greater Fairbanks
22 Chamber of Commerce, a letter from George Easley,
23 President of the Easley Construction Company, a telegram
24 from James T. Jefferson, of Jefferson Enterprises,
25 Detroit, Michigan. Most of these were responses to our

1 invitation to come and testify, and they sent written
2 letters or telegrams expressing approval or disapproval
3 of what we were doing. I don't intend to read them but
4 I intend to make them a part of the record; so that will
5 be Exhibit No. 21, called miscellaneous correspondence.

6 (Whereupon Exhibits 20 and 21 were duly marked.)

7 Do we have any other ---

8 SENATOR HUBER: Mr. President, may the list to whom
9 invitations were sent to be a part of the record?

10 SENATOR RADER: Senator, I don't know that we can do that.
11 Representative Gruening's office, I know, sent out some
12 and my office sent out some in two different groups that
13 had some overlap. I'd invite you to come to my office.
14 We've got the letter from the Legislative Affairs people,
15 and, Elke, maybe you know more about those lists than
16 anyone. Would you explain to us what ---

17 MS. KALLAB: Yes, to the extent that I can. As far as on
18 the Senate side, the list that we initially began with
19 was furnished to us by the Department of Natural Resources,
20 which are used as lists as far as Oil, Gas and Royalty
21 Board invitation lists. Those are the three lists we
22 worked from.

23 As it turned out, in the confusion, everybody
24 got an invitation. So I don't think we've lost anybody
25 from the Department of Natural Resources that has been

1 on that side.

2 On the House side, as far as Representative
3 Gruening is concerned, I know that he invited several
4 people that were also invited by Senator Rader, namely
5 Dr. Tussing, and in addition he invited Dr. Michael Scott
6 to testify for the joint hearings here. I don't know,
7 but I'm sure aide, Brian Rogers, will have a complete
8 listing as to what other invitations were issued, either
9 verbally or by writing.

10 The material that went out through Senator
11 Rader's office is very readily available and could be
12 very easily made a part of the record.

13 SENATOR RADER: Without objection, I will make available
14 a list of the invitations sent out by my office, and it
15 will be marked Exhibit No. 22. Representative Gruening,
16 do you want to supply such a list for Exhibit 23?

17 REP. GRUENING: That's fine.

18 (Whereupon Exhibits 22 and 23 were duly marked.)

19 SENATOR HUBER: My only reason for the request was so that
20 the record should show that we had invited a large cross
21 section of people so it couldn't be said that we had a
22 selected list later on.

23 SENATOR RADER: Fine.

24 REP. GRUENING: Mr. Chairman, in that regard you might want
25 to put another exhibit, and that is newspaper ads that

1 were run by the joint committees, and we might even get
2 a proof from the paper to attach so they know the dates.

3 SENATOR RADER: How many newspaper ads were run and in what
4 newspapers?

5 REP. GRUENING: Daily News Miner, the Anchorage Times and
6 the Daily News.

7 SENATOR RADER: One ad or several ads?

8 REP. GRUENING: Two days in each paper.

9 SENATOR RADER: If we can find a copy of that, that will
10 be supplied to the reporter as Exhibit No. 24.

11 (Whereupon Exhibit 24 was duly marked.)

12 SENATOR RADER: Do we have any other requests for exhibits
13 to be attached? We have one final exhibit, No. 25,
14 which will be supplied by the Department of Natural
15 Resources, and with that I take it that concludes our
16 joint hearings; is that correct?

17 (Whereupon Exhibit 25 was duly marked.)

18 REP. GRUENING: Do we have the relevant statutes attached
19 in there?

20 SENATOR RADER: No, we do not. Exhibit 26, would your office
21 supply what you consider to be the relevant statutes?

22 REP. GRUENING: Sure.

23 SENATOR RADER: Exhibit 26 will be the relevant statutes,
24 to be supplied by Representative Gruening's office to
25 the reporter.

1 (Whereupon Exhibit 26 was duly marked.)

2 SENATOR RADER: Ms. Easley.

3 MS. EASLEY: I'm sorry, I just gave the reporter some
4 telegrams and letters from other organizations that had
5 asked us to speak on their behalf. Can she just do that,
6 write them in?

7 SENATOR RADER: I'll make that Exhibit 27, it will be called
8 miscellaneous correspondence and written testimony
9 submitted by OMAR on behalf of others.

10 (Whereupon Exhibit 27 was duly marked.)

11 SENATOR RADER: Are there any other exhibits that should be
12 made a part of this written record? Ladies and gentlemen--

13 REP. GRUENING: John?

14 SENATOR RADER: Yes.

15 REP. GRUENING: I know you want to get out, but what are
16 your plans for talking to the Department of Resources
17 people?

18 SENATOR RADER: Mr. Boness was scheduled to leave Sunday
19 for Washington, D.C. and be gone for several weeks to
20 work on the Federal Power Commission brief. Commissioner
21 Martin has submitted to both you and I a schedule of his
22 activities. It appeared to me that if we did not meet
23 with him Monday -- Mr. Boness agreed to stay over and
24 Mr. Martin agreed that Mr. Boness' presence was important
25 if he was going to submit any rebuttal testimony -- it

1 appeared to me that if we did not meet Monday it might
2 be several weeks before we could meet again.

3 It was my judgment and it was my feeling, as
4 the chairman of our committee, and I've announced it in
5 the Senate, that we will meet with Commissioner Martin
6 and Mr. Boness of the Attorney General's office, and
7 whomever of their staff that they deem important, to take
8 any supplemental, rebuttal or additional testimony that
9 they think has been brought out by any of the testimony
10 that has been presented thus far.

11 REP. GRUENING: What time?

12 SENATOR RADER: 10:00 o'clock, here.

13 REP. GRUENING: We normally have a session. We'd like to
14 attend.

15 SENATOR RADER: Our problem is our session. I scheduled
16 it for 2:00 o'clock. As I recall, I talked to you and
17 I thought that you were not interested in this, so I
18 scheduled our session for 2:00 o'clock.

19 REP. GRUENING: It was my understanding it wouldn't be part
20 of the record.

21 SENATOR RADER: It will not be a part of the record.

22 REP. GRUENING: But it is from your prior statement that
23 they will be submitting something and you're taking
24 testimony.

25 SENATOR RADER: They will submit written testimony or whatever

1 they think is important for this record, and I don't
2 know what that's going to be. But our committee wanted
3 to hear from them and didn't want to wait two weeks
4 for it.

5 REP. GRUENING: Well, I'm wondering -- I haven't talked to
6 the rest of the committee, but there might be some
7 interest in talking to these folks if it's going to be
8 on the record.

9 SENATOR RADER: I did not plan to have the reporter here;
10 in fact, the reporter had asked to be relieved. I did
11 not intend that it would be a part of the written record.
12 If you are interested, let's make it 10:30, if we
13 could do that.

14 REP. GRUENING: Whenever.

15 SENATOR RADER: All right. Now let me ask you this: if you
16 wish, we can make that a part of the joint hearings and
17 ask the reporter to come back. I don't know whether
18 the reporter can or not.

19 REP. GRUENING: I don't know if that's necessary, but as long
20 as Mr. Boness is going to be here especially for that,
21 we might as well make it a half an hour later and we'll
22 all attend.

23 SENATOR RADER: All right. Then I think we should continue
24 the joint hearing, and I will ask the reporter then to
25 come back at that time. I understand we have the

1 courtroom committed to us at that time, 10:30 Monday,
2 and I'd like to ask the staff if they will make certain
3 that is posted on the bulletin board; my own staff if
4 they will contact the Department of Natural Resources
5 and inform them, and try to get a page over here from
6 the Senate, or send a page over here at a quarter to
7 10:00 to inform people who come here for that purpose
8 that the hearings will not commence until 10:30, and
9 to see that order is preserved in the courtroom.

10 We will adjourn until 10:30 then Monday.

11 (Whereupon the hearing adjourned at
12 6:05 p.m.)