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JOINT HEARING

HOUSE SPECIAL COMMITTEE ON ROYALTY

OIL AND GAS

AND

SENATE RESOURCES COMMITTEE

FEBRUARY 15 and 16, 1978

Northwest Officials

John McMillian - Chief Executive Officer

Jim Allen - Vice President - Finance, Northwest

Morris Thompson - Vice President, Northwest

Jack Bachman - General Counsel, Northwest

Carl Bornmann - Attorney - Cahill, Gordon and Reindal of New York

Walter Lubanco - Partner, Managing Director, Lehman Bros., Kuhn, Loeb, Inc. of New York

Neil Eisner - Associate, Lehman Bros., etc.

Jay Hellstrom - Vice President, First Boston Corporation

Mike Stanfield - Vice President, Loeb, Rhoades, Hornblower and Company of New York

Howard Cann - Vice President, Bank of America, San Francisco

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FERC Officials

John Adger

Phil Essley - Technical expert

Bob Anderson - Economist

Ned Hengerer - Attorney

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CHAIRMAN MILES: We will call this Joint Hearing to order. This is the Ninth Hearing of the Senate Resources Committee and the House Special Committee on Oil and Gas. We are very pleased to have Mr. McMillian of Northwest Pipeline with us. He has brought along a number of his experts in various fields. This meeting is purely informational and its partly in response to __________ with the representatives of Northwest Pipeline to begin hashing out what decisions they feel we have to make. And we also get our opinions ______. It is my understanding that in Mr. McMillian's presentation that he is going to dicuss the current situation with the Alcan Pipeline and then a number of financial matters. Following his presentation he and his staff will be available for questions and answers. If it is acceptable to the committee I think that we should proceed along the lines of having Mr. McMillian make his statement and then the Committee pose questions and take it from there.

SENATOR RADER: Mr. Chairman, yesterday during the Joint Session Senator Stevens, in his address to us, did discuss very briefly the pipeline situation and we did not have time yesterday to take questions from the Senator and to get his indepth thoughts on that matter. Several of the Legislators mentioned that to me after the session and I contacted Senator Stevens and asked him if he would take this opportunity to discuss with the Legislators here and particularly this

Committee, his views from the national point of view relating to the financing of the pipeline or anything related. I therefore would very much appreciate it if you could extend to him, I know that he doesn't want to take more than just a few minutes but he has agreed to make himself available for questioning from the Committee. I therefore would move, Mr. Chairman, that the State would ask the Senator to speak out of order and proceed with him at this time.

SENATOR STEVENS: Thank you very much, Mr. Chairman. I don't have any prepared statement for today. I appreciate the statement that Senator Rader has made and would elaborate just for a couple of minutes on the statement that I made. I am aware of the general outline of the proposal that Mr. McMillian is bringing to you and I particularly refer to the bottom, literally the bottom. I'm glad to see that it is the bottom line. That the ultimate backing for the State's participation will be revenues generated from the project. This has been the position that we have taken from the beginning, those of us that have been in Washington, concerning this project that the State should be willing to take a risk along with all others who would benefit from the project, but that the risk should be limited to the potential revenues that we could derive from the completion of the project.

As I mentioned to Senator Radar last night, I think that it is important to keep in mind the position that we are in with regard to financing this project. There are other matters that are pending before the Legislature that I'm not intimately familiar with in terms of detail but I have read in terms of the general subject matter. I think that it would have an impact on the financing of this pipeline also. One of those that I read is the proposal as I understand it to bury the taxation laws as it would apply to the producers of the North Slope oil. From my point of view and from what I know about the financial community and the problems of financing the gas pipeline, I think that a change in the rules of the game now, the change of the basic laws of the State as it applies to those who took the risks on the oil pipeline to change our State corporate tax income tax laws would be a signal to the financial community that the same thing could happen if the gas pipeline is financed. Whether we like it or not it takes a tremendous amount of before tax income to have after tax income to amount to CAPITAL formation. I checked with my office this morning. We anticipate in Congress a need for about $400 billion of capital in the total energy field in the next decade. Of that we can expect about 10% to be new capital that is generated and generally the rest of the shifting capital that will have be attracted to investment in the oil and gas industry. I think that if you look at Alaska, Alaska needs a minimum of $400 billion in the next ten years just to keep with the projects that we already know are going to go ahead. This gas pipeline the gas conditioning plant, the liquid hydrocarbon extractions plant that will be associated with the gas pipeline, the petrochemical plant and the financing of the off shore developments plus we have the additional energy demands such as the Susitna Dam and the extention and completion of the drilling and the production mechanisms for Prudhoe Bay and the area north of Prudhoe Bay in terms of Buford Sea. What I'm saying to you is that from where I sit it looks to me like the State of Alaska is going to require about 25%, at least, of the capital when we have the capability of forming a new capital just for this pipeline alone but we are going to need 10% of all of the money that this country can _______ for oil and gas development in the next decade. In this state with 500,000 people competing with the nation with 220,000,000 people. I would urge you and again I don't know the details of your legislation. I tried to point out in my address yesterday and I'm going to stop now and see if you have any questions Senator Rader or anyone else. My point is that we need stability. We need to give the financial world the total picture of Alaska as a mature entity, financially and from the point of legislation of Legislation and if we had legislation now that comes along and is looked upon, whether rightly or wrongly gentlemen, it is looked upon as being punitive legislation for those who appear to be making more money than we anticipated in the beginning, it is going to deter financing of this gas pipeline and the other things that we need money for. I urge you to consider the impact on the outside that I was mentioning. We, too, are getting a great deal more money out of the oil and gas business than we anticipated. I remember the first time that we looked at this Alaska oil pipeline we were talking about \$3.00 to \$4.00 barrel oil. Our profits have gone up, their profits have gone up. They need that after tax profit for capital formation to go on further in our development and I believe that we should be very wary of legislation that could be termed discriminatory legislation as far as the energy picture is concerned. If I have accumulated your thoughts again Senator I appreciate the invitation and I appreciate your courtesy on the rest of you as well for listening to me. If you have any questions I will be pleased to answer them. I'm sure that you are looking forward to hearing from Mr. McMillian.

CHAIRMAN MILES: Thank you Senator Stevens. Any questions for Senator Stevens?

SENATOR HUBER: Yes, Senator Stevens are you aware that the testimony that we received from ______ in the Wall Street ______________ in reference to the financing of the Alaska pipeline when they testified at open meetings we had here in Juneau, and I was carrying this ________ that every bit of the financing is figured on the basis that the company had a continuing liability for 9.4% Alaska corporate income tax. And that presently the oil companies will realize only a 2 3/4% to a 2 1/2% liability from the Alaska income tax when an Alaska corporation has the liability of 9.4% and that the financial community in every case had considered a 9.4% corporate income tax. And that the bill that you said that you said you are not familar with, none of them, calls for carrying Alaska's income tax over 9.4%. Have you taken this into account in making this recommendation to us?

SENATOR STEVENS: Yes I have and I think that again I say that I don't know the specifics of your bill. But what you're talking about is the apportionment of interstate income and that's a highly contested area of taxation in the nation and we are doing our best to assure that the monies that are actually earned in Alaska are fairly taxed in Alaska. But it is my understanding that the variations and the percentages that you mentioned are related to that apportionment of income. All of the $14.00 of the barral of oil that is delivered, whether it is in the gulf or in California, wherever its delivered, ultimately and sold, the first sale, all of that money was not earned in the State of Alaska. I think that this is one of the big problems that we have to make certain that we have a fair apportionment of that income to the State and as I understand it we're battling constantly as you know, to make certain that the charges are fair as we back price that oil from the first point of first sale to the wellhead where we get our 1/8 because we're trying to protect the wellhead value, as you know, and we have worked together, the members of Legislature, the State Government and the three of us in Washington, on that subject. But I don't think we ought to confuss that with what I am saying, and I hope that you won't. I'm saying that there is a stability factor as far as the concept, and I'm trying to ask you to look at the big picture as far as the future of the State is concerned.

If you change the laws even if that discrimination exists, If you change the laws so that Wall Street and the financial world looks at it as discriminatory taxation and the net result is to delay a $10,000,000 gas pipeline or a $4,000,000 gas conditioning plant or a $4,000,000 liquid hydrocarbon installation then I tell you that we have lost the forest for the trees, and I'm urging you to look at the problem that we have. Now all of us have spent a great deal of time in the last year, Don Young, Senator Gravel and I, in going to New York to visit with those people who are handling the financial decisions of large capital in this country. And we are trying to convince them that we are a stable mature society, that we can handle the investment of this kind of money in a short period of time. What you people do has a great deal more to prove that we are right with Mr. McMillian and his people who have come on say, as far as this project is concerned. Their looking to you to say what is the business climate, what is the investment climate for Alaska. That's my position and I hope that you understand. I'm not arguing about the fact and you can draw your conclusions, I can draw mine from the apportionment problem of income. But from the point of view of the broad picture of how Alaska is viewed in the financial world, I hope that you will see what I am trying to say.

SENATOR HUBER: Mr. Senator, I hope that Alaska's changes propose income tax structure are not being construed in Washington and elsewhere as an attempts to raise it. But we have not getting a fair apportionment of this price and we have been working very hard to try to get fair apportionment and I hope that you will work with us on that and _________.

SENATOR STEVENS: Let me tell you again, whether you are right or wrong and I haven't come down to determine that. Whether you are right or wrong if you change these tax laws so that they are so interpreted this year they will have an impact on it. Let me point out to you that the energy bill that is coming out of conference has a provision in it which says that State severance taxes are in addition to the first sale price for gas limited to the extent that the State collected severance taxes on April 20, 1977. We believe that date will be changed to at least this date of January in 1978.

But when we inquired where it came from the people on the Conference Committee told thats to prevent Alaska from raising its taxes anymore in terms of severance tax. I'm not talking to you just about the financial world. I tried to talk to you yesterday about the way that Congress is preceeding this State of some 400-500 thousand people in terms of what they consider to be our masive income already from oil and gas projected and now we're saying that we want more taxes. We are trying also to deal, John, with the BC people. Mike Gravel and I just spent time in New Orleans dealing with the BC people on trying to get them to be non discriminatory with their taxation on our gas pipeline if it goes through BC. I'm sure you know that the provisions that currently is in effect limits the taxation to $30,000,000 or the taxes that would be derived from the State of Alaska as tax laws. So they built right into the agreement that if we raise taxes, BC and Yukon Territory and the rest of them can raise taxes. We are be preceived, John, as moving to fast in terms of wanting to increase our income from these projects. And again I'm not arguing whether you are right or wrong, I'm asking you to see it from where we see it in terms of what the reactions are outside to what we are doing with regard to our tax law.

SENATOR HUBER: Senator I'm afraid that that is perceived as your suggestions and although I realize your position and I appreciate the job that you are doing in New York for us,

_______________ For instance, a remark regarding the severance tax on gas. For so many years we haven't raised it any so it no longer coincides with severance tax on an energy basis. We held back because we didn't want to increase the taxes on our essential industry thats supplies natural gas to southcentral Alaska. So now Alaska ___________ and now it is perceived to be lost after we didn't raise it for years and years. If your advise is for us to stand still and agree to wait by Congress or anybody else I can't see it then.

SENATOR STEVENS: Well if you call it that, John, you just have to call it that. I'm saying to you that we can look forward to a construction period of the gas pipeline, of a gas conditioning plant, of all these other facilities. We can have a stable construction industry related to the oil and gas industry with a smooth flow of investment capital to bring that about. Or we can be perceived as wanting to change the tax laws every year and slow down the flow of that capital and interupt and have peaks and dives in our construction and our employment picture. You're going to have to make up your mind, I'm not sitting where you are now. You are going to have to make up your mind what you think is right about it. As far as the severance tax is concerned, again that is already done. The Conference Committee has limited the severance taxes that may be added to the wellhead price of gas to the severance taxes that were charged by laws already in effect. And specifically it came about because of the increase of the Alaska severance taxes. I'm not saying that it was right of wrong, I'm just saying that they have said we have drawn the line from now on its a stable act to increase the severance taxes, it comes out of the wellhead price. It is not in addition to the wellhead price as far as the consumers of the United States are concerned. So it's just a signal. You can read the handwriting on the wall, the next thing is going to be a question as to whether their severance taxes are deductable. That fight went on between the Province of Alberta and the Federal Government in Canada and I would urge you to study it because the Province of Alberta had to back up. And we could get ourselves in that position, John, and I hope that you don't get us in that position because I think the net result will be that there will be an increasing anomosity towards this state not only from the Congress but from Wall Street.

CHAIRMAN MILES: Thank you. Senator Butrovich.

SENATOR BUTROVICH: ... (indiscernible) You know a short time ago I read an article in one of the ________ byline or dateline or whatever call it, concerning labor on the pipeline. It's a pretty tough article as far as hiring in Canada. It went to some length to say that portions

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of the line in Canada would be done by Canadian laborers and I noticed in your statement of Mr. McMillian's that something to the effect that Alaskans would be given preference. This is supposed to be raised in discussion of the oil line. There is a lot of people who work on that oil line and have no special qualifications in fact the hardest work that some of them did was ... (indiscernible). And if we are going to have that kind of a job on the gas pipeline I want Alaskans to enjoy it not the Canadians. If they are going to be tough enough ________ ________ then perhaps the article didn't speak for the NORTHWEST but it apparently spoke for the feeling that must exist in Alberta and I feel the same way. I don't know how you feel about that.

SENATOR STEVENS: John, I feel the same way that you do about that and Senator Gravel and I at the meeting with the Canadian members of Parliament discussed that at length. As a matter of fact that subject took up more time in our joint meeting then any other subject between our two countrys. It is the so called question of Canadian content. And I don't think that Mr. McMillian and his people really have much control over this now because this is a bill that is standing before the Canadian Parliament and the Canadian Parliament has indicated that Canadian content is going to be a condition of the approval of the legislation to allow this pipeline right of way to go through their country and that content, John, has been set a 90%. We argued long and hard about that concept of Canadian content and how it impacted on us. I reminded the Canadians that the first material that came in for the oil pipeline where the Canadian built Atco camp that came into Fairbanks. You will recall that, as a matter of fact I think you had a conversation with me about it at the time and its a very difficult problem to handle. That is another government, another national government and they have got legislation pending before their national congress, their Parliament which we don't agree with and we are having a very tough time getting changes made in it. But again that hasn't got anything to do with the financing of the pipeline, John.

SENATOR BUTROVICH: Yes it does.

SENATOR STEVENS: It does in the sense of our approval of it but it doesn't in the sense that the support or lack of support of investors in the pipeline. That's what I mean.

SENATOR BUTROVICH: Senator Stevens ... (Indiscernible). You mentioned 90%. Were you told told by 90% of Canadian labor in Canada.

SENATOR STEVENS: Now this is going to shock you but they say that 90% of all good services, labor, material, equipment will be of Canadian origin on the part of the pipeline that goes through Canada.

SENATOR BUTROVICH: Well I can't argue with that. (Indiscernible) I just don't want them telling us how trying to run this government for us.

SENATOR STEVENS: Oh no, on our side its going to be 97%+ U.S. and in Alaska I hope that it will be 100% Alaskan. We are talking about the portion going through Canada when we're talking about Canadian content. We are not talking about the portion in Alaska or the portion south of the Canadian border. But going through Canada their in effect insisting upon Canadian hire as we insisted upon Alaskan hire. Their insistant on Candian contracts as we insist on Alaska contractors. But we were telling them that fair share that it should not be so inclusive that the people of ours who have the experience in construction and that the welders, for instance, should be excluded from Canada when they have the experience and we allowed such people in our construction of the oil pipeline.

SENATOR BUTROVICH: Mr. Chairman, that is one of the things that concerns me and the others, IS the petrochemical plant. I don't want to get down the road and then get across the Canadian border and then try to set the petrochemical plant. I want to have that petrochemical plant on our side of the border.

SENATOR STEVENS: I do too, and that is what we are talking about is taking those liquid hydrocarbons out of it and we had better be able to get the money to build it and we had better be able to have the people associated with it who have the confidence to get that kind of money because, John, you are talking 3+ billion dollars to take the heavy

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and medium heavy liquid hydrocarbons out of that gas before its transported. It means a great deal ________ to do it. That propane and that butane and gasoline and we need that in this state and I think that everybody understand what we are trying to do.

SENATOR BUTROVICH: ... (Indiscernible). If we are going to be a partner in this we want some kind of barginning with. We want to go in there and say we want Alaska labor and Alaskan support on the line. Then we are going to try real hard to get the petrochemical plant on the Alaska side of the border. In other words we are not just going to be good guys and say in order to get a line we're going to join up with them and be partners because there are other people also who can build the line. It just so happens that at the present time that Northwest was going to do it. (Indiscernible).

SENATOR STEVENS: I hear you John.

CHAIRMAN MILES: Senator Stevens, do you imply that if [illegible] CHANGE IT WOULD CREATE A [illegible] TAX LAWS certain amount of uncertainity. Is it converse to say that the major financial endeavors by ... (Indiscernible). Are we also, committing to locking ourselves in forever and ever ... (Indiscernible).

SENATOR STEVENS: Well I don't think so Mr. Chairman. It's a good point though. Again I'm not saying that you should change the tax, I think that if you change the tax laws in a manner that they are preceived to be discriminatory, whether they are or not. That is the impact, there is going to be an impact on the financial world if it is perceived to be discriminatory. I think that you will find that the people who analyze State actions are fairly objective even though they have got a different perspective. They are looking at the alternatives for the investment of limited supplies of capital and if you had to make that decision you would put that capital where the assurance of repayment was greatest. That's the difference of perspective. But as far as the commitment for this line, if we take an action to commit a portion of our future revenues that we would derive only if the line is completed and the gas is sold, then we are taking a risk of a portion of the profits we may make as a State, as an owner of the gas. That gas price is going to rise over the time between now and the time when this pipeline is completed. I have every reason to believe our income, our profits as a State from the sale of this gas at 1/8 royalty is going to go up as much or more than the oil prices have gone up in the past. It's a very limited quantity of gas we have in the world today and this is a valuable resource. So what we are doing is that we are saying we would take a risk along with the company and the investors to the extent that we might derive a profit and no more. And as a matter of fact they are not asking us to risk even all of that. They are saying, though that our State of Alaska's financial risk will be limited to the revenues that we would derive from the project itself. That to me is a very fair saying and to answer your question directly, yes. If we take that step the financial world is going to say that the State of Alaska has confidence in this project. And that is going to make a great deal of difference in terms of the financial world.

SENATOR SUMNER: I think that without question, without debate one of the primary, maybe the primary issue before the _______ as you probably know is the jobs and the jobs opportunity. Certainly every gubernatorial candidate, including the incumbent, has locked that as their number one attack issue. And it seems to me that this might be an appropriate time to discuss the investment in this pipeline, this proposed pipeline to the Alaskan's jobs. There has been to much lip service given to the term "Alaska Hire, Local Hire" we have beat that to death. But down at the bottom line at the problem line times do we hire Alaskans and on what weight can we use, to see that that comes about. And again comments along that line, I would like you to address that question.

SENATOR STEVENS: Bill, there is no question as we have dealt with this project through consideration in Congress that all three of us who represent Alaska in Washington has said time and time again we support the Alaska Hire Law, we believe that it has been interpreted in court as being fair and we want to see it followed in terms of the gas pipeline. I have every reason to believe that this line is committed to Alaska hire. I think that Mr. McMillian will tell you that today and will answer your questions about it. It is again something that there is no question about its need in this State. I'm sure that we support your same approach to that. Thank you very much for your courtesy gentlemen. Mr. President I hope that I've met your request.

JOHN MCMILLIAN: Thank you Mr. Chairman. Mr. Jim Allen, Vice President in Charge of Finances with Northwest Alaska on my right, Mr. Walter Lubanco is a Managing Partner with Leman Comro of New York City, our Financial Advisor. We also have other parties here that will be willing and able to answer questions and would you like to introduce everybody by name.

__________: This is Carl Bornmann from Cahill-Gorden. Mr. Collen from Bank America, State Health Managing Director and First Boston Canadian Financial Advisor. Niel Eisner, also with Union, Mike Stanfield with Labrose, and Jack Bachman our Financial Advisor.

MCMILLIAN: Jack Bachman is a General Council with Northwest Alaska. Thank you Mr. Chairman. I'm John McMillian, I'm Chairman and Chief Executive Officer of Northwest Alaskan Pipeline Company. As you know, our company, which was formally Alcan Pipeline has been selected by the President of thd United States, with approval of Congress, to design, construct and operate the Alaska segment of the Alaska Highway Project. I'm pleased to be here with you today and to have the opportunity to report on the status of our progress and to discuss ways in which we can work together to assure its success.

Since I was last in Alaska several parts of development have taken place, both in Canada and the United States. Federal, State and Provincial Governments are continuing to demonstrate their commitment to the project by organizing to expedite for the projects completion. On December 16, 1977 the Federal Energy Regulatory Commission, FERC, issued Conditional Certificates of Public Convenience and Necessity to the Northwest Alaskan Pipeline Company, Northern Border Pipeline Company, Pacific Gas Transmission Company, thereby clearing way for us to move forward with our scheduled planning, design and engineering work. For example, our GS geotechnical exploration program which will involve a great deal of field work in Alaska is scheduled to begin on March 1, 1978. Plans are also underway for full scale frost heave tests near Fairbanks and pipe burst tests in Northeastern Alberta. These two programs which will begin late this year and early 1979 will be carried out in corporation with the U.S. and Canadian government agencies. U.S. federal agencies have commenced working together in order to develop the necessary plan that will allow for timely permitting and monitoring the construction. FERC has created a new Alaska Gas Project Office to facilitate the entire certification process and named John B. Adger, Jr. as Director. Mr. Adger's function is to assist in expediting the project by gathering necessary information required by the Commission to rule upon future applications for permanent certification. He will also represent the Department of Energy on the Executive Policy Board.

Also, over the last two months we have had a series of very positive meetings with Governor Jay Hammond and other officials of the State of Alaska. Our discussions have centered around such issues as the Alaskan Local Hire, use of North Slope haul roads, and of course the possibility of State participation in the financing of our project. We're pleased and encouraged by the cooperative spirited and demonstrated by the State of Alaska and its officials. On the Canadian side a bill similary to the Alaska Natural Gas Act was introduced in the Canadian Parliament on February 3, 1978. This bill is to provide for the approval and centralization of authority necessary to permit the project to go forward. We feel like this bill is a positive bill. This is similar to our Alaska Natural Gas Bill and we see no conflicts today in the proposed bill that is now before Parliament. Further more, Prime Minister Lougheed Lawheed has indicated the provincial government of Alberta is interested in participating in the financing of the project from the Canadian point of view. We think this is very important. The Heritage Fund of Alberta now has over $4,000,000. It also shows that the Canadian's are confident in the project. It also shows that the Canadians are confident that this is a good investment for their Heritage Fund. Concurrently with the government efforts, our company is moving forward to organizing a partnership group that will form the foundation for the equity financing of the Alaskan segment. In that regard I'm pleased to announce the final negotiations are currently underway with a number of U.S. gas transmission companies and we expect to announce the formation of this partnership within the next few weeks.

Let me talk about one of the main subjects that brings us all together and that's financing. I would like to outline briefly why we want and need your support. The benefits to Alaska and their people that your support would produce, and the opportunity for investment by the State which would permit the State to realize the same return that all the other investors will receive. The need for Alaska participation, the capital for our project will be raised on a project financing basis. That is, the project will be financed on its own merits and stand as an independent entity. The service for the projects debt and the return on its equity investors will be provided by the cash flow generated by the project. This financing concept is different from that employed in connection with the Alyeska Crude Oil Line. Financing strength for the U.S. gas transmissions companies that will participate in the project does not match that of the major oil companies involved with the crude line and therefore requires a fund to be raised for a gas pipeline on a project financing basis. Successful utilization of this financing approach will be achieved by demonstrating the economical viability of the project. We are very confident that this can be done. Because the private capital markets must provide most the financing it will be necessary to erase any doubts that may possibly exist and in turn generate a continued interest in our project. This can be accomplished best through and working with and education of the financial community and also through your active and early commitment to participate in this project. The education process is already underway. A team of project managers and financial advisors are conducting a series of meeting with representatives of major financial institutions that focus on many of the significant differences between our project and the Alyeska line. These include such viable factors as existance of a haul road to the North Slope to provide access to the project, the existence of a work pad that will be utilized wherever possible, the existence of camp facilities, and fewer major river crossings, including the now operating Yukon River Bridge will accommodate the gas pipeline.

In otherwords, a basis infrastructure already exists. Major facilities now in place will simplify the preparation for construction of a gas pipeline. The construction requirements will also be simplified. For example, the refrigerated barried gas pipeline will need substantial fewer miles of insulation compared with the hot oil line. Also most of the gas line will be barried compared with about half of the oil pipeline. Consequently the problems of providing structural support for the line and the frequency of going from above ground to below ground loads are avoided. Construction experience is also a very important factor. A number of pipeline contractors have benefited from the oil line experience and are prepared to apply that knowledge to our project. This experience will materially improve the effeciency and should reduce the construction costs. Arctic construction experience as to equipment men and arctic knowhow and background is very important for the cost estimates. We have this information in Alaska data base at hand now. These are but a few examples of the striking difference that will help us in the planning and construction of the system. The initial results of our educational and in working with other parties indicate that we are on right track. However, we must now submit to the financial community tangible evidence of Alaska's conviction that our project is economically sound and its construction fundamentally different from the Alaskan line. Alaska's participation would demonstrate that you have recognized the difference between our project and Alyeska's. Moreover, responsive and effective governmental involvement will help keep our project on schedule and insures timely completion. Alaska's financial participation will not only serve to reassure the financial community but it will also add an important element to the success of this project.

Finally, given the various substantial benefits of our projects will provide Alaska and the support that was suggested fcr in the El Paso Project. A negative response from Alaska would seriously hinder our efforts to develop confidence in the project in capital markets. We believe the benefits to Alaska are very important. Let us now briefly review some of these benefits to Alaska and their people that would derive from a timely completion of our gas line. These benefits can be classified as direct economical and employment benefits, indirect economical and employment benefits and developmental benefits. According to our estimates Alaska will receive the following direct economical benefits. Approximately $10 billion in royalty in income over a 25 year period. Approximately $7 billion in serverance taxes over 25 years and approximately $1 billion from other taxes including advalorem and income taxes. Total royalties in taxes including taxes in connections with the gas processing plant as well as corporate income taxes related to the sale of gas will substantially exceed $20 billion for this project. It should be noted that these are only minimal benefits estimates and they are based on the production of 2 billion cubic feet of gas per day at a wellhead price of $1.45 per thousand cubic feet exculated at 6% per year.

Now as to the direct employment benefits. During the construction of the project from 1979 to 1982 the number of jobs created will range from 1,300 to more than 10,000. The project is committed to hiring qualified Alaskans and after its completion the project will employ a permanent staff in Alaska. Indirect economical benefits include the various other services necessary to support the project. These services will provide Alaska with additional employment and revenues stemming from housing, communication, transportation and so forth. Also all the benefits directly and indirectly related to the project will be multiplied as they circulate throughout the Alaskan economy.

With respect to developmental benefits, our project that not only delivers the Prudhoe Bay gas to lower 48 market, it creates an energy gas corridor to the North Slope of Alaska. We believe that this will stimulate further exploration and development of Alaska's natural gas. We also believe that the gas available in the North Slope is one to two fold from that gas that is now available and our system will allow for the distribution of Prudhoe Bay gas to Alaskan communities along the pipeline route thus providing an energy supply for future industrial development. In summary, we believe that our project generates substantial and continual economical benefits for Alaska. For providing early financial support for the project Alaska would accelerate the realization of these benefits. I think that it is important if the project is not built none of these benefits will be realized by the State. Alaska can help. Before discussing how Alaska can support the project let me state the position of the current administration in Washington, D.C. and that is that no major energy project will be financed on the basis of federal guarantees. This includes LNG projects, co-gasification projects, SNG projects, nuclear project as well as our gas pipeline.

As mentioned prevously funds for the project will be raised on a project financing basis. Our general financing plan visualizes a committed pool of capital sufficiently large to assure all investors and lenders that there are sufficient funds to complete this project. The committed pool of capital would consist of approximately 25% equity, 75% debt. Most of the equity components of this pool will be invested by the gas transmission companies. However, we welcome equity participation by the State of Alaska as well as her citizens, native regional corporations, and other organizations. Most of the projects debt financing will be provided by the capital markets, principaly banks, insurance companies, however we expect that the major project beneficiaries will also participate in this segment of the financing. Now to get to more specific items the project encourage Alaska financial support in the order and magnitude of $1.2 to $1.4 billion. This commitments would include purchase of both debt and equity and is consistant with support that was suggested by the State for the El Paso project and adjusted for inflation. Alaska's commitment would be limited to a fixed amount. Alaska will receive a rate of interest on its debt purchased and a return in equity investment identical to those received by other investors. Alaska's committment will not be binding until all the capital necessary to insure the completion of the project has been committed. The ultimate backing for Alaska's financial participation will be revenues generated from this project, including gas royalties, Alaskan taxes, internal backing could come from a number of different sources. The projects financial and legal advisors are examining the alternatives and we hope to discuss these with you in further meetings.

We hope that by appearing here today we have helped bring about a better understanding of the economical and employment benefits of our project that will occur to the State of Alaska and its people. We are looking forward to corporating with you during this session and to achieve a form of participation in our project that will be to our mutual benefit and assist the projects timely completion. Finally, on behalf of all of us who are working on the project, I wish to thank you for this opportunity to meet with you today and at this time myself and my colleages would be willing to try to answer your questions. I thank you very much.

MELAND: Yes Mr. Chairman. This is a question that perhaps only a Legislator from Southeastern Alaska would ask. But during the years when we have been discussing the El Paso project and the old Alcan project it was rumored or mentioned several times I think that there was a possibility of a spur line down through Southeastern Alaska to Haines. Is that idea now dead or is there still a possibility that there could be a spur line down the existing gas line corridor that is already there and if it would be built what benefit would it give to Southeastern Alaska?

MCMILLIAN: You are addressing the spur that would go along the old Haines pipeline right of way to that area. That concept is not dead. We did some initial studies, very priliminary nature to determine the volumes of gas that could be transported through the existing system and I don't have these studies with me but I know that by using the existing systems you could transport usable volumes of gas for industry and communities along that route. I had all the facts and figures but I don't have them with me. We have given that various parties in the State and I will be glad to furnish to you that information. Yes that is a viable option.

?? Miles: Mr. McMillian there has been regular repeated efforts to the alleged financial commitments that the State made to El Paso that came up in Senator Jackson's report and the President's report. You mentioned a couple times in your speach that your Financial Advisor Bob Rose has mentioned in communications with him. I think it has to be clarified, the State of Alaska, or at least the Legislature of Alaska, passed an appropriation to study the possible financial participation in the El Paso project. That didn't indicate that, or did it NEGATE any possible commitment but there is a fine distinction that definitly has to be made that since we have a appropriation to study the financial participation of capital in the project. Do you have any comments on that?

MCMILLIAN: Yes, I realize what you say and I realize that it requires your approval before anything of that magnitude or substance could be official. But irregardless of that a letter was filed with the FBC during the preceedings that indicated that $900,000,000 would be available to support that project and in that context of the hearing was looked upon by parties as being there as a commitment. We argued at the time but this has been picked up by the President in his report, it's been picked up by other reports as you mention and is now looked upon, and we have kind of painted into a box on this issue because it is looked at by the financial communities, the federal government, as an indication of a commitment from Alaska and if we do not have the same degree of confidence in this project does this mean that Alaska does not want a gas line, or this gas line? And these questions we have to answer and that is why we are here today to try to work out a working relationship with you.

Miles: Thank you, I just did want to clarify that point.

MCMILLIAN: Yes I understand that.

SENATOR HUBER: Yes Mr. Chairman, thank you. Do I understand from what I have heard today that there is a particular problem in financing the gas pipeline, particularly in Alberta? Is it likely to fail there, is there something wrong there? Or did I get that wrong?

MCMILLIAN: No sir, I didn't think that at all. I was trying to just indicate the opposite. I think that we have had an indication from the Provincial Government of Alberta that they would be willing to participate in the financing of the project which we think is a very positive move and we think that this gives out a lot of credibility to the project and so I didn't mean to indicate that at all. If I did I'm sorry.

SENATOR HUBER: Well if I may continue. Why I am confused about it is there any problem with the private sector being willing to finance the Alberta portion of the line?

MCMILLIAN: No, would you like to address this, my Financial Advisor. We don't think so.

BOB ROSE: The problem I think with respect to Canada is uniquely handled by the representative of First Boston and he is most intimatly familiar with what is going on in Alberta, but I think that the exact opposite conclusion could be drawn from Mr. McMillian's statement and Jay would you like to address yourself to that.

JAY HELSTROM: No, I would emphasis that there is a spirit of cooperation on this pipeline between the participants and the parties of the interested two governments. But in the final analysis, you look at a pipeline from beginning to end as one entity and it would have to be financed on that basis. Even though there will be different jurisdictions and different legal __________ as it applies to the two sectors. But in the final analysis, its U.S. gas being delivered to U.S. markets the strength of which in the economic process will to able to force the raising of the equity in the sum of roughly $10 billion in this project. And if anything I think in the both business and regulatory sense in Canada its very much in step with that in the United States.

SENATOR HUBER: Well Mr. Chairman my reason for going into this is alluded to an ____________________ and then Senator

Stevens had just told that the problem that Alberta has with attracting capital and then I learned from your testimony of course, that they have $4 billion in their Heritage Fund, I wish we could be so lucky, and that they were figuring on investing it. I wondered if there was a problem.

MCMILLIAN: Tell me what you are referring to exactly. I don't understand.

SENATOR HUBER: Well I believe that Senator Stevens when he was talking to us, indicated that the investment community is no longer willing to invest in Alberta and I wondered if you were supporting that, and you were not.

MCMILLIAN: Let me, if I may, say that was not the case at all that the Province of Alberta and the project and companies in the Province have been quite active in raising capital. A point and case can be made as to their own petrochemical complex which I'm sure you are aware of raising funds in not only the banking market but perhaps more importantly in the long term institutions markets in both Canada and in the United States during 1975, 1976 and 1977. There is a very good environment for investment of marketable securities in both ongoing companies in a new start projects in the Province of Alberta and I don't think in any way one could interpret comments made by Senator Stevens or comments made by Mr. McMillian to infer the investment community could be perceived negative in the Province of Alberta or the pipeline foothills.

SENATOR HUBER: And then Mr. Chairman, I would just like to pursue this just a little bit further. Is Alberta then differently perceived by people in regard to financing of the gas line than Alaska is? Are we taxing more than Alberta? Are we putting an undue burden on you that Alberta doesn't, and if so I would like it explained?

MCMILLIAN: Well we studied your proposed taxing and basis of every segment through Alaska, B.C., and Alberta. I think Alaska was nearly two fold greater than the next highest tax basis and that was B.C. Alberta again was about one half of what they had the tax basis on the pipeline that B.C. had. So Alberta does have one of the lowest tax bases of any segment of this line that would be constructed.

SENATOR HUBER: Does that have any effect on the amount of the line that is in Alaska in comparison to the amount that is Alberta?

MCMILLIAN: No, this is on a per unit basis.

SENATOR HUBER: Would you say then, Mr. Chairman if you will bear with me just a little longer, that it would be a safe bet to say that maybe we should investigate our tax policies in Alaska and pattern them a little more closely after Alberta?

MCMILLIAN: I think that the reason the American and the Canadian negotiating team on their treaty agreement, the Canadians insisted on using the Alaskan tax basis and they felt like they were adequately protected since you did have a higher tax basis on some of these on the pipeline. And that was one of the conditions that the Canadians put on the negotiations between us. Now, however you want to look at that you may. But that was a Canadian requirement.

SENATOR SUMNER: One of the areas I concentrate on and drive hard so that we have no misunderstanding in the areas of employment and employment opportunities. In an attempt to maximize the opportunities for Alaskans. One of the things that I would like to know is if you have other than embrasing that it will be one of the areas of priority for you. Have you at this time assigned anyone to come up with a specific plan of how that will come about? In otherwords, it will take some planning and some effort on your part rather then just saying that we will give preference to Alaskans if they are at the right place at the right time. And specifically, I am concerned about identifying some of the job needs that the pipeline will have and ultimatly generate a plan that might share in the training of those persons so that they are at least available. Would you comment in regards to how far along?

MCMILLIAN: I would really like to, because we don't mean to be critical in any way of Alyeska. Alyeska had a first time through tough project and the experience gained by them has been very helpful to us and I believe allows for us to do things that we wouldn't be able to do if that experience had not been there. One of the things and one of the real advantages that we have is a proper planning time on this project and this is a massive planning effort of some $200,000,000 that will be spent over the next two years on just planning, engineering and such matters, that you have decribed and so we do have, to answer your direct question, we do have administrative people, we have labor relation people that are making surveys, they are making inquires, that are working on this we are also using consultants on this and basically if we can plan ahead, if we can train ahead of time, its to our economical advantage to use Alaskans where they're here and happy, rather than transporting other people up here that we would have to move, go through the training period from Oklahoma or Texas that are not familiar with these conditions. It's to our economical advantage, we think its to the best advantage to the State and these are our objectives and we are going to do it.

SENATOR SUMNER: I further think that it is to a tax base advantage as well because invariably if we don't meet this need up front in a direct approach we have to do a mop service and that usually means taxes. And I would like to invite you, the Senate through the President of the Senate had charged the committee that I chair with the responsibility of maximizing employment opportunities. I would like to be included as early as possible on any efforts that you are conducting along that line.

MCMILLIAN: Yes sir, we would be glad to have our people come and visit directly with you and we will have them in touch with you. We appreciate the opportunity.

Bennett: Thank you Mr. Chairman. Mr. McMillian in your prepared text here you state that Alaska will receive a rate of interest on its debt purchases and a return on its equity investment identical to those received by any other investor. While we have the gentlemen here with the financial backing, I'm wondering what sort of an interest rate, or what sort of a return, just a ballpark situation assuming that we go on this project. What will we be looking at as far as the return?

MCMILLIAN: I will let Mr. Lubanco answer that question.

WALTER LUBANCO: Obviously the instruments that are being sold, are going to be sold in accordance with the market conditions at that time. However, all the calculations included in our financial projections indicate an interest rate of approximately 10% on the debt and a return of investment on the equity in the ballpark of 15%. So if you want parameters in which to work I think they're reasonably good numbers. The point that we are making however, is that Alaska will be receiving exactly the same thing that other investors are going to have whose sole purpose of investing in this project is the rate of return on their money that is in competition with other opportunities for investment Alaska will be granted that opportunity, if you will, addition to will get the other ________ benefits that Mr. McMillian referred to.

SENATOR HUBER: I have one more on Alaska hire ... (Indiscernible). Are you committed to effective Alaska hire to the point of being willing to negotiate with the State of Alaska without asking for extra concessions for that negotiation during your right of way leasing negotiations with the State to enter into such agreements for Alaska hire based upon their proprietary rights as a property owner in negotiating the leasing as distinct from their right as a regulatory body? This is where we fell down in being able to enforce the requirement for Alyeska. Our hindsight is better that our foresight, and are you willing to do this?

CHAIRMAN MILES: I'd like to interject a bit. I'm not trying to answer for him but it seems that that's one arena that we need to sit down and negotiate and that is why I invited him to participate and I would be glad to have you participate in those hearings and maybe address that point at that time. But it seems to me that there is a whole better parameter to be established in terms of the Alaska hire and how to enforce it and I didn't want to try to get it off in one ____________.

M. LoBianco: I think that it would be perfectly profitable to have Mr. McMillian comment. He can't answer in negotiation itemizing...

HUBER: Before he answers Mr. Chairman. I know that both Senator Sumner and I have this concern and recently during

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the royalty oil sales meeting every single bidder on royalty oil and the State of Alaska's Department of Natural Resources all committed themselves towards that agreement based upon proprietary rights. And I'm asking you only in principle, are you willing to negotiate in that way?

MCMILLIAN: I'm not prepared to negotiate these details of labor agreements of that type of right of way agreements because I'm not really an expert on those items, but in principle yes, we are willing to work with you in every way possible to optimize the Alaskan labor content to the maximum possible degree because we believe that it is to our benefit as well as your benefit to do so. And so the answer is yes, we will sit down and work with you in principle and try to work out the details we can to optimize this for both of us.

HUBER: The issue then Mr. Chairman comes down to the agreement difference between under proprietary rights and doing it under regulatory rights. That is where we fell down before. If you have any reservations on that, I would sure like to hear about them.

MCMILLIAN: Well, I don't really understand the difference between I mean you are out of my kind of field or area.

HUBER: The State of Alaska as a property owner in negotiating its right of way lease with you for the right to cross the state property. It's perfectly within its right as a property owner to require you to achieve certain things that cannot due constitutionally under their regulatory powers. That is what I am talking about and its a hard point right to the subject.

MCMILLIAN: Well, I'm sure we'll have our negotiations along those lines and we stated to you in principle what we are willing and I think that it is very fair and open and we plan to be that way.

Huber: I think that this call came from the Philadelphia plant... Thank you Mr. Chairman.

(REST OF TAPE INAUDIBLE).

MCMILLIAN: It would mean that if we didn't have it at this time it would mean that the final design, the final cost factor would not be properly defined until those issues were. In our engineering scheduling to meet first gas in delivery of a 1-1-83 which was still at that date to meet those definate design criteria will be needed about the middle of the year, June or July.

Bailey: There is some suggestion also of those talking about moving our capital and funding part of that by general obligation bond issues and part of it from general fund expenditures and I think that alot of people have a lot of good ideas about that. You suggested that something less than $900,000,000 share might jeopardize the state in their general obligation bond. (Indiscernible). Do you feel that, does your bank financial advisor feel that being involved with you would retract from the ability of the State bond to carry out corporate _______ of normal ordinary governmental functions.

MCMILLIAN: I would say that the project would stand on its own but I'd let Mr. Lubanco respond.

LUBANCO: I think what Mr. McMillian is suggesting, what we have suggested in our rather informal meetings, is obviously the State has other problems for which we are not a _____ to as you. And what we are suggesting is that we at the earliest pratical moment establish formal or informal committees so that we can better understand your capital requirements and further we can structure a method whereby your participation in the pipeline would be consistent with that which we said. That is ultimatly your monies will come from the proceeds received as a result of the construction of the pipeline. Now I think, obviously, you cannot continue to borrow and continue to have the same credit rating. There is something that has to give and I do not, with any definition, where that is.

Roder: You're initial suggestion is not that we use general obligation ~~ropps~~ bonds?

MCMILLIAN: That's correct.

LUBANCO: We think that as a result of our studies of your statutes and as a result of our understanding that we are reasonably optimistic that a method of financing can be provided whereby your general credit is not called ________. As we suggested

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there is a possibility of using the natural gas in sight of additional security of the bond. All of these things are areas where we have to have further discussion with you in order to come to a definitive conclusion. But we are optimistic that this can be done.

Miles: (Indiscernible). Pool of funds, all-events tariff

MCMILLIAN: Until completion from the time the first gas flows through the project in effect this would be an ______.

Miles: In that case would we be equally liable as well as for the series of cost overrun... (Indiscernible).

LUBANCO: Mr. Chairman as Mr. McMillian described this project is being financed on the basis of its standing alone. We will not be able to raise any funds over and above the founders money, if you will. That is the basic pipeline distribution companies referred, the transmission companies that are involved in this project, with third party money unless we can convince them that that pool of funds is sufficient to complete the pipeline. Accordingly, it is taken down, every time investor money, and that would by definition include the State of Alaska. We have to insure the investors that the funds already expended, together with existing commitments at that time are sufficient to complete the pipeline. We're asking the State of Alaska for a fixed commitment and your commitment together with all of the other fixed commitments that we will have obtained, would be sufficient to assure any reasonable man that we have enough funds to complete the project.

Miles: So... (Indiscernible) So everybody else is in the same position?

LUBANCO: Overruns has to be defined. We are going to raise enough money, we may not use it all, but we are going to raise enough money to ensure the investors to the extent that is reasonably called for, that the pipeline will be completed on the basis of all that have been committed for. Am I answering your question? What further can I say on the subject?

?? Miles: (Question Indiscernible).

LUBANCO: You are paying for the cost of the project. And you are taking a risk to be sure by investing that fund but you are taking a risk no greater than all the other people who are investing in it and there will be presumably in the area of $10 billion in investments involved.

SENATOR BUTROVICH: (Question Indiscernible).

LUBANCO: We are giving you the option. If you would like to participate we would welcome you.

SENATOR BUTROVICH: (Question Indiscernible).

LUBANCO: If they put up their money they would. If they pay for it they would.

SENATOR BUTROVICH: (Question Indiscernible).

MCMILLIAN: Yes sir. There could be a market established, and public issue made. We have that flexibility built into the plan.

SENATOR BUTROVICH: (Indiscernible)

MCMILLIAN: Yes sir. You'll have stock certificates, you'll have a ______ estimate just like everybody else has with the same protection requirements that everybody else has.

SENATOR BUTROVICH: (Indiscernible)

MCMILLIAN: You are prefered by you rare position.

SENATOR BUTROVICH: (Indiscernible)

LUBANCO: Well lets take your numbers. The way we would plan it would be attempt to get commitments of $20 billion so that we will only spend $10 billion and so therefore not call upon the $10. The exact definition of our cushion, if you will, has not yet been decided. But the best of all possible worlds would be for us to have commitments over and above the amount actually expended for the pipeline. Naturally if you would exculate to a percentage you just can't come with it.

MCMILLIAN: You're using an example there that we don't think is fair and we have examined this very carefully and a risk analysis has been conducted on this. I know that every place that we go we are compared with Alyeska and the cost overruns involved. There are so many different variables between this project and their project by all the people in the financial community we have discussed this point by point, unit by unit. We're convinced that this is a normal pipeline project that our industry has been doing for years with a great data base of information. Where accurate costs estimates can be made.

?? Miles : (Question Indiscernible)

LUBANCO: No again I think you're... We have to raise sufficient funds that would satisfy the sophisticated institutional investors that we have funds to complete the project committed for. Now we will demonstrate this as best we can. I don't believe that there is anybody however, that could assure you that the project will be completed regardless of any turn of event. However, this is true of every investment that anybody has ever financed other than the printer of the currency.

Miles ?? : (Question Indiscernible)

MCMILLIAN: We think the most important variable in the overall financing of the project, the values are important, but the most overall important factor is the roll ~~and~~ in pricing concept of being able to roll in the unit pricing of Alaskan gas delivered in the lower 48 with exsisting gas supplies in the lower 48. Also there could become a point where Alaskan gas is priced so high, your transportation system, that it is not marketable. That would have to be extremely high and so it's a direct function of the volume, of the wellhead price the volume of that goes through the line that is going to ultimately determine what that pricing is and so naturally we, everybody else would like to see that optimum gas volume flow through the system but I think that there is more important variable whether it is 7/8 or 1/8 of your yet not clearly defined volume. I think it is going to be 2 billion, it could be 2.4, it could be some other variable. We think that the rolled in pricing is critical and its more important than anything else and the marketablity of Alaskan gas could reach this point but it would be a pretty large, we would have to go a long way because it is a domestic energy source, you do have a balance of payment problem, you do have other advantages that you opening other energy corridor for a future gas supply and so I don't think that that is a critical point that would make __________________ project.

Miles??: (Question Indiscernible)

MCMILLIAN: We've always, we haven't always, but we have assumed cases where we have assumed that the 1/8 volume is going to be used in Alaska. Some of the studies have indicated that.

RADER: Mr. Chairman along that same line we have a problem of... Let's assume that we are unable to find a responsible purchaser and this time who can process, refine and do whatever he can do in state __________________, let's assume that our population... (indiscernible) But that three years from now or five years from now we find out that now the market is such, or our population is such that or something else we're ..... We cannot use today that we find out we can use in five years from now. What kind of a dislocation... (indiscernible). And what kind of a price are you looking at... (indiscernible). What kind of a tariff would we have at that ______. Would we develop on the payment of the tariff on the total line, or 1/8 of the line or how do you resolve this kind of a problem.

Mr. Bravo: There are more different pipeline tariffs than the imagation of man. I mean they just go on forever and there are a lot of ways to approach it. But its very seldom that you have a MCS mile type of tariff where, a charge is made for moving gas a set distance for a set volume because a system has to be designed, financed and structured before that unit could be transported at all. And so usually there is a disproportional transportation cost to the units of gas that are transported shorter distances and so I couldn't give you exact numbers or anything like that because a tariff has not been exactly established nor has it been approved by the FERC. But those conditions do exist in current gas complex in the lower 48, short term contract, long term contract and it is not an unusual situation, its not a first time situation.

PADAR : I know. Let's assume, I am _______ to _____ of the disproportionment charge, to avoid that disproportionment charge if we do, before construction begins, during the design stage there would be no reason for disproportionment charge then would there? In other words if we were able to tell you that we have taken oil off at point X, before you started your design stage, would that tend to minimize?

MCMILLIAN: It would tend to minimize yes, I don't think it would eliminate, but I think that it would tend to minimize and you would be able to optimize your transportation charges if conditions were known in advance, yes.

RADAR: You have the discretion of setting those tariffs, is that the kind of thing that we could negotiate with you or the kind of thing... (indiscernible)

MCMILLIAN: Its a thing that we all go before the with a long series of talks and negotiations with the Federal Power Commission, The FERC now.

_________: Even if we tell you today that we want X amount of gas inside the State of Alaska, we would still have to get Federal Power Commission to approve that would we? ...(indiscernible)

MCMILLIAN: That's right.

_________: Thats correct.

PADAR : And if we went in to a hearing there who would our

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opponents be in that hearing. Would that be you, would that be other purchasers, or who would that be? Let's assume that we went in five years from now and wanted to get a tariff through Fairbanks. Who would be the arguer there?

MCMILLIAN: Well traditionally, usually the pipeline operators are able to negotiate these matters out and they come up with tariff. And traditionally they are usually opposed by some states and the state PEC commission. I believe that is true, right? That California, the state of New York or somebody like that would come and say well you're getting 20¢ transportation charges when it should be 30¢ or something, you intervention would be not from us so much, we would have a negotiating process to go through and agreement on tariff ____________, but then the approval that would go before the FERC would be the probably the intervention from another states regulatory agency.

SADER: The way I understand it then, if five years from now we want to withdraw and we got an agreement from you, that we could take 20¢ off of our tariff and pull it out of Fairbanks, you would have to add that 20¢ on to somebody elses tariff who was going through the line and then those people who were footing the bill on that tariff would appear, I suppose, in front of the Commission. existing as you and we worked out?

MCMILLIAN: That is entirely possible because you have a total unit cost for services, total dollar unit to go from A to B with all the variables involved and to reduce a segment of it here, well somebody picks it up down here and that is where the intervention comes.

Rader: We have had some experience with the oil line and the right of way leasing and that sort of thing. It is my understanding that you and with the Federal Power Commission certificate on an international pipeline, an interstate pipeline in this condition, has the right to condemn without our consent State lands or any property held State land that the State holds as right of way has to be approved by the Federal Power Commission. Is that correct?

MCMILLIAN: That is correct. That is my understanding.

Rader: So actually to get down to negotiating with you, if we are realistic in looking at what we offer and what you have to offer that the withholding of the right of way is not really a threat to you, that it would be in the interest of the oil line but the negotiations would be carried on more as to what we would want from you to be a willing partner in the financing of the line rather than the right of way type of issue but I think ________ the right of way is ours. Without our ...(indiscernible).

MCMILLIAN: You could but its more desirable and more agreeable in pay agreements that we reach with both parties and usually that can be done.

CHAIRMAN MILES: We will take a five minute break when Mr. Butrovich is through.

SENATOR BUTROVICH: (Question Indiscernible).

MCMILLIAN: Well, you mean if the density of the gas is more or less, The heavier ends are ...

SENATOR BUTROVICH: (Question Indiscernible).

MCMILLIAN: I see, no very little because our pipeline quality gas has to be conditioned so that the gas remains in a aporogaseous stage for the entire transportation of the gas system and so we condition and design our facilities to keep it in a gaseous stage. Now you have a little bit of difference in density. of the gas that is pumped but that would be relatively small and so it wouldn't have any major impact, a minor impact yes, but no major impact.

SENATOR BUTROVICH: (Question Indiscernible).

MCMILLIAN: Appreciable no, its not an appreciable difference.

(BREAK)

CHAIRMAN MILES: Could this meeting please come to order.

Osterbuck: Yes I was just wondering about the royalty share of the State. Somebody else was telling us about it, that it would be enough to supply two and half times the size of Seattle and what I want to know is what would we do with it?

MCMILLIAN: It would supply about the whole state of Oregon.

________: And another thing that nobody has talked about, when are we planning on putting in this pipeline or starting this construction.

MCMILLIAN: Well the date that we are planning on, the date that we are shooting towards is 1-1-83 for the first gas in. We can meet this schedule in the construction of the pipeline, we also believe that the gasoline processing plant can be constructed in that time frame. It will depend alot on Federal Government actions that are now pending like the energy bill and the gas processing and a few other things but our target date is 1-1-83.

Osterback: (Question Indiscernible). Asks for completion date.

MCMILLIAN: We begin several construction works in 1979 so there will be, that's where we start building up our people and putting people in camps, maintaining camps and that type of work. And then the major part of our civil work starts in 1980 and then 1981 and 1982 will be the major part of our pipeline construction. I can give you those broad guidelines. We have exact figures as to manning tables and personnel but I don't have them available but I can send them to you and I will be glad to do so.

SENATOR RADER: You talked about a 15% return on equity. Is that the rate of return. It's a little higher than I thought was permitted by the Federal Power Commission. Where do you get that figure?

MCMILLIAN: Well we get this figure from two basic reasons. One is that today in rate of return, has always been higher than our industry and their figuring on their section line 16% rate of return and we think that this would set a basis and a foundation for a similar rate for our return on equity should be established. I think the highest rate today for an old existing system is 14 3/4% for El Paso. So there are some systems that are approaching this level. Now the industry average I will admit is a lot lower but the equity ratio is also much wider on most existing pipeline systems. For the dead equity spread that we are talking about, you're looking at a lower income on equity which usually brings a high rate of return and we feel like this is reachable because we know that incentive has to be given to equity before equity is going to participate and the indications that we have is that this is a reachable goal.

SENATOR RADER: You'll first test the tariffs for the whole line including the Canadian portion and the whole works. I don't understand you're figuring. The Canadians are figuring a 16% return and the Americans will have to generate it. We're talking about two different entities here, each one of which will have a different rate of return?

MCMILLIAN: Yes sir, that is part of the agreement between the two governments. I mean the Canadian portion of the system will be built by Canadian companies and they will be regulated by the Canadian government under their laws, under their environmental controls and all the different controls that they have in Canada, and so they will approve their rate base and approve their expenditures of like our FERC will do for us and then a combined tariff will be structured for the entire system with the understanding that the segment in Canada is regulated by the Canadians. But there is also language in the treaty agreement that refers to a cooperative effort between NEB and the FERC.

SENATOR RADER: You indicated that a number of participants would be willing to get into financing in it. Would it be possible for you to finance the line without Alaskan participation?

MCMILLIAN: I think it would probably be possible. It would be extremely difficult. I never say that anything is impossible, but I think that the benefits to the project of your participation would make a lot of difference.

LUBANCO: We think that it is of utmost importance the reason for this is that if Alaska with all its benefits accruing to it is not willing to invest, it is very difficult to persuade third parties investors looking for a rate of return only to invest. However again, I concur with Mr. McMillian I don't think that is presenting a insuperable obstical, but I do think that it is presenting an obstical of considerable significance.

SENATOR RADER: But the project doesn't hinge on Alaska's participation.

LUBANCO: I say that to say that it hinges on Alaska's participation is too strong, however, Alaska's participation is of great importance.

SENATOR RADER: You are saying that it can be done without our participation.

LUBANCO: Yes we think so. We wouldn't want to close the book without you.

REPRESENTATIVE MCKINNON: Talking about State participation of $1.2 to $1.4 billion, what is the breakdown in terms of debt?

MCMILLIAN: The definate guidelines established other than the thinking of $1.2 billion debt.

REPRESENTATIVE MCKINNON: You also indicated that the Province of Alberta is interested in this ________. Are they talking about debt on equity financing?

MCMILLIAN: Mostly they have been talking about debt. These equity discussions I am really not familiar with.

McKinnon: Does anybody else besides the State being considered for equity capital outside of the Alcan group?

MCMILLIAN: Yes, in Canada the trans-Canada, who is not a member of the ________, is being considered. Also Alberta National Gas is being considered. They are talking about a approximate 20% participation.

McKinnon That's not on the Alaskan segment. That is on the Canadian segment. Just so that he understands that.

MCMILLIAN: I'm sorry. Just on the Canadian segment.

McKinnon: We also consider... (indiscernible). There are more pipeline issues that are an issue to the public ________.

McKinnon: How firm is that 25% figure in terms of ~~dead~~ debt equity?

MCMILLIAN: It is approximately, that's kind of your traditional type project financing for pipelines of this magnitude. But it would be in that range.

LUBANCO: It is not inconceivable at all that many of the institutional investors who may wish to invest in debt may also like a portion of the equity and indeed, we would be willing to talk to them. In addition to that, we are not ruling out the fact that the Alaskan section could be in part, financed in equity by virtue of public ownership. We're taking this one step at a time, we are building this pipeline one section at a time, or the financial structure one section at a time. We are not foreclosing any avenue which makes sense. And all of these that we have talked about make sense.

_______: Did you say, in response to Representative _________, that 20% that is under consideration in Canada, is for the Canadian section only?

MCMILLIAN: Yes.

Butrovich: Then is the $1.2 billion that is proposed that Alaska participate in is in the Alaska section only?

MCMILLIAN: That is part of the Alaska financing. We are going to be responsible for financing the portion in Alaska. The Canadians are going to be responsible for putting up their equity for financing the part in Canada. However, in the financial institutions the total debt picture would have to be structured... (indiscernible).

?Lu Banco I think that basically the two pipelines will be structured and coordinated in such a way that when a lendor is presented a package he will be presented with the overall pipeline. We will have two series of debt. One in U.S. and one in Canadian.as he makes his investment.

SENATOR BUTROVICH: You say one in U.S. and one in Canadian?

______: Perhaps I should back up and explain how the Canadian segment of the pipeline is structured and that might help. This is structured in a series of companies that parallel the segments as to our transverse in Canada, starting in Yukon then through the northern part of British Columbia, then into Alberta and then two small segments that go along the lower section, one which goes west in the lower part of BC and the other which goes east into _________. Each one of those segments is done by a separate project company, similar when it comes up to the Alaska company.

SENATOR BUTROVICH: Will our portion be tossed into the lower 48 portion?

McM______: No.

SENATOR BUTROVICH: Then wouldn't there be three.

MCMILLIAN: Four different financing segments to our system and that is why we believe that they are financiable. You're talking about the Alaskan segment which is around $4 billion, and then you are talking about the Canadian section which is greater than that, then you are talking about the northern border leg which is financable and then the western leg. The western leg is going to be structuring the existing BFU system.

SENATOR BUTROVICH: Well the equity if we are talking only about _______ section with the percentages .... we are talking almost 50% of the Alaskan portion.

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MCMILLIAN: No, you are talking a little over 25% I think.

SENATOR BUTROVICH: (Indiscernible).

LUBANCO: But again, recognize that this pipeline, although it is segmented into sections, is one pipeline and as a result the top half isn't going to built without the bottom half. So the total financial commitment has to encompass almost all of the financial strengths. It can be utilized in this type of investment in the United States, into a lesser degree Canada, it's that large. And to suggest that your investment will be put in to build the Alaska section, however, that Alaska section could not be divorced from the Canadian section, and indeed, it could not be divorced from the south 48 section, without which you would have no consumers to pay for the gas.

SENATOR BUTROVICH: Is there one total transportation cost?

LUBANCO: There will be, yes.

SENATOR BUTROVICH: And one kennel?

LUBANCO: There will be one total transportation cost, which would blend in many factors which Mr. McMillian suggested including the Canadian.

SENATOR BUTROVICH: Would that total transportation cost only be to one kennel? In otherwords, would it be divided into our segments?

Lubanco: There would be a separate tariff for the segments. I think answering your question, sir, there would be a tariff that would represent the Alaskan tariff, which would represent the Canadian. And then as you would go down the system there is a series of other tariffs, depending on whether it is ______ gas that is dropped off and that is the subject...

MCMILLIAN: You have one total delivery price here that the consumer distribution companies pay to that company which is distributes according to the tariff along the line.

SENATOR SUMNER: Yes if I could follow up briefly and then I have a series of items that I need to talk to you about. If the Alaska portion of the financing winds up generating more money than is required to build just the Alaska portion, what would happen to that surplus or would that be thrown into one common construction pool? Well let me back up and make that simpler for you to respond to. Is the Alaska financing portion for which the State will contribute intended only to finance the Alaskan portion of the line?

LUBANCO: That is the intent because we recognize the desire for the Alaskan participants to invest in Alaska. It is the Alaska section that is perhaps subject to the greatest degree of uncertainties to the extent that there are uncertainties here. The south 48 is a very conventional type of line and that will have very little variations and we don't anticipate that one would necessarily feed on the other.

SENATOR SUMNER: One certainty that I could share with you that it could appear that on the basis of return on investment is that Alaska money built some portion, any other portion, of the gas line that there would be some reprecussions.

LUBANCO: We would have no problems structuring your particular financial commitment to assure you to your satisfication that that would be clear. That would be no problem.

SENATOR SUMNER: Another point. To the best of your knowledge are there any other obsticals standing in the way of construction of this pipeline except financing at this point?

LUBANCO: We don't consider financing to be an obstical. We consider it to be a problem that can be resolved.

MCMILLIAN: I agree with Mr. Lubanco. The problems that have yet to be resolved, as we mentioned to you, are to first determine the price of the wellhead Prudhoe Bay gas, and that is the main problem that has to be addressed. And the contrast ... (indiscernible). Those are the problems that we must solve before complete financial structure ...

SENATOR SUMNER: I understood that while it wasn't impossible to obtain financing, that it was one of the problems that to be surmounted. Are you telling me that not...?

LUBANCO: I beg your pardon.

SENATOR SUMNER: I understood from most of the testimony today and the presentation, that while financing outside other than Alaska participation was not impossible that it was still one of the problems that had to be resolved in constructing the line. And you are just telling me that financing is not a problem?

LUBANCO: I didn't say that. I said that it is a problem that still has to be resolved. Sir, I was just commenting on your word obstacal. We felt that was indicating something that would be an insuperable hurdle. And we don't consider it to be such.

SENATOR SUMNER: Okay, in your equity position in this program, would it be estimated at this time to be what, you mentioned $200 million this morning. Is that in essence the amount that you intend to have in the capital position?

MCMILLIAN: That is the position that we would like to have. We realize that there are other parties, other participants, that would be here, including the State and parties that we mentioned earlier and other companies. There might be possibly, we might not be able to achieve those goals. That is what our goal is.

SENATOR SUMNER: You may have answered this at some time in the past, but has anyone in the State implied any moral commitment in terms of State support or State financing of this line?

MCMILLIAN: No they haven't.

SENATOR SUMNER: Okay. Do you perceive a plan that you would propose to the State to pledge in anyway, or encumber in anyway, the reserves of the field?

MCMILLIAN: No. I think that in this light the reserves that we would have and the initial statement would be naturally, a commitment to the project to be sure that the project is completed. But as far as allowing you to do something with these gas reserves upon completion of the project, we don't see any barrier there.

SENATOR SUMNER: You indicated earlier today that in the process of conditioning the product to maintain a continues gaseous state, what happens to the heavier properties? What disposition do you plan for those?

MCMILLIAN: Basically we receive a pipeline quality gas in the _______ of our pipeline and this depends upon the design of the plant that we were discussing earlier. We can design the plant where it carries a certain percent of liquids according to the pressures and tempertures that you operate. The rest of these will be recovered on the North Slope... (Indiscernible). Would be recovered on the North Slope for either blending with the present crude oil where possible so that a large volume of liquids will be recovered. I think the number is around 100,000 barrels a day of liquids of various types will be recovered on the North Slope. Now these have various uses depending on overall energy ___________ and how these liquids can be put back into _______________.

SENATOR SUMNER: The last area that I would like to see if we can get a little closer on. When Senator Rader was speaking to you a little earlier today he mentioned the possibilities of take off in maybe Fairbanks or other places along the line and you mentioned the term disproportionate share. I'm more familiar in term of in the oil line what that does, and that says that disproportionate share tends to imply mostly that you pay for the length of the line, like 99% of it. I'm wondering if we are talking similar terms in disproportionate share in this instance?

MCMILLIAN: I can't answer that question direct. I don't think that I have ever seen a tariff structured for a gas system of that magnitude... (Indiscernible).

? LaBarre: Well I think that it is fair to say that we would contemplate a tariff if delivery, let's say at Fairbanks, the transportation from the North Slope to Fairbanks would be something less than the transportation charge from the North Slope to the Yukon border. And that recognizes the fact that it is being transported a very shorter distance.

SENATOR SUMNER: I certainly don't want to abuse that because I know that there must be some pratical way out of it, but I would urge you to generate some sort of a plan to address that problem because it would be one you will hear.

? LaBarre: Well I think that this will be addressed by the FERC in terms of approving the tariff. I think that we would contemplate that the Commission would not approve it

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unless it had that feature in it.

SENATOR SUMNER: It just seems to me that the you are talking a four foot line and 1200 hundred and some pounds of pressure. Am I correct there? Does that equate to a flow rate?

MCMILLIAN: There is a maximum flow rate in which we hope to obtain of about 3.5 billion cubic feet a day in this system. I know that without lopping now, when you lop a system you get further additional capacity, depending on how you do it. We design and build this line for an initial design of 2.6 ________. So it is a matter of ______________ in the spacing of design and _____________. And so, basically that determines the volume.

SENATOR SUMNER: The one thing that I am leading up to is that, as Senator Butrovich has referred to here and encouraged to pursue, is the ultimate hope of the petrochemical facility in the State. Of course, that meets its own share of obstacals and we would hate to see that added to the, problems added to the fact that we would be facing pipeline tariff equivalent to some figure that would prohibit the effort. Those areas, while I don't ask you at this moment for specific answers, I do think that that is an area that needs to be addressed for the producers to answer.

MCMILLIAN: We can give you general guidelines, but the final approval would have to come from FERC.

SENATOR SUMNER: I was thinking in terms of, I suppose in no bigger pipeline and I am not attempting to preempt those people who have enginerred and designed pipelines, but if there was any way to address the situation that if it is to come off at Fairbanks or if there is to be a take off at Haines junction, that these... I would hate to see us preempted from those options down the road on the financial basis alone. So those aren't critical comments but they are areas of concern I think. Thank you.

CHAIRMAN MILES
REPRESENTATIVE ~~MCKINNON:~~ I just would like to clear up something in my mind. Assuming the State agrees to participate, are we gaining an equity position as a company operating the pipeline system or as a company operating one fourth of the pipeline system?

MCMILLIAN: Basically you would be gaining the equity position of a company operating the Alaska portion of the pipeline. Our main interest... (Indiscernible).

LUBANCO: But understand that that section of the pipeline which is restricted to Canada will be bound by as firm agreements as is possible with the other sections of the pipeline so as to make it in effect one continuous pipeline for these purposes. So although legally there might be separate section, the form of agreements and treaties with the Canadians, and indeed the agreements with the lower 48, would be such that you will be looking for the viability of a single system. Otherwise there aren't to many buyers for gas at the Canadian border in the Yukon.

REPRESENTATIVE ~~MCKINNON~~ Chairman MILES: One significant factor that hasn't been discussed and I think that we have to throw it out on the table, is the conditioning plant. It has been variously estimated to cost $1 billion by some and $2 billion by others. It probably falls somewhere inbetween. It seems traditionally that producers have passed the cost of this conditioning facility on to their buyers. Recently, it is my understanding, that there has been a reverse on the Phillip's case. Whose problem is that? Maybe we can start with that. Is that your problem, is that our problem, is that the producers problem? Somebody has got to pay that, let's call it $1.5 billion, and its obviously going to be plugged into the top, who is going to eat that?

MCMILLIAN: Well, traditionally 85% of the gas processing plants in the United States are owned by the producing oil companies, and 15% by the transmission companies. Today if we had a large field and we wanted to build the gas processing plant in the lower 48... (Indiscernible). Now you have a different set of circumstances with you processing plant in Alaska. And that is that a lot of the liquids to be obtained from that processing plant on the slope cannot can not be as oftenly used as the liquids can be down in the lower 48 where you are right at the transportation system with a market right next door. I think that we know that ARCO is making a feasibility study on this project. They say that they can assume the responsibility for this feasibility study before the Congressional Committee and indicated that if they had a proper rate of return that they would be willing to build this plant. We do look for it as the producers responsibility. It is indicated that the most... (Indiscernible).

Chairman MILES
~~REPRESENTATIVE MCKINNON~~: But that trend has changed now, hasn't it? Aren't we talking about new ground rules? Wasn't there a recent litigation that said, well, it may not be the producers responsibility?

MCMILLIAN: Well, I am not familiar with that.

LUBANCO: You mean litigation on this particular project?

Chairman MILES
~~REPRESENTATIVE MCKINNON~~: No, not in this particular project. The Phillip's case I think it was.

MCMILLIAN: That would be a matter of contract negotiations. I mean like I said if you had gas reservoir down in the lower 48 and you want to build a gas processing plant on it and you try to reach out and do it, they will try to break your arm.

LUBANCO: It is usually not something shunned. It is usually one of the most desirable investments that you can make because you know that the gas is there and you are taking off the top and selling liquids. It's a money machine really.

________: I think maybe that what you have reference to is the fact that there are several weeks of FPC, FERC rulings that would really support the concept here that Mr. McMillian has said. I think in certain cases where the transportation companies have taken over that responsibility the FERC has now said that that really should have been the responsibility of the producer and reflected in the price that the producer is receiving in the sale of his gas. So I think that they have taken the position very comperable to what we're saying. That really it is the responsibility of the producer. How he gets compensated is another question.

Chairman Miles
~~REPRESENTATIVE MCKINNON:~~ It is the responsibility of the producers and the producers may not be allowed to pass this cost on? Is that what you are saying?

Mr. McMillian: I think that the indication is that in certain cases, and these are very specific cases, that the area price or the nationwide area price, was such to have compensated the producer for that processing function. Now in certain instances the transporter has taken on that and the Commission has questioned whether the consumer ought to pay for that because the producer really should have been compensated for it by way of the gas price that he is receiving. I think that my point is that is consistant with our position which is that it is a producer responsibility. Now the compensation for it is another question.

MCMILLIAN: ... (Indiscernible). In some form these drafts should be approved. We talked about two different prices of gas, $1.48 was the lowest price. It also goes on to mention that that they shall be compensated for the severance tax, like Senator Stevens said, up to a certain amount. And also the compression process and other things that normally take to process gas. There is also readjustment that has to be determined on most of these projects. You have a cost to process it, to compress it, to gather it, but you also have a recovery of liquids at that processing point. And so the exact processing cost, if the energy bill goes through as today, it would be a set price with a processing charge to be added to that to compensate for those factors.

Chairman MILES
REPRESENTATIVE MCKINNON: So we are in a position now, as I understand it, that we don't know who will pay that billion and a half?

MCMILLAIN: No. We think that the producers are and we anticipate that they are.

Chairman MILES
REPRESENTATIVE ~~MCKINNON~~: What time frame do you take to build that?

MCMILLIAN: The initial studies that we have was to give it about a four year time frame.

Chairman Miles
~~REPRESENTATIVE MCKINNON:~~ There has been no environmental impact statement done on it?

MCMILLIAN: Well, if you put this under the Oil Pipeline Act you don't need an environmental impact statement.

Chairman Miles ~~REPRESENTATIVE MCKINNON~~: Yes, but if we don't?

MCMILLIAN: Well then you have to have the environmental impact statement.

Chairman Miles ~~REPRESENTATIVE MCKINNON~~: That is backing us up quite a bit isn't it?

MCMILLIAN: That would be very true.

SENATOR POLAND: I wanted to ask Mr. McMillian, isn't there a clause in the treaty that says that the liquids can be taken off in Canada in exchange for BTU on the ...?

MCMILLIAN: I believe there is a clause, I don't remember that, I might be wrong but I don't think that is allowed. I think that what is allowed is that volumes of gas can be removed from Alaskan gas to be removed in Canada to service their small communities along the route and that gas of equivalent BTU volume is put back in the system for the placement in the smaller communities in Canada. So I don't remember the liquid concept. I don't believe that that is there, but it is that they can take gas out for their communities in small volumes and would have to equivalent BTU volumes back.

SENATOR POLAND: Does it define small volumes?

MCMILLIAN: Eight delivery points to eight different communities.

M. LaBarrio: Mostly, Senator, in the Yukon. They are mostly speaking about Yukon Territories. In very small, generally rural communities.

_____________: (Indiscernible. Speed of tape extremely slow.) Bennett asks about construction headquarters. No determination made.

SENATOR ~~RADER~~ RODEY: Mr. McMillian, it is obvious from discussions today that we will need further discussions between both the Legislature and the Executive Branch before this motion can be drafted that would approve the project. How would you like to see these discussions undertaken from your point of view. It is obvious that we need to do this right away.

MCMILLIAN: Yes, we would like to pursue several problems, ... (Indiscernible).

(Last few minutes of tape indiscernible.)

My notes.

Miles: Asks about $20 billion in benefits projected to Alaska.

McMillian: $20 billion based on inflation. A $4.26/mcf average gas price.

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FEBRUARY 16, 1978

CHAIRMAN MILES: We will call this public hearing to order. This is the Joint Hearing of the Senate Resources Committee and the House Special Committee on Oil and Gas. (Indiscernible). We have with us today a gentlemen with the Federal Government and I invite him up to the table.

JOHN ADGER: My name is John Adger and I'm the Department of Energy's Senior full time person on the Alaska Gas Project. With me today I have Phil Essley who is my Technical Advisor, and Ned Hengerer who is a Legal Advisor, and Bob Anderson who is the Economic Advisor. We have a fourth person working with us now as an Environmental Advisor, a man named Mike Satoc who couldn't be with us today because he had to be in New York last night to receive a national award for his work with the Federal Power Commission on the Alcan System, the chosen project for this Alaska gas delivery system. Our office has a dual function really. First is to manage the Federal Regulatory Commission final certification process. The result of that process is the final Certificate of Public Convenience and Necessity for the facility. Approval of the financing plan, approval of the gas sales contracts, and the like. We have a description of function of our office which we talked to you all about a little bit earlier today and we will make available

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at the end of this second hearing. The second thing that we do is we have responsibility for the Department of Energy's interests in this project to go beyond the normal jurisdiction of the Federal Energy Regulatory Commission. Those interests are in the area of relationships with the Canadians on this project and in the area of relationships with other government agencies for establishment of the Office of the Federal Inspector, for instance, and the monitoring process that would be part of the Federal Government's relationship to this project.

Let me tell you a little bit about what the different people here have done on this project and then I want to get into a bit of a discussion of the decision itself, the President's decision itself. We have also brought with us copies of that for anybody who doesn't have them. Phil Essley did an important piece of treasury analysis on the relationship between deliverability and the financing prospects of this system and wrote a great deal of the material on safety and design aspects of the Alaska Gas Transportation System decision that went into agency reports and the final report to the President. He also did the material in the President's report which includes a comparison with Alyeska on economic grounds. Ned Hengerer has been an attorney at the Federal Power Commission who was involved in preparation of the Admistrative Law Judge's initial decision in which case, so he has an extensive knowledge of the issues that were involved and how they apparently came out. And Bob Anderson was the principal author of the Interior Department's Title Three of the CAPS Act that authorized the study by the Secretary of the Interior of alternative gas transportation systems. The result of both Bob's work and Ned's work, I think, were to pump up the El Paso system relatively. Bob's work in particular was looked to as a very substantial kind of improvement in El Paso's prospects and I guess my role in this thing was that I was a member of the group that prepared the President's decision, netogiated the deals with the Canadian and prepared the President's decision, so I have to be considered, I believe it was referred to yesterday as the person who went through the grocery store and picked up a bunch of groceries and told the man that "my friend would come in later and pay the bill."

We have brought copies of the decision for people who haven't seen it but let me go through quickly some of the reasons for the decision as we perceived them at the time that the decision was made, and then I want to get into a more sensitive discussion of the State's role. The threshold issue, of course, was whether or not to do an Alaska gas project at this time at all. And we felt that it was time to do it now. We felt that even if the availability of gas supply was better than we expect, the Alaska gas project would ultimately displace oil imports. I think if you look at the decision of the President's Energy Program the sum total of the proposals for crude oil equalization tax and the conversion taxes produced an affect which means that natural gas is always to be cheaper than oil to lower priority users, to all users I guess. And if the gas supply situation should be such that the Alaska gas might not be needed for strictly gas demands in the early years of the operating life of the project then it, through the operation of the incentive taxes that are part of the President's program, it would be consumed because it would displace oil imports. It would be cheaper on the basis than oil and it would displace the oil imports. Additionally, an important consideration with the relationship of this decision went to our Canadian gas supplies. It was clear from our discussions with the Canadians that if we did not do a joint project there was a serious risk of curtailing existing Canadian gas exports, whereas if we did do a joint project there was every possibility that Canada's gas supply situation was that we would be able to get additional gas exports. Another reason for going ahead and doing one of the projects now was the simple fact that the net national economic benefits of doing something like this sooner, rather than later, are higher.

It's just a net benefit of going ahead with it now. Now, on the choice of systems, the primary consideration was, and here again it is layed out in detail in the President's decision, was the clear cost of service advantage of the trans Canada alternative over the El Paso system. We estimated that that cost of service advantage at roughly 15% which amounts to really a tremendous amount of money for the life of this project. Other reasons were direct delivery to the markets in the lower 48, not having to depend on displacement. The higher effenciency of an oil pipeline system rather than one that is dependent on the changes of state to liquified state and the regasification. That same efficiency gives you cheaper expensibility as well, longer useful life of the facilities and, of course, facility siting difficulties on the West Coast. Our experience has been that environmental and legal complications with facility siting on the West Coast puts you in a position of not really knowing when such a facility might be available.

A final but very important reason was that the Alaska Highway System that was ultimately chosen seems to be clearly regarded as an environmentally superior system by all of the conservation intervenors and in fact FERC environmental staff. That was Mike Sotac who was very instrumental in having that chosen as the staff's environmentally preferred alternative.

Now talking about the President's decision itself, perhaps the most controversial aspect of the President's decision was the finding that the project can and should be privately financed without recourse to either Federal Government loan guarantees or any form of consumer completion guarantee. Our conclusion that the project can be privately financed was based upon our analysis of our experience in financing the oil pipeline. Federal policy on whether or not such projects should be privately financed, based on a very careful analysis of costs and benefits of taxpayer assistance which was carried out for the recent Synthetic Field Commercialization Program. That analysis showed that such assistance was not in the taxpayers interest and we have nothing since then to change the results of that analysis.

The appropriate role for the Federal Government is to expedite resolution of the remaining uncertainties surrounding the project, thereby creating an atmosphere of confidence about what investor's can expect from it. My office for the Federal Government is the vehicle is the fastest possible action in the area of tariffs and financing and reducing regulatory uncertainties. We are working with other federal agencies to insure efficient and responsive planning and monitoring.

Another major timing regarding financing was that the direct and major beneficiaries of the project should participate in financing it, either directly or through loan guarantees. Specifically, our finding was as follows: "Tradition and equity suggest that the parties who tend to benefit directly from a transportation system should participate in the financing and share the burden of these risks. The direct beneficiaries include the equity investors, namely a consortion of gas transmission companies, the producers of the gas, and the State of Alaska with its royalty interest in the gas. Now let me emphasis quickly that I think that those two findings are separable. One was that Federal Government financial assistance was inappropriate given the analysis that we've just been through in the context of this synthetic fuels program, and secondly that given that it should be privately financed, we felt that it is important that the major beneficiaries of the project should participate in the financing.

Now let me review with you the basis of that finding. We have prepared a sheet detailing our estimate of the approximate distributions of benefits and costs to the state and other beneficiaries of this project. We derive these figures starting with an estimate of the approximate market value of the gas at the wholesale level after delivery to the lower 48 states and backing out the transportation costs using analysis leading to the President's decision to determine the value of Prudhoe Bay for purposes of calculating tax and royalty payments. Now this is in constant 1975 dollars and all of the numbers here under the per thousand cubic feet. This is an a twenty year average. The twenty year average cost in 1975 dollars was really the basis that we used in reaching the decision. There are plenty of other ways of considering this and unless we go into some sort of transportation costs normalization system, levelization system , then the transportation costs would be expected to be higher in the early years and lower in the later years. That would be the normal case but in this case we are not going to set a level like that. Now as you can see from this table, the total transportation costs, according to our calculations, is average $1.04 per MCF over the life of the project. And you get that by adding the 84¢ plus the 3¢, the 5¢ and the 1¢. I think that comes to $1.04. And the 10¢. $1.03 plus the State corporate income taxes that pushes it up towards $1.04. Adding the wellhead price in the range of $1.50 means that the delivered cost would approximately equal the value of this gas to the consumer. The consumers would not receive major benefits from this project. The $2.62 number represents the measure of what the gas is worth to the consumer. And it is derived from the price of alternative fuel. At that price the consumer doesn't care whether he is buying gas from Alaska or from someplace else, or whether he is buying fuel oil derived from imported oil.

Notice the Federal Government's benefit from corporate income taxes. That is 10¢ per thousand cubic feet or $90 million annually. If this project is not built the $10 billion of investment would be shifted to other needed projects in Alaska or the lower 48 states and the Federal Government would still receive its tax revenues. This is not true for the State of Alaska if a project is not built in Alaska. The transportation costs figure of 84¢ represents payments to the company for the facilities used to transport the gas and the various Canadian government industries for property and income tax. Notice that this figure includes our estimate of the likely cost overruns. The asteric item is our estimates of the flow through the State of Alaska when the project is completed. These benefits items are State corporate income taxes, State property taxes, severance taxes and royalty. Now we haven't tried to reconcile our estimates of the benefits to the State with those of the project sponsors, but I suspect that if you went through inflating the dollar flows and you did not deal on a twenty year average basis, than the estimates would probably be comparable to the direct benefits. Now if you were to invest $1.5 billion in 1975 dollars which I think is more than the project sponsors are asking you for, we estimate that you would have annual benefits from direct taxes and royalty of the $320 million, for an annual rate of return in excess of 20%. The interest or dividends which you would earn on this investment would be over and above the $320 million annual return. That annual return there is simply from corporate income taxes, property taxes, severance tax and royalty. This sheet lists only direct costs and benefits. At many stages shown there are a number of indirect benefits which will flow from the project.

1. Miles: (Question Indiscernible).

ADGER: That's right. If the project goes forward, our estimation of the benefits that would accrue to the State is separate of any return on the State's investment. This is direct costs and benefits. Among indirect benefits are indirect taxes from the salaries and property of workers on the pipeline project and from the profit and property of companies supplying businesses and services to the project which are based in Alaska. General economic stimulus for other workers and companies which, in turn, create more indirect tax benefits, stimulus to oil and gas exploration on the North Slope from availability of the transportation system, with attendent employment and tax benefits. Higher bids in forthcoming lease sales in the Buford Sea area because of the availability of the transportion system ... There are, of course, other costs to the State in extra provisions of Government services and in generally coping with additional development. These costs will have to be counted against the total of direct and indirect benefits to arrive at an estimatation of the net benefits to the State. We had a meeting with Commissioner of Transportation Harris this morning and we were talking to him about benefits to the State and he was very careful to emphasize that pretty substantial costs are involved here as well.

The terms of any State participation in the project are a matter for negotiations between State representatives and the project sponsors. My intent is to explain to you the basis for the President's findings in this area and to be sure that you understand the significance of your decision to the overall outlook of the project. Potential investors are aware of the very substantial benefits which will accrue to the State of Alaska, over and above any interest on debt securities or return on equity investments when the project is completed. Surely those investors would be difficult to enlist for only normal rates of interest on debts on competitive rates of return on equity that they _____ the State declined to participate. Investors now expect that the State will participate in order to realize this extra benefits early and the atmosphere for completing the rest of the project financing would be severely affected if the State is unwilling to help. In the context of discussing the

the expectations of potential investors, let me take this opportunity to try to set the record straight with regard to the perceived degree of the State's financial commitment to El Paso. It was well known, both to us and to the financial community generally, that the State Legislature had only authorized the State Administration to study the possibility of financial participation. However, even this limited commitment on the State's part was taken by the financial community and the Treasury Department as an expression of the degree of interest, assumed degree of interest in possible financial participation. Although on your part I think you would consider this an extremely limited expression of interest, when we on our side compared that with the expressions of interest in financial participation from anyone else, it looked awfully large.

Commissioner Gallergher's letter of last summer to the Treasury Department was in response to a request from them to estimate the limits of the financing assistance, on any financing assistance which might be provided by the State. He was asked for an estimation of capacity as opposed to some sort of expression of intent. I think that is an important distinction. Although the purpose of his letter was limited, there again its very existence reconfirmed to the financial community, the State's possible interest in participating in the El Paso Project. Again I would refer you to the fact that even though you're expression was very limited compared to everybody elses, it looks pretty large. The additional expections created by the State's limited expression of interest in the El Paso Project would be very hard to overcome if the State declines participation in this project.

The President's decision as it stands, contains the conditions under which both the Canadian and the U.S. Federal Governments are prepared to have this project go forward at this time. Although you may not like some of those conditions, it is important to realize that to change any of them means starting all over again. The decision on the Northwest Alaska Project, with all the attendant conditions, is the result of a unique affirmation process which is included approvals by the Federal Power Commission, which is now the Federal Energy Regulatory Commission, a large number of Federal Government agencies, the President himself and the Congress, not to mention all of our counterparts on the Canadian side. To try to change any aspect of that decision would have to be expected to result in extensive delays. I hope the State of Alaska will take the possibly of extensive delays into consideration in reaching its decision with respect to financial participation in this project.

When the wellhead prices of the gas is set, which I am hopeful will happen in the Congress in the next few days, I have been saying that for about 90 days now and its always the next few days, the State will be in a position to make its own estimates of the size of the benefits which are likely to accrue to the State. At that time, I am hopeful that the State will be able to make some determination on the approximate degree of support, the possible conditions of support, it might make available to the project. Ideally, certain broad terms and conditions associated with any State participation could be worked out and presented for approval before the Legislature adjornes.

The exact benefits and costs to the State from this project would not be known with complete certainty until a number of issues are resolved over the coming months. However, under any plausible set of circumstances the net benefits to the State would be very large. This is well known to the financial community. If the State were to postpone making a decision about financial participation for many months, or to decide not to participate, this may create an atmosphere of doubt and pessimism about the project. It may be difficult, in that event, for Northwest and other project sponsors to overcome this major setback and successfully finance the Alaska Highway Pipeline. I appreciate your interest and I would be glad to try to answer any questions that you might have.

SENATOR TILLION: Mr. Chairman, I certainly don't want to be rude but it sounds to me like your evaluation and recommendation is an exercise in fantisy. It reminds me on the assembly instructions that I get on toys at Christmas time. Whoever writes them finds it very simple, but when I get down to screwing the nuts and bolts, it winds up being very difficult. To say that all of these benefits that are going to inure to the benefits of Alaskans. Are there any rights or benefits that inure to Alaskans that they are not otherwise entitled to, outside of the financing participation?

ADGER: I don't understand what you are driving at.

SENATOR SUMNER ~~TILLION~~: Everything that you have listed as benefits coming to the State, it seems to me that they are entitled to anyway, regardless of whether they enter into or do not enter into this financial agreement. Is that essentially true?

ADGER: I think that right. I think that the key issue here is whether or not the project goes forward now as presently put together.

SENATOR SUMNER ~~TILLION~~: You're here, underscoring the importa[illegible]e of Alaska to participate in regard to the delay. Were those considered at the time the recommendation that was made to the President?

ADGER: Yes.

SENATOR TILLION: They weren't important then or they are not important now?

ADGER: They were important in putting the decision together on this basis, in the terms and conditions. I think that if we are talking about putting the decision together on a different set of terms and conditions then we are talking about doing it in a different time frame.

SENATOR ~~TILLION~~ SUMNER: In terms of the availability of this sort of an end product in the south 48, in terms of making the finances available to them. Did the Federal Government consider that this project is not important and did not want to participate in the financing? Is that their attitude?

ADGER: The Federal Government says that as a matter of Federal Government policy, it is not the Federal Governments policy to assist in projects of this kind. That's not solely a policy for this project. We went through a very careful evaluation of taxpayer assistance in the Synthetic Fields Commercialization Program and we found that it was not in the taxpayers interest and that analysis hasn't been seen since it was done. In fact, Deputy Secretary O'Leary who, at a meeting of gas industry people just within the last month, has reconfirmed Federal Government policy on that point.

SENATOR ~~TILLION:~~ SUMNER Are you aware that presently process is to move only the gaseous component of the products that are available at Prudhoe and the solid or the liquids are going to have to be transported in the existing pipeline? Was that considered in part of your evaluation?

ADGER: The question of the natural gas liquid is an issue that is yet to be definitively settled. I think that we have the broad outline of what liquids would be available and we have in broad terms an idea of what the options are for this position of those liquids. Part of the reason for our trip now is to discuss with State people about what their interests are with respect to natural gas liquids and to initiate a proceeding to finally resolve questions associated with the liquids. We spent quite a bit of time with State Administration people yesterday on this question.

SENATOR SUMNER ~~TILLIAN~~: Would it be appropoirate to discuss with you at this time any rate information as it relates to takeoffs on the line anywhere?

ADGER: If your reference is to the possiblity of a takeoff for communities in Alaska along the routed pipeline, what I can tell you is that takeout policy is a feature of every tariff filing. And we would expect that the Northwest tariff filing would have a expression of their takeout policy as part of that filing. When we get that filing, we would be in aposition to review it in accordance with FERC policies in this area. The other side of the issue from the State of Alaska, which of course, we have to deal

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with in these matters is the __________ in the lower 48. I just don't know what I can tell you now about takeout policies but we feel like that the State of Alaska, that the Alaska communities should try to get some benefits from the gas going by, __________ going by and not have it available to the communities, but at the same time the competing interests is what it __________.

SENATOR SUMNER ~~TILLION~~: I want you, as near as you can, to go back and translate for me how in the world you are able to conclude from somebody's interest in this pipeline, that that is, in any way, being a commitment. That's like saying that somebody is a little bit pregnant. Either they're pregnant and interested and committed or they are not and that is what I am concerned about. How in the world could you assume that somebody in the Administration and their interest represented something different from your prospective interests and ours? I don't know how you reached that.

ADGER: I think that my answer would have to be that looking at it from our perspective, one of the few people who were even willing to consider at that point, financing of this statement and the thing, was to say the Legislature had authorized the Administration to study it.

SENATOR SUMNER ~~TILLION~~: Was that for all the lines or ...

ADGER: For El Paso.

SENATOR SUMNER ~~TILLION~~: And so you translated that expression of interest or investigation to be a possibility of commitment even on other gas lines. Is that correct?

ADGER: I don't think that is what we did. I think that what we did was we made two findings. One was that the Federal Government financing for this project was not appropriate. The second was that we thought that beneficiaries ought to participate. The State of Alaska expressed intentions on this point, notwithstanding, we felt that it was appropriate that beneficiaries would participate. Among those beneficiaries we felt one was the State of Alaska. Now I think when we talk about expectations and who is committed to what and what deals where, I think that those were expectations of the financial community and I think that the expression of some interest, however limited in the El Paso project, was taken by the financial community as an indication that if the terms were acceptable to the State, then the State would consider participation.

______: Question indiscernible.

SENATOR ~~TILLION~~ Sumner: And as I read that I got the impression that that was intended to express a preference of the line at that point rather than being translated as permission for whatever line was being built. Rightly or wrongly that's how I took it. I was wondering how it is they could wind up in some of the context with it. I'm not critical of the decision made at that time, I'm just saying I don't know how you could jump to that conclusion.

ADGER: Well my point to you is that our finding, I believe, was a narrower one than just, that say "would." Our finding was that it was important to us that beneficiaries should.

SENATOR ~~TILLION~~ SUMNER: In light of some of the severe winters that have been happening and the shortage of heating fuels that existed in the midwest and eastern part of the country. Is the Federal Government saying that it is not interested? Is this decision absolutely irreversable at this point in regards to the financing?

ADGER: In a word, yes.

SENATOR ~~TILLION~~ SUMNER: Thank you.

CHAIRMAN MILES: Representative Chatterton?

REPRESENTATIVE CHATTERTON: Thank you Mr. Chairman. With your permission, and give me a little bit of latitude, I'd like to ask three or four questions. Sir, I have before me what you handed out and it has market values here. Is that what is normally referred to as, $2.62 as the ____ price?

ADGER: Yes.

REPRESENTATIVE CHATTERTON: Now, referring to the same handout I noticed in the title block, it refers to 2.4 billion cubic feet per day deliverability over a twenty year period. Does that mean that each and every day of that twenty year period you want 2.4 billion cubic feet? Is that correct?

ADGER: That throughput is the basis for this set of cost estimates.

REPRESENTATIVE CHATTERTON: If that through put were to be less or interrupted, this would be completely in error. This would not be correct.

ADGER: Yes, it would be different.

REPRESENTATIVE CHATTERTON: Now, I am paranoid, however, I am told that paranoia is the mother of discretion. Do you interpret the Alaska Gas Transportation Act of 1976 as it or by itself being permissive to the Federal Government to override the Alaska oil and gas conservation package?

ESSLEY: Could you be more specific?

REPRESENTATIVE CHATTERTON: The Title 31 of the Alaska Statute, Chapter 5 thereof, by manditory of our Department of Natural Resources in the esterest of the people and, Article 8 of our Constitution also speaks to it, that we shall maximize the coverage of oil and/or gas or land. Now at this point in time there is no human on earth that can predict, in order to live up fullfill that manhood, that a deliverability each and every day for twenty years of natural gas from the Arctic North Slope can be guaranteed, without possibly and very probably without ______________________ with ultimate recovery of those reserves. My question is to you, does the Natural Gas Transportation Act of 1976 or is there anything in your knowledge connected with this where the Federal Government believes or feels that they can override, in the national interest, our own statutes or constitution?

ESSLEY: Well to begin with I think we look first at the Natural Gas Act which is the enabling Legislation for the Federal Power Commission, the Energy Regulatory Commission. I think that the Courts have made clear, for a long time, and there have been a number of recent decisions that the Federal Government has a certain relationship with the State Conservation or Railroad Commission, or however you will have it, to respect those decisions but its not total preemption by any means and the decision, the operating decisions of the field really are not in our domain. I don't read anything in the Alaska Natural Transportation Act of 1976 to change that. I think that its the duty and the responsibility of the Government in certificating facilities, especially one that is rather expensive, to make every effort to assure that its within the frame work of the normal and legal responsibilities of the State Commission to assure itself that the reasonable certainty of deliverability at a certain level will be forthcoming. I think, nontheless, there is invariably certain reasons be they force majeure or decisions on the part of the State to alter that deliverability depending on certain operating characteristics of the field. I hope that answered your question and I hope that a lot of the uncertainties can be resolved before the final certificate is...

ADGER: Let me pick up there. I think that the answer was no.

And let me say this on that point. The Regulatory system that we have for natural gas pipeline is fortunately poorly suited to betting on the come, if you will. I'm a geologist by training so I'm a natural optimist. I don't think and I don't believe that very many other people think that the only thing that is up there is the Prudhoe Bay accumulation, but there again, the regulatory system, the financing and tariffs system that we have to put together to make this thing go, is a function discovered in proven reserves. We have a responsibility under our statutes to size the system to the available deliverability. Now I think, today, where we stand is that we've got a state conservation authority's approval of production plans which calls for deliverability of 2 billion cubic feet a day from the main pool reservoir in the Prudhoe Bay field. We have had a estimate from the geological survey and this was in the context of a report to the President in the course of last summer on supply and demand questions in this decision. The geological survey indicated that they felt that it was an additional 3/10 of a billion cubic feet a day of deliverability from other reservoirs in the field and extensions of the main pool reservoir. So between what the State has done in its conservation order last May and what the Geological Survey feels is there in addition to that, in this field, is almost 2.4

billion cubic feet a day. You know that the Geological Survey is prepared to go on from there and tell you what they think the estimate of speculative reserves are up there. Its rummored that Exxon has got some more discoveries up there and I think that we want to try to get, as we go into some final deliverability finding that is related to the sizing of the system, the best estimate of your Department of Natural Resources, what the deliverability is and try, if we need to change the size of the system then change the size of the system. But based on the evidence that is available to us now, this seems to be the appropriate size of the system.

We've also studied how the economics of various systems changes as you change through put volumes. We haven't studied the downside as closely as we have studied the upside because our most careful studies of the upside were in the course of the negotiations with the Canadians on what the addition of the Canadian McKenzie Delta gas volumes did to our operating efficiencies in the 48 inch 1260 line. On the downside, in the course of the Congressional Hearings process, we did take a quick look at what reduced volumes, reduced through put volume did to operating economies and, if I remember right, we will get you these numbers, reduction of this number by an 1/8, takes it down to 2.1 billion, increases the transportation costs,

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the twenty year average transportation cost, by 10% or 15%. And it starts to really go up if you get that $2.1 billion down to about $1.8. I think that is right. When you get to a 1/4, if you are down a 1/4 from the $2.4 billion then we probably ought to be looking at a different size system.

REPRESENTATIVE CHATTERTON: One final question, somewhat unrelated but from the same page. I noticed down here in footnote 2, when you come up to the severance tax estimate to the State and footnote 3 coming up to the royalty, you use two different prices. I presume and I think that you have already mentioned that the $1.58 is a well head value and the $1.28 obviously subtracts 30¢ from that well head value to give us a royalty value of $1.28 per barrel. I've been told in past practice that on the federal level anyway that field price and well head price are almost interchangeable. Can you give me a little bit of elaboration on why 30¢ in MCF is used and does it make a difference whether it would be used, thats one question. Does it make a difference whether the processing plant is built by the operating company or built by the transmission company?

ESSLEY: Ok, since I prepared that number I think that I should explain why I did it that way. What I found out was that there is some uncertainty as to whether or not the royalty would be caluculated before or after deduction of processing costs. And I decided to be conservative here and not over-estimate the state's royalty revenues

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and so I took the interpretation that the processing costs would be deducted before the royalty value. I have since been told by people here in the Administration that, in fact, it needs to be entered in litigation and no one really knows for certain how it will be handled but that is where that number came from.

ADGER: You can look at the number for royalty benefits then as a minimum and then it would go up from there?

ESSLEY: I was, on the other hand, told that the severance tax, that was fairly clear cut, that that would be taken prior to any deductions, at the inlet to the pipeline there would not be any deduction or tailgate.

REPRESENTATIVE CHATTERTON: Very quickly, and you can almost give an answer yes or no. First of all, if my understanding of the federal ______ practice at the well head price and field price are interchangable.

ADGER: Ned, I think you probably know as much as any of us about the FERC practice on this matter.

NED HENGERER: If you are defining field price as the well head price plus additional costs I think it depends on the facts and each situation depending on the location of the plant, the nature of the gas, there are a number of different....

ADGER: It is very hard to find an adequate precedent here because of the gathering and conditioning costs are typical

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in the order of a cent and MCF maybe 2¢ in MCF, and you know, this argument is on all sides of the question of what the approporate precedent is and I think that we are just going to start some sort of inquiry into the question and try to do the best we can.

CHAIRMAN MILES: While we are talking about numbers and this sheet you handed out, you indicated that the Federal Corporate Income Tax seems to be $90 million. Is that.. Is there any other income for the Fed Gov'ts?

ADGER: Well I think that there is some money involved for rights of ways on federal lands but I think that the amount of money there...

ESSLEY: I think that we give away the right of way.

ADGER: Do we. Oh, its the state that charges. I think that the federal income taxes is the biggest part of it.

CHAIRMAN MILES: There was an earlier estimate of the total federal income tax which, I just multiplied it out here very quickly here and $90 million times twenty years is a billion eight. And Secretary __________ estimated it at $3.8 billion. I don't understand where that difference comes from?

ADGER: One could be current dollars versus constant dollars, but we'll find that estimate and we can....

CHAIRMAN MILES: Are you in current or constant dollars?

ADGER: This is constant. Constant 1975.

CHAIRMAN MILES: We don't know what the Secretary is referring to?

ADGER: No, I don't. I know who put the estimate together but I don't know how he got it. We will find out what the basis of that estimate was and give you an answer on that.

CHAIRMAN MILES: And then there is no federal right of way fees at all.

ESSLEY: My understanding is that the Federal Government does charge or ask for compensation for monitoring expenses but I don't believe that they charge more than a nominal fee for the right of way. I may be mistaken about that. Other people here know that better than I do. A filing fee or something like that.

CHAIRMAN MILES: Is there an excise tax?

ADGER: Not that I know of. There may be an indirect excise tax on the tires on the truck.

CHAIRMAN MILES: It seems that the theory was that the beneficiaries to be the financial participant, it would seem like, to me anyway, that the Federal Govermnment would be as big a beneficiary as the State of Alaska, if not substantially bigger with all the consumers. But I guess that that is a point that is over the dam already.

SENATOR HUBER: Thank you Mr. Chairman. I have several questions that haven't been answered yet. The first one is your estimate of Alaska net Corporate Income Tax. 1¢ per MCF or $13 million. On what basis is that, how did you arrive at that figure?

ADGER: We just pulled those numbers out of our cost of service estimates that were based in turn on the filings by the project sponsors on this, adjusted for our estimate for cost. But probably the fundmental estimate of the state's corporative income tax comes from the project sponsors.

ESSLEY: I don't know what income tax rates were assumed by the applicants in their cost of service calculations. I could find out but I don't happen to know off hand.

SENATOR HUBER: Well I asked you the question because the same thing was being computed for the Trans-Alaska Oil Pipeline. The financial community and the Federal government both looked at Alaska's tax structure and found that we had a 9.4% corporate income tax in the state of Alaska and this was charged as a contigent liability to the __________ of the line and we found yesterday, we heard there were some other figures that in terms of the __________ and I was trying to find out where it came from. This other figure must of came from Northwest Pipeline, Is that right? What they estimated they would pay?

ADGER: This is based on the Northwest filings with us in March of 1977 and then are adjusted for the cost overruns that we make. In terms of benefits to the State, even if it were two or three times as high. It is overrwhelmed by strictly royalty and severance tax in terms of its size.

SENATOR HUBER: (Indiscernible) That there is a little bit of a misnomer in comparing it with the states. In most of the states the gas is owned by the people that own the property and here, in this particular field, is the property of the people of the State ________, and so you are adding the farmers share into the taxable revenue as though they were in one pot. You realize that you are doing that don't you?

ADGER: Well we were just counting the farmer as a beneficiary.

SENATOR HUBER: Well, but that wouldn't be done in a state where the farmer actually owned the gas. The state's revenues would be in one column and the farmer's share would be in another.

ADGER: I understand that. I think that we want to point out that the state's interest is, in effect, is a producer here. In the royalty share. From our perspective, really adds to the State's interest in having this project go forward sooner.

SENATOR HUBER: I wanted to look into another item and we are having a little trouble getting into it. The Federal Government has decided by some report, I think you mentioned the Synthetic Fuel Study, do you have copies of that? You apparently made some major decisions, the Federal Government to stay of energy financing in spite of its importance to the nation as a whole.

ADGER: We haven't brought that study with us but we can make it available to you.

SENATOR HUBER: Would you make a copy of that.

ADGER: I tell you that its such an incredibly sophisticated study, only PhD type economists can make any sense out of it, I'm afraid. And not many of them.

SENATOR HUBER: I was once told, since I have been involved, that only certain kinds of geologists have enough sense to understand the reservoir studies and that I should shut up and not ask the questions. I usually throw those kinds of reports in the garbage can. If I can't understand them I've found that other people can't understand them either.

ADGER: That's right I think that Bob will tell you that he had a pretty hard time with it.

HUBER: Question Indiscernible

SENATOR RADAR: The expectation that the Vice President advise the financial community that Alaska will participate in financing, no matter how it was developed, it apparently exists. We need to consider, I think, the ability of Alaska to respond to that expectation and be more precise in detail as to the nature of that expectation. For example when we were talking yesterday with the Alcan people, they were talking in terms of the State participating by pledging its royalty in some manner or another on a revenue bond which the state would sell and then reinvest those funds in either equity or debt position along with all other investors that would like to invest in the pipeline. At the same time we have had people tell us that our general obligation rating, our bond rating, will deteriorate pretty badly if we go above $270 million a year. At least this is the advice the Administration has received. The Governor, in his State of the State message to us, the budget statement, stated that, and last year, as a matter of fact, vetoed a large number of items that would have called for bonding, in excess of what he considered to be prudent, what $240,$250-$270 million, I guess my equasion breaks down into, does the Federal Government expect us to, if there is an expectation here and by the financial community and by other investors, do they expect us merely to try to take royalties and pledge those to revenue bond issues if that revenue bond issue is unacceptable in the market place, then Alaska would be relieved of its expectation that it would participate or is that expectation that we participate go so far as to expect Alaska to tie up its general obligation bonds in debts. I think clearly, under anybody's analysis, it would mean that we had no bond capacity for any other purchases for schools, highways, roads, ferry systems, airports, whatever the cup of tea is. Or that we take it directly out of our general fund. Does the expectation address itself to those kind of problems or not?

ADGER: I don't think that the expectations, particularly on the part of the Federal Government, is developed nearly to that extent. I think that were it developed to that extent I don't think that the Federal Government expects the State of Alaska to stop everything else in order to do this. I think the Federal Government is pointing out that there are very substantial benefits to be realized here and encouraging the State to participate in realization of those benefits, and suggesting that negotiations with the project sponsors you work out a deal that is consistant with your interests and theirs. I don't really feel that the Federal Government is really adequate for or would it be appropriate for us to really get involved in the nature of your participation. I really think that its up to the State and the project sponsors.

SENATOR RADAR: You're familar I think probably in general terms as to the proposal suggested by Alcan Northwest people as to how the State would get involved by pledging its revenues from its royalty gas to secure these bonds. Do you think that there is expectation by anybody that we would go beyond that?

ADGER: I don't think so at this point. I think that, in fact, listening to Senator Stevens yesterday, that his support for the concept of state participation really is based on the fact that that participation would be supported by this project. And that seems to me a principle which if acceptable to the lenders, the project and its financial advisors, if its acceptable to them then it seems to me that it is a sound principle for the State to use.

SENATOR RADAR: Getting off that subject a little bit. Going back to something that we discussed before, privately, but I think that it should be discussed here too, and that is the capacity or the ability of the Federal Energy Commission people, your people, to deal with the problem which would arise in the event the State has no market for its gas at the initial stages of the pipeline, but they develop the market five years later, whether or not we can negotiate with you at this time, with Alcan, and with the other sponsors, a tariff which would give the State, in the event the State gas goes through the line but is recalled, under 13(b), recaptured or whatever for instate use and instate processing, whether or not we could expect you to give us some assurance as to the nature of the tarrif that we would pay and whether or not we could expect to negotiate with you or them in any matter which would be firm enough have any meaning. A tarrif which would not include the tariff for the full length of the pipeline, but just Prudhoe Bay to Fairbanks if that were to be the point of takeoff?

ADGER: Let me answer that with two kinds of thoughts. One is that these would be the kinds of questions that we discussed with the Department of Natural Resources people, a cross section of State Administration people yesterday, in the context of what is the appropriate size of the system. And of course the fundamental issue here, which I'm sure that you recognize, is that when the State takes its royalty gas for its purposes, what does that do to the operating economics of the system. And the way that we talked about trying to get some resolution on the question of the appropriate size of the system was to try to get an expression from the state of expected deliverability, expected gas deliverability which might be available in different time frames and the size of expected or possible demand for gas within the state during those same time frames. Such that we could try in our deliverability findings, in our findings about appropriate sizing of the system, to take the state's intentions with respect to its royalty gas into consideration. We will certainly be glad to send the same kind of enquiry to you all to have you participate in the inquiry to the State Administration.

And the second thing that I would say about this is that I think that this is the point for negotiations betweeen the State and the project sponsors. I think that this is the kind of thing that could be made part of an agreement with the project sponsors. I think that their primary concern as well is going to be what the State's intentions with respect to the royalty gas due to the economics of the system. We discussed in your office briefly the question of, well, would they really be all that concerned, but as we pointed out, the people who will be the project sponsors are the shipper companies who are involved in selling gas in their market areas in the lower 48, and the impact of the withdrawal of the Alaska gas on the delivery price of the gas in the lower 48 I think is going to be a concern to them. Now on the point of the tariff within the State of Alaska and what the possibilities are there, Ned correct me if I'm wrong, but I think that it, dependent on the nature of the State's participation, it might be able to file its own tariff of the shipper company.

HENGERER: Its a possibility.

RADAR: That's all I have, Mr. Chairman.

Sumner: One comment that I might make to this question. I certainly, at least in my _______, would not want to create the impression or leave the impression in any circumstances whatsoever, that I'm laboring under any implied obligation of the State to participate in this loan, but am at absolute freedom to attempt to negotiate, on a mutual basis, benefits that might inure to the Northwest pipeline people, and benefits for such a loan or such financing that might inure to the State of Alaska in terms of employment opportunities and job sharing within the State of Alaska and for the people of Alaska. I see that as maybe the making of such a union. But I certainly am going to question or quiz every time there is that implied obligation. I don't see it, I don't share it, I don't believe it. From your standpoint, so that at least however you compute these into future decisions or recommendations, you can at least be advised, at least from one person.

ADGER: My own view on that, I think, is that we found that the State is a major beneficiary of this and we are hopeful that the State will find a basis on which it would participate. I think that you have perfect freedom to negotiate the deal that you are happy with. My personal plea in this would be that, given that we get resolution of the well head price of the gas issue, that we get resolution of that issue pretty soon, that you enter into active negotiations pretty soon on what form your participation might take.

Sumner: I am concerned about the reaction of what the public might take if they are led to believe or they conclude that somebody has obligated the State either morally or in some other manner to finance this. There is some emotional issues out there that have not been settled yet and I would hate for a bias to arise that would impede down the road of negotiations, that might in the long run bring some positive benefits to the State and to the people. That's the point that I would like really underscored.

ADGER: I think that I understand that perfectly well and I would only try to add for you that I think it is important for the State to work for a deal that it is satisified with. But I think it is also important for the State to realize a certain amount of down side risk here, that the State has something to lose if it doesn't go forward now. And that is really all that needs to be said.

Sumner: Let's follow that one step further. In terms of what the State has to lose, have you evaluated at all the increase of the gas if it stays in the ground in terms of twenty years down the road. Somebody talked about some figures yesterday. Have you concluded what figures might be available, what price this product might sell for in two years or fifteen years. And compared that and the benefits to be gained against the benefits to be gained at this time?

ADGER: We have not completed our evaluations on that point and as you can well imagine, the ultimate answer to that depends on what sort of price trajectory you want to assume for world oil prices. But our expectation is that on a net present value basis, people who are producers

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would be better off going ahead now. If you want to assume that world oil prices are going to go up faster than we assume they will, then you draw probably a different conclusion. But, our sense now, not having completed those evaluations, is that here again it depends on what kind of discount rate you want to use and the price projectory you want to use for the world oil prices. You are better off going forward now.

?, Sumner: It would tend to minimize the down side risks.

ADGER: Reduce them?

?, Sumner: Reduce them yes.

CHAIRMAN MILES: Why don't we take a break until 3:30.

(BREAK)

CHAIRMAN MILES: We will call the Joint Hearing back to order now.

SENATOR RADAR: Yesterday the Northwest people were talking in terms of a 15% rate of return that would be permitted on the equity owners? Does that jive with your understanding, is that a resonable rate of return to expect in this situation?

ADGER: That has been the basis of all of our calculations is a 15% rate of return on equity. I think that it is recognized that this is a project with substantial risk for equity investors and therefore the rate of return is commensurate with that degree of risk is appropriate.

SENATOR RADER: The President's finding and the posture that beneficiaries of the line, so to speak, should participate financing of it. Should the beneficiaries not participate in the financing of it, would that effect the setting of wellhead prices in your view or the Administration's posture as a recommendation to Congress? In other words if the beneficiaries are the State of Alaska and the other owners of the gas, in otherwords they get their gas to market this way, they receive the value but they wouldn't have the right _________. If the beneficiaries failed to respond to your thoughts that they should help finance, would it be reasonable then to assume that the Administration, through the Administrative structure or through the organization or otherwise, that that would be taken into consideration in the setting of the wellhead prices or tariffs for future purposes? Or, in otherwords, if this has to be done without the help of the beneficiaries, there is another way to get the beneficiaries help involuntary and that is to set a different tariff or different price on the wellhead.

ADGER: I just don't see how that could be the process. On the one hand the wellhead price will or will not be set by the Congress, probably based on their own set of considerations and I don't think that the wellhead price for the Prudhoe Bay gas will be set for that deposit specifically. I think

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it will be captured in a definition that will apply to gas across the country, broadly across the country. Our expectation is that that would lead to a well head price that is related to what the administration has proposed for the categories that I know as "old gas." It is a number now in the $1.45, $1.48 range. And it is related to the national rate set by the Federal Power Commission in 1976. So I think the Congress sets the wellhead price, or they don't. And on the tariffs, I think that we approve or disapprove what is presented to us. I don't think that we get involved in what rate of interest on debt is paid, we have to have some sort of finding on rate of return on equity -- the appropriateness of rate of return on equity. But this finding is completed before money is put up. It is completed after commitment are made on that basis, but before money is actually put up. And if you were an equity investor you wouldn't be the only equity investor. And to try to ratch it down to your rate of return on equity in order to try to press you into some sort of financial commitment, runs off of everybody else, you only have...

SENATOR RADAR: But of course, marking down my wellhead price might not hurt everybody else. It would only hurt other producers.

ADGER: I think the Congress is going to set that though. I think your question was that if the federal government, which it does in this instance, is going to take it out on you if you don't participate financially, I think the answer is no. Because a different set of people are going to set that.

SENATOR RADAR: If I was the President and I felt that the producers have an obligation to participate in the financing, and the producers did not rise to that obligation, did not meet that obligation, then I think, if I were the President, and I felt confident in my position, I would look for a way to where they fulfilled that obligation in another way, through a regulatory __________ of some sort, or through Congress, by recommendation of Congress, or something else. And say, you have failed, producers, to meet the obligation that I have printed out here, that I have sent out to you. I have sent my people to Alaska and have talked to Alaskans and have talked to other producers and they haven't responded. Now there is another way to get them to contribute to this and that is to set the wellhead price. That way they contribute to the financing of it because they make it more feasible. The less you have to pay Alaska and the other producers for the gas at the wellhead, the bigger the spread between the market in the southern 48 and the producers in Alaska. Why wouldn't you do that? It seems to me that if you were certain of what you are doing that you would automatically do that. I would. If you refused to share the responsibility that I genuinely thought that you had, voluntarily, I think I would go ahead and say to the Public Service Commission, look, you have a decision here in setting this rate, or wellhead or something else, and those fellows haven't responded. It seems to me like we get their cooperation or assistance in another way.

ADGER: What I started to say was that, Oh no, we wouldn't do that because that's not fair. But if you would do it, I don't want to put that kind of... I wouldn't want to pass judgment on what Senator Stevens says either, but... Hopefully, regulatory determinations are made on the basis of higher considerations. I think regulatory determinations are made on some sort of assessment of the public interest.

SENATOR RADAR: (Question Indiscernible)

ADGER: Well, I think that the fundamental point here is that your financial participation is important to the atmosphere surrounding the project now. And to my way of thinking, that's important to have the project go forward on schedule now. And I guess, I just question the wisdom of posing some kind of a threat that the state might be punished if it didn't step forward.

SENATOR RADAR: Let's not talk about punishing the state, let's talk about punishing the oil, the producers. That's not hard to conceive. If you said, okay, you producers didn't come through and finance this thing, and so and so forth, so we are going to make it financible by knocking down the wellhead price. That will make it financible.

ADGER: Well, I just don't think we would do that. I think on the one hand we are making some progress with the producers on participation in some way. As I think we discussed in your office earlier today, the producers are not really ____________ on this issue, and they have different degrees of interest in this project and different feelings about it. Make no mistake, they have been very stand-offish about the whole thing, at this point. And I don't mean to imply for a minute that any of them are racing to sign up, but we think that we are going to be able to make some progress with the producers when the wellhead price is set.

SENATOR RADAR: Thank you Mr. Chairman.

SENATOR SUMNER: I wanted to talk to one instance; going back to some discussion earlier, that we do look forward to having a petrochemical industry or at least we want to maximize the opportunity of having one in Alaska... (indiscernible) I think that is going to have to be ________ in quantitative terms or estimates, or ballpark figures, before there will be a lot of willingness to commit to funding and and other commitments that are necessary. I think we need to address that and that's the area that you are primarily involved in. Will you respond to what is likely to happen in the future, as to consideration given in terms of tariffs, rates for the ___________?

ADGER: There again, I think you said before, the primary responsibility there, I think, is on negotiations between you-all and the project sponsors, as participants in the project in some way. Then you have the right to determine the conditions, the basis on which you would participate. Now, I think that...

SENATOR SUMNER: Suppose we came in with a mutually agreed tariff for this section of the pipeline. Is it reasonable to assume that you would approve that (indiscernible)

ADGER: I think if both sides agreed on a tariff, what we would do would be to send the proposed tariff to a hearing, probably as soon as we could, to find out whether or not there was any opposition to doing it that way.

In essence: Wouldn't a hearing be held only if Alcan didn't agree? So what's the use of having the agreement?

SENATOR SUMNER: (Question indiscernible)

ADGER: Well, no. I am not sure that...

? Adger: ...accepted to the tariff if Alcan didn't object to it. That would be a major...

SENATOR SUMNER: (Question indiscernible)

ADGER: I think a distinction I want to draw here is that if something on the tariff is important to the State's decision, on whether or not it would participate, I think we would do everything that we could to expedite a decision from the regulatory body on that point. And you're suggesting that if you didn't do it, we would go the same route. I don't think we'd feel anywhere near the urgency to get that particular point resolved. Am I being clear there?

Sumner: Well, I won't pursue it now, but I want you to know that that is a point that brings to my mind, must be defined in quantitative terms before a commitment would be made.

?? Dengerer: One thing that may not be clear is that the case of taking Alaskan royalty gas out of the line before the Canadian border at some point, is not all that new or unprecedented. In the lower 48 gas pipelines, not all the gas is delivered to the ultimate end of the pipeline. It's taken out all the way along the way. So there is an abundance of past techniques that have been used, or procedures, to set the tariff of gas that's taken out at intermediate points.

Sumner: (Indiscernible) In your opinion, can the current gas line meet demands, with conventional financing, if the state does not participate?

ADGER: I'd say that, number one, I would go back to something that you said earlier today about the ease of doing this

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at all. I would agree with you 100%, it's going to be very difficult to do, no matter what. Now, having said that...

Sumner: Explain that.

ADGER: Well, it's a whole lot of money. And it's going to have to be done, probably, on a sort of unconventional basis. Maybe somebody back there knows that better than I do.

Sumner: Has any other state been involved in similar sort of financing before?

ADGER: I don't know of another right off hand. I heard rumors for a while that the state of California was toying with the idea of financial participation.

Sumner: (Question Indiscernible)

ADGER: I don't know of any right now.

Sumner: Okay, are you saying it's going to be difficult even with Alaska's participation?

ADGER: Yes. I think I want to emphasize though that it's going to be even more difficult without.

Sumner: In your view, is it impossible without Alaska's participation, is it improbable without Alaska's participation?

ADGER: I would have to refer you to Alcan, the project's financial people. Or better yet, probably the State has its own financial people, I'm sure.

Sumner: (Question Indiscernible) President's Decision found that the project could be privately financed. But now you have changed, your conclusion, finding that State participation is needed. Why did you initially decide it was privately financeable?

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ADGER: Well, our finding, were that it could be done privately, and that was based on an analysis of the oil pipeline experience, the relevant conclusions, I think, there that are set out in some detail in here, are the relationship of the financing, the size of the financing to the total amount of capital that's raised in any given year, I mean, this would represent about the same proportion of private financing that Alyeska was in its peak years.

Sumner: Is the data that you based your conclusion on then, is that data still active, still current?

ADGER: Well, you're privately financible.

Sumner: (Question Indiscernible)

Anderson or Horgner ~~ADGER~~: Yes. Let me see what it specifically said. If I may read you this, it would be the largest privately financed energy project ever undertaken requiring between \$10 and \$15 billion by the time it is completed. To effectuate such a private financing, a plan that equitably and carefully balances the budget, the benefits and risks is required. The conclusion that Alcan can be privately financed is founded on the basic economic desirability of Alaska gas and the desirability of the Alcan transportation system. Nevertheless, skillful financial packaging and risk/benefit balancing will be required. It is therefore necessary to explore the boundaries of the financing problem by considering Alcan's likely capital needs and sources, relating those needs to the capital market in general and reviewing the list of beneficiaries and examining the roles each might be expected to play in the financing. Then we go into a discussion of those items.

Sumner: (Indiscernible)

ADGER: Well, I think I question your conclusion that the thing is running into some problems. And I would say this about that. We concluded that it was privately financible though difficult to do, but it could be done. And we also proposed that the project's beneficiary should have a big part in that. That would help a lot.

Sumner: When you define private financing, does that include Alaska participation? Is that part of the definition of private financing?

ADGER: Yes. Well, private financing did not, I think, automatically assume that Alaska would participate. I think privately financible was a separate conclusion from Alaska participating.

Sumner: Trying to bring this thing back because I get a little confused. I think you told me just a few minutes ago that it was difficult, even with the State financing, and you would assume even more difficult, if not improbable, if the State does not participate. Now you are saying that it is only difficult if there is private financing involved. So I am trying to determine whether the definition of private financing includes the State since you said it was difficult for private financing. I'm trying to determine your conclusion. Have you always anticipated that Alaska would have no option but to finance this line. Was that any part of your active conclusion in the Senate?

ADGER: No.

Sumner: Alright. If there has been no new ingredient, are you still under the impression that it is still only difficult to finance it privately?

ADGER: Yes. There are degrees of difficulty.

Sumner: Alright. In your view, how long would it take assuming the State of Alaska did not participate? How long would it take before the project would be under way, in your view, encountering the degree of difficulty as you understand it, to complete this project, to move ahead with it. Move ahead as a result of having obtained private financing?

ADGER: I just have not worked through the set of circumstances that would be involved there. I don't know if I could really speculate on that. I think, as the sequence goes, that the sponsoring company consortium has started to come together now, and we feel like that if the State of Alaska could see its way clear to participate in the financing, then we feel sure that the Province of Alberta would also be willing to participate in the financing. And we think that we'll get to the producers down the road somewhere and we build on an atmosphere of confidence...

_________: If Alaska financing was part of the game plan all along, and I'm wondering why ~~doesn't~~ weren't we told before?

ADGER: I think there's sort of a real distinction between a conscious game plan at the time this was written, and observing how the thing might be coming together now. I would think that it would be a big mistake to assume that this was all planned out when this document was written. I think you'll find that we said in here some things that were not exactly dictating the script. We didn't anticipate that the Province of Alberta.

Sumner: And do you want to restate for me your definition of private financing?

ADGER: Private financing I would say would be the private capital market.

Sumner: Inclusive or exclusive of the State of Alaska?

ADGER: What you are saying to me is, do you think that the implication is that Alaska resources is part of the private capital market, in the sense that Alaska has money available to invest like other private investors.

_________: (Indiscernible)

Adger: Part of this may be the egocentric view of the federal government. Anything that is not the federal government is private. That is sort of the way the term was used. And it is quite fairly explicit in the President's decision. Tradition and equity suggests that the parties who tend to benefit directly from a transportation system participate in the financing and share the burden of these risks. The direct beneficiaries include the equity investors, the producers of the gas, and the State of Alaska.

Sumner: You would agree that there are other ways of saying that other than in terms of private financing. I think you will agree. I don't care in the definitions and I don't care in some of the conclusions, and in some of the ways that Alaska got obligated. So I am not going to pursue it any farther. But I think you should, and I'm going to recommend that you seriously reevaluate how you got in the box that you are in and see if you can't find a way out.

ADGER: Okay. Let me just say on this point about what is private financing. I think when we contemplated what private financing is, we think not about the State of Alaska diverting necessarily tax revenues away from schools or this kind of thing. I would consider that private financing, but to the extent that the State of Alaska or the Province of Alberta has investable funds, the Heritage Fund in the case of the Province of Alberta. I would consider them a private investor.

__________: (Indiscernible)

ADGER: We were talking about what is private financing as opposed to what is the obligation of the State. That is what I was talking about. And then you shifted to what the obligations of the State were and the projects.

? Miles: Earlier in the State's testimony, you concluded that or seems to imply though that you didn't expect us to share the same degree of commitment that you had concluded that there was a commitment, an express interest which implied some commitment on the part of Alaska to finance the program.

ADGER: I think that I said that I felt that that was a perception of the financial commitment. That's what I meant to say.

? Miles: Just so I understand it, you're not saying that the project hinges on investment of Alaska's resource dollars? In your opinion?

ADGER: I think that the financing of the project is made enormously easier if the State of Alaska is a private investor. Make private investment decisions on available investment funds.

Miles: (Question indiscernible)

ADGER: I think I would refer you to the ultimate answer to your own financial advisors and the project. But from my own perspective, I don't think that that is the only consideration. If the only thing that happens is that Alaska does or does not participate, that is not going to make or break the project. If Alaska does participate, a whole bunch of other things are going to have to fall into place as well.

SENATOR HUBER: (Question indiscernible) Did you consider Alaska's problem of the constitutionality of dedicating resource revenues, except Permanent Fund money, - that it would be competing with other Alaska projects?

ADGER: We did not exclusively consider that because we did not get into, except to take note of, take note of Commissioner Gallagher's estimate of what the order of magnitude of the State's participation might be. We just pointed out that the State of Alaska, as a beneficiary, it would be nice if they would participate.

SENATOR HUBER: (question indiscernible) What are the four portions of the pipeline?

ADGER: The Alaska portion, the Canada portions and the two southern portions?

SENATOR HUBER: (Question indiscernible)

ADGER: I don't know about that. I think that you would have a difficult time buying a piece of the Canadian segment. Actually I think you could buy a piece of the Canadian segment, you just couldn't buy a majority.

SENATOR HUBER: (Question indiscernible) ... then you would have to deal with how desirable this investment is. How does the desirability of the Alaska portion of the pipeline segment stand up with the desirability of the other two segments?

? Adger : Well, I think this is the kind of thing that you have got to take up with the project sponsors. I just can't really do any good in terms of telling you how it ought to go. You all have got to come up with a basis on which it's satisfactory to you, and if it is put to you in a way that this looks better than that, and you don't have a shot at that, then I think that is something that you take up with them.

SENATOR HUBER: (Indiscernible)

ADGER: Well, I would absolutely suggest that this investment ought to be evaluated against all of the other possibilities that the State has got. But I suspect that this investment would be an attractive one, relative to some of the others, and I would point out to you that this investment, there's always the possibility of very substantially enhancing the amount of money that are in the permanent fund. I think there is a pretty substantial amount of benefit there to be had.

SENATOR HUBER: (Indiscernible)

ADGER: Yes. I think what you are talking about is the constraint on the amount of participation, the availability of funds through the proportion of the funds that are allocated to the permanent fund. Certainly the size of that fund and the prospective size of that fund, given the additions to it of the proceeds from the sale of gas, are going to limit the degree of your participation.

SENATOR HUBER: (Indiscernible)

Rep.
Gruening: Senator Radar asked a question earlier about... Producers want to wait to see what the well head price will be. (Indiscernible) In consideration, do you think that is a reasonable stance?

ADGER: Yes. I said that I thought that the state would likely want to wait for the setting of the wellhead price before making its decision.

Gruening: When is that likely to transpire. I missed your presentation.

ADGER: Well, what I said there, we've been saying for 90 days now that it would be any day now. We still expect that it would be any day now. That's under the legislation that's before the Congress. I think, in the alternative, that if a decision on gas pricing is not forthcoming out of the Congress then we're all on a whole different time scale.

Gruening: If it were to arrive in 90 days, do you (INDISCERNIBLE) think producers would start negotiating gas sales contracts?

ADGER: We would certainly expect them to start negotiations on the gas sales contract. I think that some aspects of the gas sales contracts might well affect the financibility of the project. Now, I'm not sure exactly what the nature of their spectrum might be and wouldn't want to speculate on it. But I think that negotiations over the gas sales contract are...

________: (Indiscernible)

ADGER: Well I just think that -- I'm afraid I know where you are leading me because I'm afraid I know that conclusion of that sales contract for the State's royalty share can't finally be concluded until the next session of the legislature, isn't that right.

_______: (Indiscernible)

ADGER: I think that the negotiations over the gas sales contract, the setting of the wellhead price, is going to fundamentally determine the producer's interest in this whole thing. But then the producers also have expenses associated with producing the gas that they've got to consider. The allocation of costs associated with some sort of conditioning facility which is to be considered as well. I think it's going to be hard for the producers to really establish where their interests lie before they know some more on those things.

_________: (Indiscernible)

ADGER: You mean on the state's conservation?

_________: (Indiscernible)

ADGER: I guess so, yes. My only hesitation is that I'm not sure what... Well, I think it's a level of the ceiling process. I think that we anticipate that the ceiling price for that gas would be set at the old gas price, which is about $1.48 now, I think. And we just assume, our marketability studies are not completed but we assume that the producers would be able to sell it at that price. There the open question...

Gruening: You use the contract after its financed, to help

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finance. And I'm wondering whether that doesn't have some parallel with the State of Alaska... (Indiscernible)

ADGER: I'm sorry that I'm not enough of a financial expert to know whether or not that is a possibility. We hope to have a financial guy on our staff sometime soon that would be able to speak to that. I can't.

Butrovich (Conversation Indiscernible)

? Adger : It's on page 115, if you have access to a copy. It is simply tradition and equities suggest that the parties who stand to benefit directly from a transportation system participate in the financing and share the burden of these risks. The direct beneficiaries include the equity investors, namely, a consortium of gas transmission companies, the producers of the gas and the State of Alaska with its royalty interests in the gas.

Butrovich : Would producers participation be just as important as (Question indiscernible) State participation? Perhaps we should put more emphasis on the producers.

ADGER: We've got a little problem here with the Justice Department and the Justice Department has put some pretty severe limits on the ability of the producing companies to participate in the thing. I think it is spelled out in here some, but they generally prohibited the producers from equity participation in the thing and pretty much limited their participation to debt guarantees. So they're sort of working out of producer participation. It's going to be a complicated matter.

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Butrovich
SENATOR ~~HUBER:~~ (Indiscernible)

ADGER: Well, the statement was that the beneficiaries should participate. And what I'm saying is that the Justice Department has put some unusual conditions on the participation of the producers who are named by President Carter as a beneficiary. I think President Carter still believes that they ought to participate, but... (Indiscernible) The Justice Department just hasn't put as much in the way of constraints on the nature of your participation as they have on those who are the producers.

Butrovich
SENATOR ~~HUBER~~: Would you repeat that please.

ADGER: The Justice Department has not put as much in the way of constraints on the nature of the State of Alaska's participation as they have on the nature of the possible producers participation.

? Butrovich
SENATOR ~~HUBER~~: (Indiscernible)

ADGER: Well, I'm just not, by any stretch of the imagination, an anti-trust expert, and I know that the Justice Department's concerns are rooted in anti-trust considerations. I'm sorry. I'm just inadequate on that.

? Butrovich
SENATOR ~~HUBER~~: (Indiscernible)

REPRESENTATIVE CHATTERTON: Thank you Mr. Chairman. Mr. Adger, I could not help but catch the Nixoneze you used quite a while ago. But I'd like to change a little bit there, the line of questions. Do I understand correctly that you are in charge, you and your staff, in effect, is this right, to come up, sooner or later, with a (Indiscernible) I gather that you are still in the fact gathering mode. Is that right?

ADGER: That's right.

REPRESENTATIVE CHATTERTON: And why we're here right now is the fact gathering mode on the financibility situation?

ADGER: Yes. I was up here talking to the State Administration people and we thought it would be useful for me to come and talk to you all as well.

REPRESENTATIVE CHATTERTON: Do you feel that even beyond the financibility, so to speak, because I gather that you are going to have to be sure, before you issue a certificate, that there is indeed a viable project that can be properly funded in some form or another and ________?

ADGER: Right.

REPRESENTATIVE CHATTERTON: Okay. Now, are you planning to gather facts on other things other than financing? Do you still have many facts left to gather?

ADGER: Yes. And I wish that I had said that more completely in my opening statement. I am really here to find out the facts on a lot of things.

REPRESENTATIVE CHATTERTON: You are still willing to, and in fact are seeking more facts upon assurances of the daily rate of deliverability uninterruptable over a 20 year period? You are seeking facts now, right?

ADGER: The one word answer is yes. We are scheduled to meet with the State Conservation people in Anchorage tomorrow.

REPRESENTATIVE CHATTERTON: Now did you have, in this fact finding PROCESS, where you were out ________________, and by so doing though why you can fairly well select with whom you talk. Did you ever come to a point in a public hearing, in the process before you made your determination on whether or not to issue a certificate of Necessity and Public Convenience?

HENGERER: I think we are, at this stage, gathering information as compared to facts. There will be a public hearing on the record with full adjudication of the issues, assuming that they are contested. I think maybe information gathering is a better... Just for the benefit of the Commission at this point, just to help it understand the issues, there will be public notice, obviously. And I know the state has participated accurately in prior proceedings and they would have notice as all other potential parties.

REPRESENTATIVE CHATTERTON: Do you gentlemen have a rough guestimate of the time frame as to when you will be in a position to make a judgment decision as to whether or not to issue a certificate?

ADGER: Ned, here again, my understanding is that we are shooting for final filings. We would like to try to get the final filings for the Certificate of Public Convenience and Necessity sometime during the first quarter of 1979, about a year from now, or since the wellhead price ____________ 90 days, but once we have the final filing then we go to hearings on the complete package. Now, between now and then there may be issues that we turn up that we need to get some resolution on in order to proceed to the next step. And we might have to go to a formal proceeding and some more narrowly defined issues, between now and the first quarter of 1979 when a public on the record proceeding would start on the whole package.

REPRESENTATIVE CHATTERTON: Am I clear in gathering from what you say, that the earliest would be the first quarter of 1979 before you would feel in your own mind,...

ADGER: I suspect that final filings on the whole thing could not be completed before the first quarter of 1979.

REPRESENTATIVE CHATTERTON: May I ask you one last question. Can construction or even any scratching of the earth... along whis petrochemical right of way that the President selected take place until the issuance of the Certificate of Public Convenience and Necessity?

ADGER: Yes. There is some project development expenditure contemplated between now and then in anticipation that the certificate will be granted. We have, in fact, granted a conditional certificate. But I think that the major commitments to the project, the ordering of the pipe, for instance, will wait for the issuance of the final Certificate of

Public Convenience and Necessity.

REPRESENTATIVE CHATTERTON: Any expenditures at this point in time are pure and simple risk?

ADGER: They are at risk.

HENGERER: There will be certain geotechnical work done on the right of way which would go through the Department of Interior and through the State perhaps, but as far as actual construction, no.

REPRESENTATIVE CHATTERTON: Thank you. Thank you, Mr. Chairman.

? Sumner: (Question Indiscernible)

ADGER: Well, alternatively there is a possibility of commitment of gas funds, which you wouldn't put out any money for in quite some months. Probably not until...

? Sumner: (Indiscernible)

ADGER: I think the project development expenditures between now and the time of issuance of the final Certificate are a little over $200 million. And if you would come in as an equity participant now, you might be involved in some sort of pro-rata share of those project development expenditures. But unless there was that kind of a circumstance, they are not, as I understand it, going to draw against... The final financing commitments are not binding until the Certificate is issued. Is that right? Equity is considered the first money spent.

? Sumner: In your information gathering, is there question of any possibility that as you gather this additional information you will find that indeed you can't honestly issue a Certificate? Have you ever considered that possibility, that your findings may be such that you can't issue a Certificate?

ADGER: I think that we just, right now, can't conceive of a situation where we wouldn't be able to issue any certificates. Certainly, there are uncertainties in the area of deliverability which might affect the sizing of the system, but we would just anticipate the ultimately certificated system, it would just be a different size.

Sumner: My mind is not closed, but it's only a narrow crack.

Adger: It's not within the first choice at this point because we do have the Congressional Act which says you shall issue a Certificate. You may quibble about exactly what is in the Certificate but we are sort of obliged to issue it. Unless Alcan just doesn't ask for it.

Sumner:; Thank you, Mr. Chairman. I apologize for interrupting.

SENATOR POLAND: You have mentioned several times today and many of us up here are... (Indiscernible)

What is the feasibility of taking out royalty gas somewhere else besides Prudhoe Bay?

Essley: Before I start, let me say that I wear a hearing aide and I tend to speak to my hearing aide sometimes and my voice drops off. So if it does, please don't hesitate to tell me to speak up. The system was designed to the

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1260 psi maximum operating pressure. And with the 1260 maximum operating pressure we cannot get all of the gas liquids through the line at that pressure without actually having liquids drop out which could actually destroy the turbines and the compressors. So, given the 1260 psi maximum operating system, we are limited to pretty well taking out the liquids at Prudhoe Bay, at least some of the liquids. We can get all the propane through and a little bit of the butane, but we can't get the rest of the liquids through. So, if we start with a limitation that we are going to go with the 1260 psi system, then we have no choice but to remove some of the liquids at Prudhoe Bay. The pentanes plus can go through the oil lines, and all the propanes can go through the gas lines. That leaves the problem of the butanes. Now, to address your specific question, could we take them out elsewhere. Yes. It is technically feasible to take the liquids out elsewhere. We have 12%, 13% co_2 in this gas and co_2 has no heating value. And we didn't, particularly the project sponsors, do not want to move a large volume of the co_2 to the states because automatically that creates a fuel penalty, moving something all the way down to the states. But, theoretically, if we were to put a high enough pressure line in we could move all the gases, other than dehydrated them initially, we could move all the gases to the states. And remove all the liquids and the co_2 at that point. Or, alternatively, we could move all the gases, except for the dehydration facilities which were necessary on the slope, we could move all the gas to, say, the Fairbanks area and process it at that point, and remove the co_2 and all the liquids at the Fairbanks area and then process the gas. So, specifically, your question, could we process it elsewhere, yes, we could. If we altered the design of the line and go to higher pressure system to the point of processing.

? Miles : In order to get the co_2 out, you've got to go ahead and take the liquids out.

Essley : So this is one of the problems we are looking at right now and several people have brought it up. To remove the co_2 from the Slope, the process that the producers are looking at right now involve first removing the water. Secondly, removing the gas liquids. We are going to take them out as a whole, not try to separate them. And thirdly, then we would take out the co_2. Now, at that point, we either separate the liquids, the gas liquids, and move some of them through the pipeline and burn some of them on the Slope, and put some of them with the gas, or we can put them all back into the gas if we have a high enough pressure system. At that point we bring the process to Fairbanks. Now, at this point, if the State of Alaska wishes to extract some of the ethane and set up a petrochemical plant, we would have to again extract the liquids. After we extract the liquids, we go through a further extraction where we take the heavier part out which leaves the ethane. We put the heavier liquids back in the line and then the propanes and butanes back in the line, which would then be transported to the United States, at which point we would again extract the liquids. We are talking about where do we take these liquids out and how would the most economical, where would the most economical point of extraction be? We are looking at the pressure of the system. If we go with the 1260 psi system, it puts very severe restrictions on where we can extract these liquids. We have to take some of them out of the North Slope with the 1260 psi system. Did I confuse you or help you?

SENATOR POLAND: Can you have one pressure for part of the line and then reduce it to a lower pressure? What I am thinking of is could we have a high pressure line in Alaska, and as I understand it, Canada builds its lower?

Easley: Yes. It would be technically quite feasible to move all the gas, including the liquids to Fairbanks through a high pressure line, reduce the pressure at that time and move just the gas the rest of the way to the states, take the liquids which are extracted at Fairbanks and either utilize them there or move them to the coast.

SENATOR HUBER: Mr. Chairman. Let me ask a question. By a high enough pressure line, do you mean talking about liquifying everything and bringing it down as far as the point where you extract (cough)?

Essley: Well, gasifying everything. You could.

Huber: What do you mean liquifying everything? If you go to a high pressure line, all the liquids would be in a vapor phase.

SENATOR HUBER: I'm sorry, my physics is giving me some problems. I have got some real problems with physics because the higher the pressure we put on a gas, the closer it is to turning into a liquid. For instance, the methane is something over 3,000 pounds per square inch, while the propane is about, at room temperature, or less than 200 pounds per square inch, before it turns to a liquid. Now, can you explain that to my... What you are telling me is contrary to my physics and I'd like to know why.

Essley: Well you get into a phenomenon known as retro-grade condensation. And it is called retro-grade because it is contrary to what you learn in beginning physics. But what we are getting into is, at a high pressure we have a single phase, and if we drop the pressure and at a certain temperature we reach a point where we call the dew point and some of the liquids will condense and will form two phases then, both a gas and a liquid. Now, the peculiar nature of any gas is that we can make laboratory experiments, or if we know the composition of the gas from previous laboratory experiments, we can determine very closely what the pressures and temperatures are in which we will have those two phases. And what it amounts to in this system, that with the operating temperatures that we are going to be bringing this gas down -- in other words, we are going to bring it down below 32 degrees to avoid melting the permafrost. So with these type of temperatures we have, for any given composition of gas, a certain envelope which we have to stay outside of. Basically, this means we have to stay at a fairly high pressure. I know this is contrary to your basic physics and this is why we call this particular phenomena retro-grade condensation.

SENATOR HUBER: Rather than confining it to self supporting laws and a few other such things, does it have to do with the fact that it is a mixture of gases?

Essley: It is a mixture of gases and we depart from ideal gases. We can take a liquid and we can, through manipulating temperature and pressure, we can take a substance and we can go from a gas and put the pressure up to real high value then drop the temperature, then drop the pressure back down, we can go from a gas to a liquid without ever seeing a phase change. Or we can go back from a liquid

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to a gas. Now, instead of going that route of going to the real high pressure and dropping the temperature and coming back down, if we just went straight across at a lower pressure, we'd go through a very definite phase change at some point where we would have liquids formed and then the amount of liquids would continually increase, and we reach another point where we would have the bubble point when we would have all the gas disappear and we would have a single phase of liquids. So we are getting into some phenomena of how we transfer from a liquid to a gaseous state.

SENATOR HUBER: Within a mixture of gases.

Essley: Within a mixture, yes. But what we are talking about here is if we are going to carry all of the liquids, we have to go to fairly high pressure. If we carry just part of the liquids, we can get a lower pressure and end up fine.

SENATOR HUBER: That clarifies something that has never been clarified before. Thank you.

Chmn. Miles: Mr. Adger, the questions surrounding the conditioning plant hasn't really been brought up and we really couldn't get an answer because there apparently is no answer to the question. Who is going to build the conditioning plant? (Indiscernible) Where does it stand now, and if your agency is going to make a ruling on it, wha.

factors are going to be important in that?

ADGER: I'm sorry that I'm not right up to speed on what the precedents are in the lower 48 on processing and conditioning facilities. I am informed by the producers that there is a dramatically different set of precedents for conditioning facilities than those for processing facilities, but I haven't been too thick to understand what the difference is between the precedents on those things. One of the things that we have been trying to do while we're up here was to start an inquiry, an informal inquiry, into what the issues are associated with the gas liquids and try to define better for ourselves what those issues are and set up a procedure for getting those issues resolved. We talked to the state people yesterday, really kicking off our inquiry into these matters, and we will be proceeding to talk to the producers and the pipeline company in the coming weeks in order to try to get this thing resolved and find out who it is that ought to pay for it. Ned, do you know enough about conventions in the lower 48 to sort of know what the precedents are?

NED HENGERER: I am not totally conversant with the specific applications of the rules, but I do know that they really do depend on the specific factors of the case at hand, depending on the location of the plant and the characteristics of the gas and the relative interests of the parties as to the liquids and such matters as that. At this stage, I really couldn't give a definitive answer. I don't think anybody could.

ADGER: I think we have a closet expert.

Essley: I wouldn't say I am an expert but we have a little different problem here than the commission is normally used to addressing. In most of the plants in the lower 48 states we are quite often dealing with multiple owners, and if any processing is... Generally when we have a processing plant, we quite often have quite a few owners, the processing plant will be built separately and process gases from different owners, and we quite often have quite different ownership in the processing plant than we do in the gas and the oil. And so these kind of conditioning costs will almost always be excluded from the consideration of the costs of the owner of the gas. And only those conditioning costs that are done before it leaves the lease, will be considered part of the conditioning. And the processing will be, normally, considered separately. Here we have a different situation. Previously, in all the rate cases before the Federal Power Commission, we were dealing with non-associated gas. Associated gas was always just handled to fall under the rules that they set for non-associated gas. And here, for the first time, the FPC, now the FERC will be dealing with setting a rate, or setting a conditioning and processing for an associated field, gas, where the gas is a by-product of producing the oil. We are going to be getting into totally new grounds here and we are going to be closer to the precedent where in the state where the processing costs may have been associated with producing the gas, other than the conditioning cost where there was a separate plant with separate ownership. It's really undetermined yet how this is going to rule, but we're on new ground as I understand it. Is that correct?

Chmn. Miles: Well what this comes down to then is a $2 billion precedence.

Adger: That's right.

Chmn Miles: This is roughly a $10 million project. If the $2 billion precedent added on to it, this is a tremendously significant factor. Equally significant fact as the pricing determination.

ADGER: Well, let me just refer you to the numbers here I think that the order of magnitude of the wellhead price, in that determination, is on the order of $1.50. Whereas the order of magnitude in comparable terms of the conditioning costs, I think is on the order of 30¢. And 30¢ is a smaller number that $1.50.

Chmn Miles: Yes. But it is still quite substantial.

Adger: That's right.

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Chmn. Miles: That is a substantially significant factor. When might this decision be made? It will obviously be made by FERC.

Adger: Not obviously. It is conceivable that legislation now before the Congress would decide whether or not the gas processing costs were included within the set wellhead price or in addition to the wellhead price.

Chairman Miles: If Congress doesn't resolve it, roughly how long would it take your shop to resolve that question? I realize it is a ballpark shot, but...

Adger: I addressed this same question to the professionals at FERC who actually make this determination. And they said that once the decision is made to go ahead and we know for sure that we have to make such a determination, it would probably take a minimum of three months.

Chmn. Miles: And a maximum?

Adger: Well, he didn't say, but he thought we could do it in pretty close to three months. We have quite a bit of information on the previous commission. It would be three months from the time we get the data from the producer on the cost of this. And that may be, the way the schedule is now, it would look like it will be at least August or September before we get information from the producers on the cost conditioning.

ADGER: But we've got some things that we can do on that issue between now and then.

Chairman Miles: If Congress does not come to terms on the pricing bill, that will also fall into your hands. How long do you figure, again ballpark figures?

ADGER: Would you care to guess on that one?

? Hengerer: On what?

ADGER: On the wellhead price. At least the end of the summer?

? Hengerer: The gentleman I addressed the question to at the FERC, was up to his ears in making that determination, said that it would take at least a year.

Chairman Miles: (Indiscernible)

? Hengerer: Now they are doing a study on that. Conditioning facilities could go on simultaneously.

__________: Yes, but no resolutions would be made. (Indiscernible)

ADGER: Updating an estimate of the basic costs involved in a conditioning facility is going on now. And the producers have a study of that going on, sort of in parallel with this whole wellhead pricing thing. We would have to come up with our own process to satisfy ourselves that their estimates of the cost of gathering and conditioning were the right ones. But the timing of the variance, the ultimate resolution of the gathering and conditioning cost thing is probably related to the timing of that study. The wellhead pricing question, on the other hand, is either related to the ________ of the Congress or the FERC proceeding and the problem there is the difficulty of the allocation issue. Allocation of expenses between oil production and gas production. If we had to set a cost base rate.

Senator Sumner: (Indiscernible) lead to the conclusion that there is too many variables and too many decisions yet to be made. (Indiscernible) I don't know how one could be expected to make an intelligent decision unless one wants to assume that ______________ sort of all work out in the end.

ADGER: I think that what we've said all afternoon is that you really are not in a position to decide unless the wellhead price is roughly settled. We wouldn't argue with that at all. And if the wellhead price is not settled by the Congress, I think we all recognize that all of us are on a different time frame. The project sponsors, I don't think would argue with that. They know that the FERC and the price setting under that then becomes a critical _______, and it's just a matter of how fast we can do that. But our stance is that when the wellhead price issue is settled, the State can come up with a fair estimate of what's in it for the State and have a fair idea of just how important it is to the State for the thing to go ahead now. I think that the kind of commitment to the project that even the project sponsors would like to have within the next few months is not one where everything is finally said and done. I think that is more an expression of intent which is related to computations of a benefit that is available in the time frame of the commitment is made or expression of intent is given.

Senator Sumner: That question was pursued yesterday and they said that they would like to have some sort of a commitment of expression or interest this session and it seems to me like the only thing they could get from us is that maybe we are interested if the following ________.

ADGER: Well I think that you would be in a position to do a pretty good job of enumerating those ifs in the wellhead prices is settled. In my own, and I haven't talked him in any detail about this, you know, its none of my affair, something where you were to assess the order of magnitude of interest in this thing and make some sort, give them some sort of an indication based on that assessment. I think that that would be what it would take.

? Senator Sumner: (Indiscernible). You're saying now as well that there are many other things that may cause delay.

ADGER: The wellhead pricing thing could certainly cause delays.

Rep. Osterback: I have a couple of questions that I would like to ask. Suppose that we give them $1.4 billion for the

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pipeline and a large part of the pipeline won't be in Alaska. Suppose Canada struck a big oil or gas flow there. What assurance would we have that we could still run our Alaska gas through that gas pipeline ...(indiscernible).

ADGER: The decision and the agreement between the United States and Canada is for a joint system that contemplates them hooking up McKenzie delta reserve to the system shortly after the Alaska gas reserve. The Alaska portion of the system is completed and in the agreement we made provisions for a higher capacity system between the portions of the system that would transport both Alaskan and Canadian gas volumes. That was a feature of the agreement and we will be a part of the system that's built. There will be extra capacity in the system for that part which carries Canadian gas.

Rep. Osterback: (Question Indiscernible) Trading North Slope royalty gas for Cook Inlet gas

ADGER: The State Department of Natural Resources has mentioned to us a scheme whereby the State would trade their North Slope royalty gas for Cook Inlet gas. And I just told you everything about it that I know. They have explored this, I guess, in a bit more detail and ought to be able to tell you what the benefits and costs associated with that are.

SENATOR RADER: Mr. Chairman. I don't have a question but, aside from the grilling, I want you to know that we appreciate you coming here. We are really merely fishing for information, but we understand that you are here really at our invitation, and we appreciate that.

ADGER: Let me just say for all of us that we are delighted to have the opportunity to come up here. I wish I had ended up with more output but our mission in coming up was really an information gathering one. We came up at the invitation of the Executive Branch to discuss a whole range of mutual interests with them, and they suggested that we have a session with some of the important legislative people and I am delighted that you all had the time to spare.

CHAIRMAN MILES: Thank you very much.

(END OF MEETING)

APPROXIMATE DISTRIBUTION OF BENEFITS AND COSTS
FROM ALASKA HIGHWAY GAS PIPELINE
($ 1975, 2.4 BCF/D, 20 Yr. Average)

	Per 1000 cubic feet ($/MCF)	Annual Total (Millions $)
Market Value	$2.62	$2,295
- Federal Corporate Income Taxes	0.10	90
- State Corporate Income Taxes		
Alaska*	0.01	13
Other	neg.	4
- State Property Taxes		
Alaska*	0.05	46
Other	0.03	22
- Other Transportation Costs 1/ including cost overruns	0.84	736
= Prudhoe Bay Value	1.58	1,384
- Processing Costs	0.30	263
- 10% Severance Tax* 2/	0.14	121
- 12½% Royalty* 3/	0.16	140
= Producers Net Revenue	0.98	860
* Alaska Revenue Total	$0.37	$ 320

1/ $1.04/MCF total transportation costs, President's Report to Congress

2/ .10 X .875 X $1.58

3/ .125 X $1.28

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ALASKA HIGHWAY PIPELINE PROJECT

Alaska Financial Participation

Fact Sheet

BENEFITS TO ALASKA

Economic Benefits*

- Royalty Income of $10 Billion
- Severance Tax of $7 Billion
- Other Taxes (Ad Valorem and Income) of $1 Billion
- Total Royalties and Taxes (Including Taxes Related to Gas Processing Plant and Corporate Income Taxes Related to Sale of Gas) Would Exceed $20 Billion

25 years

*Amounts represent estimates of minimum benefits based on assumed production of 2 billion cubic feet of natural gas per day at a wellhead price of $1.45 per Mcf escalated at 6% per year over 25 years.

Employment Benefits

- During Construction Years 1979-1982 Jobs Created Will Range From 1,300 to Over 10,000
- Project Is Committed to Hiring Qualified Alaskans
- After Completion Project Will Employ a Permanent Staff in Alaska

Development Benefits

- Project Will Stimulate Further Development of Alaska's Natural Gas
- Project Will Allow for Distribution of Prudhoe Gas to Alaskan Communities Along the Route Thus Providing for Future Industrial Development

Indirect Benefits

- Housing, Communications, Transportation and Other Services Supporting the Project Will Provide Additional Employment and Revenues
- All Economic Benefits Will Be Multiplied as They Circulate Through State's Economy

NEED FOR FINANCIAL PARTICIPATION

- No New Energy Supply Will Be Financed on the Basis of Federal Government Guarantees
- Capital Funds to Be Raised on a Project Financing Basis – Cash Flow Generated From the Project Will Service Debt and Equity Requirements
- State's Participation Would Assist in Demonstrating to Financial Community that Project Is Economically Viable. A Negative Response Would Hinder Efforts to Develop Confidence in Private Capital Markets

HOW STATE CAN PARTICIPATE

- General Financing Plan Contemplates a Committed Pool of Capital Large Enough to Assure All Investors and Lenders that There Are Sufficient Funds to Complete the Project. Committed Pool of Capital Would Consist of Equity (Approximately 25%) and Remainder in Debt
- Project Encourages State's Financial Support in the Amount of $1.2 - $1.4 Billion Consistent With Support Previously Suggested by State for the El Paso Project, Adjusted for Inflation

- Commitment Would Include Purchases of Both Debt and Equity
- Project Also Plans to Offer Equity Participation to State's Citizens, Native Regional Corporations and Other State Organizations
- State Will Receive a Rate of Return on Its Investments Identical to All Other Lenders and Investors
- State's Commitment Will Not Be Binding Until All Capital Necessary to Assure Completion of the Project Has Been Committed
- Ultimate Backing for State's Participation Will Be Revenues Generated From the Project