

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

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1 private financier backs that line?

2 MR. MOODY: I think they're going to look at this provision
3 very carefully, and a prudent lender is going to look
4 at the reserves and he's going to look at the capacity
5 of the line and the cost and everything else, and maybe
6 this won't be a problem. But somehow I kind of suspect
7 that some day somebody is going to knock on the door
8 and say, "We need to discuss these withdrawal provisions
9 with you."

10 REP. GRUENING: You mentioned that if the Arctic route is
11 chosen we wouldn't get as favorable a contract. Let's
12 say we don't enter into a contract and the El Paso route
13 is chosen, do we stand to get as favorable a contract?

14 MR. MOODY: They struck their deal with you once. I guess
15 they'd stick by the same deal, but I don't know them
16 that well and I haven't asked them.

17 REP. GRUENING: You heard Mr. Tussing's testimony yesterday
18 as to what he thought the international ramifications ---

19 MR. MOODY: I was enthralled with it.

20 REP. GRUENING: Yeah, I think the headline should have been
21 "Members Entertained by Testimony," but I think what he
22 says may have some merit. But I want you to comment
23 on his view that the Canadians are going to make the choice
24 and that if they do, in fact, make that choice, or cannot
25 make that choice, isn't the El Paso route inevitable

1 if they can't make it, and what we do in this contract
2 won't make any difference in that international decision
3 making process?

4 MR. MOODY: I really had the feeling, listening to Arlon,
5 that if I had his prescience about what our government
6 was going to do, and what the Canadians were going to do,
7 and Congress was going to do, and the FPC was going to co,
8 I ought to be making a lot more money than I'm making.
9 I suspect that an awful lot of what Arlon was saying
10 were very well educated guesses as to what he believed
11 would develop or might develop and, certainly I respect
12 his judgment and the knowledge that he has and the facts
13 from which he draws.

14 I don't come to the same conclusion about
15 everything being cut and dried and that it's only the
16 Canadians that have something left to say. It's not
17 that I know that that's true, it's just that I am unwilling
18 to recommend to you that you pass up the possibility
19 that you've still got a way to do something. You see,
20 I don't know, and all I've got to do is assume that the
21 FPC and the White House will operate in good faith,
22 that they still have open minds, that they're still
23 willing to listen to reason, to rational arguments from
24 responsible people, and if those assumptions are correct
25 then there is still a way to try to make this routing

1 decision come out better than it has so far.

2 REP. GRUENING: I think what you say in terms of rational
3 arguments having some effect is persuasive, I cannot
4 believe anyone who says we can't have any effect on this
5 decision. But the question before us is whether the
6 commitment under this contract will have an effect on
7 the rational part of the decision making. You described
8 earlier that you thought it could have an effect in
9 terms of, I think, the way that the public would perceive
10 what we're doing here. In terms of the amount of gas
11 and date of delivery that could occur under this contract
12 what should we be telling, truthfully telling the
13 American people they're getting under this contract
14 so that they'll be persuaded that they should press
15 their representatives for an all Alaska route?

16 MR. MOODY: That you're offering a share of your resource,
17 and you're offering it under written contracts with
18 responsible people that operate as buyers, sellers and
19 transporters of gas, and that if the correct route is
20 selected then you fully intend to abide by the terms
21 of this contract.

22 REP. GRUENING: But can we say that in any other document
23 or any other way and saying in effect that -- is there
24 a more appropriate document than this to say, or a more
25 appropriate spokesman to say this than the gas company?

1 MR. MOODY: I've forgotten which Justice it was on the English
2 bench that once wrote, "As a man binds himself, so shall
3 he be bound." It seems to me that the most appropriate
4 way to express your sharing of your resource is in a
5 contract. It's very easy for people to say, "Oh, we'll
6 share with you, trust us." But, you know, you're to the
7 point of the State committing itself in writing by
8 solemn legislative and administrative acts that say,
9 "Yes, we will share the resource." It seems to me that's
10 appropriate.

11 REP. GRUENING: Do you think there is any danger, as long
12 as you're making these political assessments -- could
13 you tell us, is there any danger in assuming that the
14 public is willing to go both ways; in other words, we'll
15 allow you to take it back for any in-State use you want
16 and we'll give you special legislative consideration
17 for it, plus we're going to go along with your route
18 decision? I mean, maybe we're asking for too much;
19 I don't know.

20 MR. MOODY: It's a valid concern.

21 REP. GRUENING: One other question. You mentioned the
22 provisions that you've analyzed although, in other words,
23 if you were writing the contract out of the context of
24 trying to affect some political decision you might try
25 to renegotiate it to cover some of these.

1 MR. MOODY: Representative, I have tried to express in one
2 of the opening paragraphs of this letter. It is very
3 difficult to go in and pick up an executed contract and
4 assess accurately whether it's the best deal that could
5 have been struck or not. Those people who negotiate
6 for you and against you have to go through a process
7 of give and take, and unless you have been a party to
8 the negotiation process and you know where you compro-
9 mised and where they compromised, and where were the
10 absolute points of no give at all, then you really don't
11 know whether this is the best deal that could have been
12 arranged.

13 I've read summaries of the contract negotiations.
14 I don't know whether in any particular instance I or
15 anyone else could have driven a better bargain for you,
16 and I just wouldn't want to be in the position of saying
17 that I don't think your negotiators did a good job.

18 REP. GRUENING: You mentioned that under these contract
19 provisions a letter of agreement, especially 6.1 and
20 I think 6.5 ---

21 MR. MOODY: Yes.

22 REP. GRUENING: -- could be corrected by getting a letter
23 agreement or something on the record to clarify the
24 possible ambiguity. As an attorney, wouldn't you
25 recommend to actually get that into the contract?

1 MR. MOODY: It can be part of the contract by supplement
2 so long as it's been done and properly agreed to by all
3 parties before the Legislature is asked to vote on it.
4 It seems to me that would be the determinative thing.
5 They've laid a proposal before you but I don't see
6 why it could not be supplemented with an additional
7 paragraph or so before the Legislature votes.

8 REP. GRUENING: Thank you.

9 SENATOR RADER: Representative Parr.

10 REP. PARR: Thank you, Mr. Chairman. Mr. Moody, this contract
11 is a twenty-year contract, and you've had a lot of
12 experience with the FPC; what is sort of a rule of
13 thumb, if there is any, on the length of contracts
14 across the country in selling natural gas?

15 MR. MOODY: Yes, sir. Up until three years ago I would say
16 twenty years was the industry standard contract. About
17 three years ago the Commission went through kind of an
18 evolution in its manner of determining to what gas certain
19 rates would apply, and they permitted a higher price
20 after the expiration of a contract if a new contract
21 was entered into, called roll-over contracts.

22 You have a contract that expires, you would by
23 FPC vintaging be held at a certain level, but the
24 Commission kind of restructured and they said, "If you
25 enter into a new contract we will permit you a higher rate."

1 Leaving aside why that happened, whether it was good or
2 whether it was bad, one practical consequence was that
3 contract term shortened because people saw that by
4 contracting for a shorter period of time they would have
5 an opportunity to roll over the contracts and move to a
6 higher price. As a consequence of that trend, the Com-
7 mission, in Opinion 770-A, abandoned the roll-over
8 contract concept and they refused to permit the higher
9 rate for roll-over contracts. So we may now see a
10 restoration of longer term contracts.

11 REP. PARR: In this last three-year period you're talking about,
12 what would be sort of a guess as to the usual length?

13 MR. MOODY: There were still some twenty, some fifteen.
14 The FPC does an every six month analysis on contract
15 terms, and some were as low as two and three years.
16 It would be hard really to say what the industry average
17 was because it was such a short transition period and
18 it really didn't shake out before it got changed again.

19 REP. PARR: I would like to, Mr. Chairman. You said also
20 a while ago, Mr. Moody, in answer I believe to somebody's
21 question, that we're not likely to get a better contract
22 if we were to wait. Can I assume that you were talking
23 about a regulated, as opposed to a non-regulated,
24 situation in making that statement?

25 MR. MOODY: Yes.

1 REP. PARR: You said, when you first started talking, that
2 nobody can really guess whether deregulation is going
3 to come or not; and then just a couple minutes ago
4 you said your own belief is that we will continue to
5 have regulation. Am I quoting you right?

6 MR. MOODY: Yes, I'm afraid so. I'd like not to be quoted
7 too widely.

8 REP. PARR: One last question, Mr. Chairman. You said that
9 we might be able to offer some of our resource to some
10 of these states through valid companies with good
11 contractual arrangements, etc., and get their support.
12 Can't we assume that the states which are going to profit
13 by the other route, such as Arctic, are going to be
14 throwing their support behind that route and you're going
15 to wind up, perhaps, with simply a matter of counting
16 the number of votes in Congress in favor of each one,
17 and each one going for the one that seems in its own
18 best interests, Illinois versus (shall we say) Alabama,
19 and Texas versus New Jersey, and so forth?

20 MR. MOODY: Yes, sir. I would have thought that's the way
21 it was going to develop. But you've got, it seems to
22 me, something kind of unusual operating in your favor
23 on this question. The producers are not entering into
24 contracts because they're concerned about where they're
25 going to be on the price structure. So as of right now

1 nobody is making a commitment of their gas that they can
2 promise and that the Gas Arctic people can go state by
3 state and say, "You're going to get so much, you're
4 going to get so much." As long as the producers don't
5 contract, you are the one party in a position to say,
6 "We're going to share our resource with you on a specific
7 basis."

8 REP. PARR: You don't think, Mr. Moody, that the companies
9 such as Michigan/Wisconsin who talked to us the other
10 day, or other big companies in the Midwest, are going
11 to have their people believing they profit by Arctic Gas
12 because there are no signed contracts? Is that what
13 you're saying?

14 MR. MOODY: No. You know, human nature is a funny thing,
15 and part of what's involved in this whole routing
16 process are certain perceptions in the Lower 48 States.
17 There is a perception that Arctic Gas will bring gas
18 to the Midwest and to the Northeast at a lower cost;
19 there is a perception that El Paso takes gas to the
20 West Coast, that's already afloat in oil; there is a
21 perception that Alcan started too late and hasn't studied
22 their project properly and didn't make as strong a
23 presentation as they could have under other circumstances.

24 You're dealing with perceptions when you are
25 trying to get people to become involved enough to go to

1 the FPC or to the White House and say, "Gee, this route
2 would certainly help us." It seems to me that the
3 commitment of specific volumes, even with your oil rights,
4 so specific companies that reach specific states might
5 be of some help in altering those perceptions.

6 REP. PARR: Thank you, sir.

7 SENATOR RADER: Senator Sumner.

8 SENATOR SUMNER: Inasmuch as I get the impression that price
9 is probably going to be determined outside of what the
10 State of Alaska is going to be able to do, doesn't it
11 really come down to a very simplified option that in the
12 end what we are able to provide for Alaskans, or the
13 citizens of Alaska, will depend on whether we have an
14 option of sending part of our royalty gas to an in-State
15 petrochemical type of operation or whether it goes
16 out of the State? Is it that simple?

17 MR. MOODY: Senator, I offer the judgment that from the
18 very beginning price was of less importance to the State
19 than was retention of the control of the resource.

20 SENATOR SUMNER: In your view is the Alcan project in a first,
21 second or third running position?

22 MR. MOODY: I really never have gone into any of them, and I
23 don't mean to dodge you, but the first of these applica-
24 tions were filed when I was on the Commission and some
25 of the evidence came in while I was on the Commission,

1 and I really have hesitated and don't want to be put in
2 the posture of endorsing one versus the other.

3 SENATOR SUMNER: And you're here to try as best you can to
4 equip us with the knowledge that you have so that we can
5 punch a button to decide whether we ratify a contract
6 or whether we don't. If you had to punch a button and
7 it comes down to no discussion or no nothing, one day a
8 button has got to be punched; if you had to punch that
9 button, would it be yes or no?

10 MR. MOODY: Was it Mr. Levy that said, "Elect me to the
11 Legislature and I'll tell you"?

12 SENATOR SUMNER: But before we let you escape from us today
13 we're going to keep you pretty close to that position.
14 What is your recommendation to the Legislature?

15 MR. MOODY: I think you've got to go back to where you stand
16 on the routing problem.

17 SENATOR SUMNER: That goes back to where the option is, and
18 we're now down to the point where our destiny is pretty
19 much controlled as to whether we have the option of using
20 our gas in-State or sending it out.

21 MR. MOODY: Senator, obviously I have an opinion.

22 SENATOR SUMNER: Yes, sir, and that's what I'm trying to get.

23 MR. MOODY: My problem is, I feel very presumptuous, as
24 somebody who grew up in Texas and has been in Washington
25 the past five years, being in the position of saying to

1 men and women like you, who are elected to and who do
2 represent your constituents, and who know your State,
3 what their needs are and what their concerns are -- you
4 know, how can I tell you what to do?

5 SENATOR SUMNER: No, that isn't what I'm asking you. I'm
6 not asking you to tell me what to do, I'm asking you to
7 tell me, on the basis of what you know, which you've
8 got lots of years of experience, you're an expert,
9 acknowledged, self-professed, being out of town with
10 a briefcase, and I'm trying to determine in your mind
11 which way would you go if it was your decision, if you
12 were one of those people making a decision.

13 MR. MOODY: Maybe I ought to put it this way.

14 SENATOR SUMNER: Sometimes I wish the little button had a
15 message like that.

16 MR. MOODY: If I lived in Alaska I would probably write my
17 Representative and Senator and express the view that the
18 routing decision was of terrible importance to the State,
19 that this offered a means of perhaps arriving at a happy
20 answer to the routing decision and that, therefore,
21 my Representative would vote for it.

22 SENATOR SUMNER: Thank you very much. That's all I have,
23 Mr. Chairman.

24 SENATOR RADER: Mr. Chatterton.

25 REP. CHATTERTON: Thank you, Mr. Chairman. Mr. Moody, I'm

1 looking for a value judgment on your part somewhat akin
2 to the question you just had. Let's say that Chat
3 Chatterton takes the position that he just doesn't want
4 any straw, any conduit at all from Prudhoe Bay to
5 Washington, D.C. where they can turn a switch, he wants
6 to delay it as long as he possibly can; do you think
7 that the approval of these gas sales contracts will
8 change, will accelerate it? If I want to delay it, will
9 I be accelerating the issue?

10 MR. MOODY: Having said that I think that the contracts
11 would be of some benefit in the routing decision, I
12 think it necessarily follows that if you have no contracts,
13 it kind of just may help Gas Arctic, I don't know.
14 I just don't know, and I don't mean to be flip or
15 presumptuous.

16 REP. CHATTERTON: I'm not worrying about any route, I don't
17 want any route.

18 MR. MOODY: I can recognize what you're saying and I would
19 have said, "Now, Chat, don't worry about that," a few
20 days ago, but I saw the Congress of the United States
21 pass an allocation bill and, as you know, it was conven-
22 tional wisdom that the pipeline industry producing states
23 would just never let it happen. But emergency situations
24 came up, the pressure was there, and the bill went
25 through both Houses, and was signed by the President in

1 three days' time. I recognize your concern.

2 REP. CHATTERTON: Thank you.

3 SENATOR RADER: Representative Hayes.

4 REP. HAYES: Since we've discussed and mentioned several
5 times that the most important aspect of this whole
6 thing is the future in-State use of Alaska's royalty gas,
7 do you think that by signing these contracts that we are
8 in any way jeopardizing that opportunity in the future,
9 as opposed to not signing any contracts?

10 MR. MOODY: No, sir, because I think the withdrawal rights
11 are clear.

12 REP. HAYES: But we get into the situation of -- well, first
13 of all, we've got the financing problem that we talked
14 about. So, you know, we're going to be back to the
15 drawing board, possibly.

16 MR. MOODY: Maybe I shouldn't have mentioned that.

17 REP. HAYES: The second problem is that once you get it
18 into the system, once it starts flowing out for sale,
19 they may decide that it's in the best interests to the
20 country -- once it starts flowing out it's awfully
21 hard to turn it back around again. That's another
22 possibility of losing it. So it would appear that
23 signing the contracts would put us in a more hazardous
24 situation, could be more jeopardy on the possibility in
25 the future of having our royalty gas available for in-State

1 use than if we didn't sign anything, we just waited a
2 while.

3 MR. MOODY: It seems to me that turns on the perception of
4 the same answer that Representative Chatterton asked.
5 If you believe that not signing delays the construction
6 of any pipeline system or transportation system, then
7 what you suggest would follow. But if failure to sign
8 or signing does not slow up the selection on the building
9 of a transportation system, then you are vulnerable to
10 the taking, whether or not you sign the contract.

11 SENATOR RADER: Any further questions? Senator Huber.

12 SENATOR HUBER: Most of my questions have been asked, or
13 almost asked, Mr. Moody. One hasn't as yet. The change
14 that you recommend in our severance tax structure, should
15 we rush and make this effective before we get into a
16 contract, from a legal viewpoint?

17 MR. MOODY: Senator, I'm not an expert on your structure,
18 but I don't think so. I think my answer is that you
19 have time to do it but it ought to be done before gas
20 starts to flow. I don't think you want to tie it to the
21 flow of gas. Somehow that seems like it's too late to do it.

22 SENATOR HUBER: The time structure then is that we should do
23 it before the flow of gas, but it's not necessary to do it
24 before we enter into the contracts, if we're going to do
25 it?

1 MR. MOODY: If you will take the word of a Texas lawyer on
2 Alaskan tax matters.

3 SENATOR HUBER: Would you care to speculate just a little
4 bit further on Charlie Parr's question to you? It got
5 very closely to what I wanted to get into, and the part
6 that it didn't cover is, maybe in what magnitude of
7 lobbying do you think it might take to change the per-
8 ception of the people in the East that the Canada route
9 is going to bring it to them; the perception in the
10 Northwest that the Alcan route dumps it into them; and
11 the perception in the Southwest, Arizona, California and
12 so forth, that El Paso brings it to them with the first
13 crack? Would you care to speculate briefly on what
14 you think what might be the -- what kind of effort,
15 how big an effort might be needed to overcome those
16 ideas?

17 MR. MOODY: Senator, I wish I could be some help to you.
18 You know, I think you're talking about a question of
19 political science, or polling, or something I know I don't
20 know, and forgive me, I just can't be of any help to you
21 on that.

22 SENATOR HUBER: In that question, would you go along with
23 me one more? Would you have any feeling in the area
24 where you are living right now, Washington, D.C., if
25 you and your neighbors feel that, for instance, the

1 Trans-Arctic Canada route might not give them the best
2 bite on the gas or not? Do you know of any perception
3 like that?

4 MR. MOODY: No. I think it's still probably as an issue
5 that is being discussed not at the individual consumer
6 level so much as at the State Commission, State Government,
7 certainly involved industry level, but I doubt that
8 Alaskan routing has become a matter about which
9 individual consumers have views at this time.

10 SENATOR HUBER: I was getting into the end, of course,
11 from necessary lobbying to convince Congress, based
12 upon your earlier remarks. You haven't then noticed
13 this, yourself?

14 MR. MOODY: No, I haven't, and, you know, you get involved
15 in a certain area yourself and you begin to lose objectiv-
16 ity, because that's all you think about or all you talk
17 about, and I'd be a very poor person to ask what people
18 in Washington, D.C. feel about this, because I would
19 necessarily reflect my own thoughts.

20 SENATOR RADER: Any further questions of Mr. Moody?

21 Mr. Moody, we thank you very much, and I know that Mr.
22 Kilgore and Mr. Swanson both have reservations out, so
23 I think that we'll excuse you gentlemen from further
24 attendance this afternoon, although we still do have
25 some members of the public to be heard.

1 You're welcome to stay if you wish, but as far
2 as the committee is concerned I think it would be well
3 to excuse you to try to make your plane connections.

4 MR. MOODY: Thank you.

5 SENATOR RADER: Let me find out before we take our ten-minute
6 break where we stand. I have a list of witnesses that
7 are possibly here or possibly not. Is Mr. Heinmiller
8 here to testify? I see Mr. Penney and Paula Easley. Do
9 you wish to testify?

10 MR. PENNEY: Yes.

11 SENATOR RADER: Carolyn Berg, is she here? Dennis Schlofeldt,
12 from the Fairbanks Chamber of Commerce. I'll assume
13 that he's not going to testify. Is there someone here
14 from the Associated General Contractors who is going to
15 testify? There's no one from the Associated General
16 Contractors.

17 Under those circumstances, we have Mr. Penney
18 and Ms. Easley from OMAR here to testify, the only
19 remaining witnesses. Does the committee wish to take
20 a ten-minute recess, or shall we take their testimony?

21 SENATOR HUBER: Let's take five minutes.

22 SENATOR RADER: Let's take a five-minute break.

23 (Whereupon the hearing recessed at 5:25 p.m.
24 and reconvened at 5:35 p.m.)

25 SENATOR RADER: Would the committee come to order here?

1 We have Mr. Robert Penney and Ms. Paula Easley. Would
2 you identify yourselves and who you represent? I suppose
3 you would like to make a statement and then open your-
4 selves to questions. Would that be the way to proceed,
5 Mr. Penney?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 be our number one priority.

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

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

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

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

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

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

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

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

25 Here are some of the letters we have received

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

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

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

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

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

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

25 "The recent report of the Berger Commission's

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 MR. PENNEY: Yes, sir.

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

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

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

5 SENATOR RADER: Any further questions? Senator Sumner.

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

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

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

7 SENATOR RADER: Any further questions?

8 MR. PENNEY: Thank you very much.

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

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

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

7 Do we have any other ---

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

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

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

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

1 on that side.

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

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

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

17 REP. GRUENING: That's fine.

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

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

23 SENATOR RADER: Fine.

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

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

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

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

7 SENATOR RADER: One ad or several ads?

8 REP. GRUENING: Two days in each paper.

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

11 (Whereupon Exhibit 24 was duly marked.)

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

17 (Whereupon Exhibit 25 was duly marked.)

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

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

22 REP. GRUENING: Sure.

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

1 (Whereupon Exhibit 26 was duly marked.)

2 SENATOR RADER: Ms. Easley.

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

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

10 (Whereupon Exhibit 27 was duly marked.)

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

13 REP. GRUENING: John?

14 SENATOR RADER: Yes.

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

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

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

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

11 REP. GRUENING: What time?

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

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

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

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

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

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

25 SENATOR RADER: They will submit written testimony or whatever

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

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

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

14 REP. GRUENING: Whenever.

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

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

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

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

10 We will adjourn until 10:30 then Monday.

11 (Whereupon the hearing adjourned at
12 6:05 p.m.)
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JOINT PUBLIC HEARINGS
of the
ALASKA STATE LEGISLATURE
on

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

"THE PROPOSED SALE OF ROYALTY GAS"

January 31, 1977 - February 7, 1977

Juneau, Alaska

VOLUME I - APPENDIX
CONSULTANT PRESENTATIONS

Michael J. Scott, Assistant Professor of Economics p. A-1
ISER, University of Alaska (2/3/77)

1 after a ten minute recess and we will be prompt on ten
2 minutes.

3 (Whereupon the hearing was recessed at
4 2:50 p.m. and reconvened at 3:00 p.m.)

5 SENATOR RADER: The committee will come back to order. We
6 have asked Dr. Tussing and his associate to appear out
7 of order or they rather asked that they might appear out
8 of order, Mr. Scott, because of commitments that they
9 have tomorrow.

10 Dr. Tussing, we will follow whatever order of
11 presentation you and Mr. Scott think would be most ap-
12 propriate. Do you wish to make a presentation first and
13 then questions? Would that be the way of proceeding?

14 DR. TUSSING: Well, I think the way to proceed would be to
15 let Dr. Scott go first and then to ask questions of him
16 and I might have some comments on his answers. Dr. Scott
17 has done an analysis of the Task Force Report and the
18 documentation by the Department of Revenue for the Task
19 Force Report. It is a technical analysis.

20 I intend to range more broadly on national and
21 international political aspects of the contract. I am
22 willing to take responsibility for everything that Dr.
23 Scott is going to say because I have read his analysis.
24 He can't take responsibility for what I am going to say
25 because I don't have a prepared statement and I was not

1 quite sure what topics I was going to handle before I
2 got here. So don't blame him for anything nasty or
3 unpopular that comes from this side of the table.

4 SENATOR RADER: I'd like to have both you and Dr. Scott, you
5 are appearing here as expert witnesses and, therefore, a
6 statement of your background and your qualifications
7 would be appropriate in the record.

8 DR. SCOTT: My name is Dr. Michael J. Scott. I am an assistant
9 professor of Economics at the Institute of Social and
10 Economic Research, University of Alaska. I am a professional
11 economist with a Ph.D. in Economics from the University
12 of Washington. I am associated with the Institute's
13 Man-in-the-Arctic-Program, which is an econometric modelling
14 effort of Alaskan economy, and I have specialties in
15 natural resources, public expenditure modelling and
16 Alaskan cost of living.

17 I was requested by the committee to evaluate the
18 report, "A Comparative Evaluation, Prudhoe Bay Natural
19 Gas Pipeline Systems", prepared by the Gas Pipeline Task
20 Force, November 1976, to check its technical accuracy as
21 a supporting document to the sale of natural gas to El
22 Paso, Tenneco, and Southern for the expressed purpose
23 of securing an all-Alaska gas pipeline.

24 I was asked to do this since I had previously,
25 in late November, evaluated for the Legislative Affairs

1 Special Subcommittee on Oil and Gas Taxation, a study by
2 Dr. David Knudson of the Department of Revenue, which
3 was titled "A Comparative Economic Study of Three Competing
4 Alaskan Prudhoe Bay Natural Gas Transmission Systems",
5 and possibly also since I was involved in the ISER
6 studies on the subject of three gas transportation systems
7 beginning in November 1975.

8 My comments, accordingly, will be directed to the
9 internal logic of the section of the Gas Pipeline Task
10 Force report entitled Economic Factors. I regret that
11 I am unable to discuss the options for in-state use of
12 gas. At the time ISER was doing its studies (that is
13 April 1975 through June 1976), we were asked to look at
14 only export options. We did this for the Department of
15 Interior and the Federal Power Commission staff. Then,
16 too, our analysis mainly took place before Alcan's proposal
17 was before us, and there may have been delays in con-
18 struction which we could not anticipate. We had thought,
19 at the time we were doing our studies, that any of the
20 gas transportation systems could have been started in
21 1977. This, of course, has proved not to be the case so
22 far. There have been some changes in the state fiscal
23 structure, so any studies we have done since the time we
24 did them, have been overtaken by events related to the
25 permanent fund. And so our analysis, while generally

1 valid, has been overtaken to some degree so I don't want
2 to be held to specific numbers that we have generated.

3 The economic factors mentioned in the state report
4 are the cost of service, net benefits to the United States
5 as a whole, fiscal impacts, impacts on the private economy
6 and cost of living. The report makes several points with
7 respect to cost of service, based mainly on a study which
8 I mentioned previously I had evaluated earlier, the Department
9 of Revenue study by Dr. Knudson. A large number of
10 variables affect any cost-of-service calculation. Mentioned
11 in the study are throughput, that is the amount of gas
12 that would be forthcoming per day; total capital cost,
13 I might add -- including overruns, if any; the rate of
14 return to equity required by the company; inflation which
15 could be generally categorized as the general decline in
16 the purchasing power of money and then real price increases
17 during construction; interest rates available. And I
18 might also add the duration of the project, which affects
19 the financing risk, and which I expect Dr. Tussing will
20 mention.

21 The Department of Revenue technical report mainly
22 shows that the cost of service considerations which they
23 mentioned are favorable to the Arctic Gas line are
24 extremely sensitive to changes in many of the variables
25 which determine it, particularly volume of throughput and

1 the capital cost. While Dr. Knudson does not treat the
2 three proposals symmetrically, he does show that with
3 Arctic Gas at eight-eighths of his proposed volume, that
4 is the total throughput of, I believe, it was 2.5 billion
5 cubic feet per day and with twenty percent cost overruns
6 he is able to move the cost of service from One Dollar
7 Eighty-One Cents per thousand cubic feet to around Two
8 Dollars per thousand, while at seven-eighths of the
9 volume or if the state gas were not available or if
10 the throughput from the pipeline was not as expected,
11 2.5 billion, that moves the cost of service from --
12 I'm sorry. With seven-eighths proposed volume and ten
13 percent cost overrun moves it to Two Dollars and Seven
14 Cents, seven cents more; seven-eighths volume and twenty
15 percent cost overrun yields Two Dollars and Seventeen
16 Cents per thousand cubic feet. So that with only
17 nominal cost overrun or changes in the volume of production
18 which are within the realm of possibility, you can move
19 cost of service all the way from One Dollar Eighty-One
20 Cents per thousand up to Two Dollars and Seventeen Cents
21 per thousand. That is holding everything else constant.

22 The Department of Revenue seems to imply by this --
23 from this to mean that Arctic is somehow less preferable;
24 I think a more correct conclusion is that the cost of
25 service is an extremely slippery entity. While the

1 calculations are worth doing as illustrations, we can't
2 know how the cost of service will be influenced by the
3 various parameters at this time, so I don't feel that
4 the argument that for any of the lines ought to heavily
5 lean on the cost of service. The relative costs of
6 service mentioned in the Task Force report may well
7 hold, that is that Arctic would have the least cost of
8 service, I believe it is El Paso next and Alcan the
9 highest. Whatever the relative costs are there are
10 large differences between the two studies they mentioned
11 in the Knudson report and the Pipeline Coordinator's
12 office.

13 The net national economic benefit, however, they
14 do not have depending on the cost of service. They have
15 it depending more -- they have it depending on the
16 amount that is paid for the gas which is Two Dollars and
17 Eighty Cents, less the cost of construction, allowances
18 for interest on funds committed during construction,
19 working capital, operations and maintenance expenses,
20 taxes paid to foreign governments. I presume only that
21 allocable to the American earnings on Arctic.

22 At any rate, the analysis, again, is sensitive
23 to the assumption used, particularly to the price of
24 gas and the timing and staging of the projects. It is
25 interesting to note that to get net national benefits

1 to come our superior for El Paso to the Arctic and Alcan
2 proposals they require the following three assumptions,
3 full production of gas, that is eight-eighths of the 2.5
4 billion cubic feet for the Trans-Alaska with 1983
5 production. Full production for Alcan, but later than
6 El Paso, a year later in fact and Arctic Gas assumed
7 to have a ten percent cost overrun and seven-eighths
8 production.

9 Therefore, I'm not sure that the game was played
10 exactly fairly with the proposals. However, I think
11 it might be fairer to use the real schedules, whatever
12 those happen to be at the moment, they seem to change
13 from time to time, and the same throughput and the same
14 cost overrun considerations.

15 In any case, I think that since Alaska could
16 influence the benefits by its actions vis-a-vis any of
17 the lines, and since the calculation is sensitive to
18 the assumptions, we ought to be extremely cautious how
19 it is used.

20 With respect to fiscal impacts, the results of
21 this section depend on an earlier study by the State
22 Department of Labor, Research and Analysis Section.
23 Labor shows that the level of employment rises sharply
24 in each case through about 1981, then levels off. This
25 is supposed to include direct employment on the project,

1 induced employment in the state economy brought about by
2 the increase in the direct workforce. I did not have
3 access to the report at the time I was preparing my
4 comments here, so I can't compare their model to ours,
5 the Man-in-the-Arctic Program, the econometric model.
6 Their usual procedure, however, has been to use the HRPI,
7 that is Human Resources Planning Institute labor market
8 model, which does not take into account the impact on
9 employment of state spending of additional revenues
10 received by the state as a result of the gas projects.

11 Our work in this area, which does take this
12 into account through the state government sector, shows
13 that employment impacts are somewhat larger for El Paso
14 than they show, I believe they show around nine thousand
15 and we show around twelve thousand in the year 1990, a
16 little more than for Arctic, and for what it's worth,
17 about the same as the Alcan project.

18 So we have minor differences about the construction
19 period, but in the main we agree about the ranking and
20 approximate relative impacts on employment and on
21 population, I might add.

22 I have no real arguments with what the Department
23 did with revenues and expenditures. I would note, how-
24 ever, three things. Spending on local services and
25 state services probably influences migration and population,

1 especially in the El Paso case, where you have much
2 larger expenditures possible. And in any case, El Paso
3 proposes to use local communities more heavily than the
4 other two lines so that you would probably have higher
5 spending on local services.

6 All three routes show substantial front-end
7 state deficits which will have to be financed by reduced
8 services, higher taxes on someone, or both.

9 All three routes show substantial construction
10 employment effects between probably 1978 and 1984. This
11 may coincide with the timing of other major oil and
12 gas developments, for example, the Gulf of Alaska off-
13 shore, and I can foresee that some of these routes may
14 well be competing for transportation links and dock
15 space, particularly in the Gulf of Alaska.

16 I think that we can safely agree that if the LNG
17 plant proves taxable by the state under its property
18 tax that the rankings that are shown in the report are, in
19 fact, correct.

20 With respect to impacts on the private economy,
21 we have no fundamental disagreements with this section.
22 The section is based on work done by ISER and by state
23 experts.

24 With respect to employment, there is an importance
25 of acknowledging there that the fact that the jobs are

1 available does not say "to whom". In order to really
2 tell what the likely impact will be on state resident
3 employment we would need to know the type of jobs
4 available, including the requisite skills, the number
5 and type of skills available in Alaska to fill those
6 jobs and the type and effectiveness of "Alaska Hire"
7 policies.

8 With respect to real income, no matter -- with
9 respect to our work in this area, which is mentioned
10 in the report, it seems like no matter what we do with
11 respect to the relative throughputs of the lines, if
12 the revenues of the state are spent in ways that induce
13 migration, we found that it is impossible over the long
14 run to increase the real per capita personal income of
15 "Alaskans" and I say Alaskans advisably because that would
16 include migrants as well as those people who are already
17 in the state. It may well be that you could have a
18 decline in real personal income even though everyone
19 were made better off, in the sense that people who
20 already live in the state could have increased incomes
21 from building the pipelines, and those people who
22 migrate to the state may enjoy increases in real income
23 in spite of the fact that the average dropped. But we
24 don't know what the answer is there yet. We should know
25 in a couple of years. We are doing some work in the

1 area right now about distribution of income and economic
2 modelling in Alaska.

3 Results from our community survey in Fairbanks
4 show that economic benefits, however, were much more
5 widely spread than anyone had expected prior to the
6 Alyeska pipeline being built. So that might be something
7 you want to take into consideration.

8 With respect to cost of living, the analysis in
9 the report seems reasonable and straightforward and I
10 don't think we have any quarrels with that.

11 I would be happy to entertain any questions at
12 this time.

13 SENATOR RADER: Let me advise the committee that Commissioner
14 Martin, as you recall when he terminated his testimony
15 Monday, asked for permission to come back after the
16 conclusion of all the testimony and to supply us with
17 any information that he felt was pertinent and I under-
18 stand that he has an observer here. So I assume that
19 those parts of your report, Doctor, which take issue
20 with the Task Force and the other information will be
21 presented somewhat to the committee at least for some
22 rebuttal and I wanted to advise the committee members of
23 that prior to their going on with Dr. Scott's questioning.
24 But this would be an appropriate time I take it, Dr.
25 Tussing and Dr. Scott for questioning on Dr. Scott's
presentation?

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AGO 546281

VII

Admin.

AGO 546282

JOINT PUBLIC HEARINGS
of the
ALASKA STATE LEGISLATURE
on

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

"THE PROPOSED SALE OF ROYALTY GAS"

January 31, 1977 - February 7, 1977

Juneau, Alaska

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Alaska State Legislature

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907 465-3800

SENATE SPECIAL COMMITTEE TO CONSIDER THE SALE OF ROYALTY GAS

John Rader, Chairman
Mike Colletta
Chancy Croft
John Huber
Clem Tillion

HOUSE SPECIAL COMMITTEE ON THE SALE OF ROYALTY GAS

Clark Gruening, Chairman
Chat Chatterton
Joe Hayes
Joe McKinnon
Charlie Parr

SCR 3, 4, 5 Second Referral - Senate Resources
Third Referral - Senate Finance

HCR 11,12,13 Second Referral - House Finance

JANUARY 31, 1977

SENATOR RADER: This is the time set for the joint hearings held by the Senate and the House relative to the Governor's proposals to the sale of royalty gas and the resolutions that have been introduced in both the House and Senate concerning those matters.

First of all, I want to introduce myself. I am Senator John Rader and to my left is Representative Clark Gruening. We are each chairmen of independent committees. This is not a joint committee, it is a joint hearing of two committees.

I'm going to introduce the Senators on this side and Representative Gruening will introduce his House members. I'll start with Senator Meland of Sitka, Senator Orsini of Anchorage, Senator Hohman of Bethel, Senator Butrovich of Fairbanks, Senator Poland of Kodiak, Senator Huber of Fairbanks, Senator Croft of Anchorage, Senator Tillion of Halibut Cove, and Senator Colletta of Anchorage. Mr. Gruening.

REP. GRUENING: Thank you. I'd like to represent -- introduce Leo Rhode from Homer at the end of the table, Merle Snider from Kodiak, Red Swanson from Nenana, Larry Carpenter from Fairbanks, and Bob Bradley from Anchorage, Russ Meekins from Anchorage, Chat Chatterton from Anchorage, and Joe Hayes from Anchorage, and Joe McKinnon

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1 from Anchorage, and Charlie Parr from Fairbanks, and I'm
2 Clark Gruening, the chairman of the House Special Com-
3 mittee to consider this gas sale.

4 SENATOR RADER: We had hoped that we would have a place at
5 the table for every legislator who was interested and I --
6 in the Senate I asked for persons to let me know and only
7 Senator Kerttula let me know. I do see some legislators
8 in the audience that I would like to recognize. I see
9 Representative Haugen, I see Senator Sumner, Representative
10 Haugen stand up perhaps, Sumner, Representative Bill
11 Miles, Senator Willis, Senator Bradley, and if there is
12 anyone else here, and Representative Miller, Senator
13 Hackney.

14 We will not take questions from the floor except
15 for legislators. Any legislator who has a question though,
16 whether he is seated at the table or not, will be permitted
17 to ask questions of the witness if he desires. But,
18 because we do want a full transcript of this, I'd ask the
19 legislator to perhaps come forward and if there is an
20 empty seat here, take it for such period of time as he
21 is asking questions. I do want to extend that privilege
22 to all of you who are here if you have any questions. We
23 will not permit questions though from non-legislators.
24 If you have a question, you are going to have to get some
25 legislator to ask it for you or else it probably won't be

1 asked.

2 The -- we would like to have everyone sign in
3 that is here. We want to keep a record of attendance,
4 if we can, and who you represent. If you wish to testify,
5 please leave your name with the person at the desk or
6 with any of our staff members here. Elke Kallab, Elke
7 would you stand up. Elke -- if you do wish to testify
8 and are not the list, leave your name with Elke or search
9 her out. If you give it to me, it may get lost. If you
10 give it to Elke, why I'm sure it won't be.

11 We found out -- our original schedule was for two
12 days here and one day at the Baranof. We have found out
13 that this is available for three days so all of our meetings
14 here are scheduled for today, tomorrow and Wednesday. I'm
15 hopeful that both the House and the Senate will conclude
16 their sessions so that we will be able to have an eleven
17 o'clock session here starting tomorrow, going to twelve
18 with an hour for lunch, coming back at one and going until
19 four thirty or five or exhaustion wipes us out, whichever
20 first occurs. But, of course, our meetings in the mornings
21 and during the days will be subject to the House and
22 Senate meetings on the hill and these committee meetings
23 will of course be subject -- it has a lower priority than
24 do those meetings. I expect, however, that we will be
25 able to convene though tomorrow at eleven o'clock. Those

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1 of you who are wishing -- yes. Those of you who want
2 transcripts, would you leave your name with the court
3 reporter. Prior to building you a transcript, we'll
4 try to give you a price on it so you'll have a chance
5 to back out. If you'll leave your name with her and
6 an address, we will try to work out some sort of a
7 situation here so that we can give you an estimate of
8 the price on the transcript and then she'll contact you
9 at the address you indicate and if you want to buy one,
10 you can. I don't think we are going to be able to
11 print up enough to handle everything at public expense,
12 we'll have to look into that. But, if you want a
13 transcript leave your name with the court reporter.

14 This room is over capacity, I'm sure. I'm going
15 to ask that you refrain from smoking. We'll try to take
16 a break at least every hour. I don't like to interrupt
17 the witness in the middle of his testimony or a question --
18 a line of questioning that is being pursued, but subject
19 generally to the convenience of the proceedings at the
20 time, we'll try to take a break every hour to give you
21 a chance to take a smoke and stretch your legs.

22 We have a tentative agenda that we have developed.
23 It is only tentative. We'll take any witness out of
24 order. We're here to accommodate you for your travel
25 plans and your other commitments. We know that a lot of

1 you have things to do other than to be here. If you
2 wish to be taken out of order, let me know and I'll try
3 to accommodate you as soon as I understand what your
4 problem is.

5 It's a public meeting, of course, and everyone
6 is welcome to attend and everyone will be welcome to
7 testify. I suppose that if it went on for three weeks
8 there probably wouldn't be very many people here to listen
9 to you, but there will be someone here to listen.

10 I can't think of -- Representative Gruening, can
11 you think of any other remarks or ground rules we need
12 to establish?

13 REP. GRUENING: I'd like to introduce Representative Al
14 Osterback who is sitting on the Senate side but is
15 representing us in the House.

16 SENATOR RADER: Incidentally, from the Senate's point of
17 the side, we have both the Resources and Finance people
18 on our side. They have referrals of the resolutions
19 after the select committees and there may be some public
20 testimony taken by those committees at a later date.
21 That will be up to the chairmen of those committees to
22 determine whether or not they need it.

23 I have been contacted by a congressional delegation
24 and told them that I would read their testimony verbally
25 into the record and therefore I am going to do that,

1 although I think that in some instances we will receive
2 written testimony which will not be read unless it is
3 absolutely -- unless someone insists on it, some committee
4 member.

5 But, we have a wire from United States Senator
6 Mike Gravel.

7 (Whereupon Exhibit 1 was duly read into
8 the record.)

9 That exhibit will be exhibit number one. The
10 reporter will not retype exhibits which are read into
11 the minutes. We will make them exhibits and they will
12 be xeroxed when we make our copies to try to save on the
13 expense.

14 Exhibit number two, which the reporter need not
15 copy but which will be appended to the transcript is a
16 wire from United States Senator Ted Stevens.

17 (Whereupon Exhibit 2 was duly read into
18 the record.)

19 And that will be exhibit two. Representative Don
20 Young called me less than twenty minutes ago from
21 Washington, informed me that he had directed that his
22 testimony be hand carried from Washington and that it left
23 Washington Friday evening. I have been informed since
24 then that it was sent to Washington because of a telecopying
25 process -- sent to Anchorage and that the airplane cannot

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1 leave Anchorage and that the reason that that testimony
2 is here is because of the Anchorage airport and not the
3 Juneau airport. I'm sure we will receive that testimony
4 in the course of the hearings and when we do, it will
5 likewise be read into the record.

6 REP. GRUENING: Senator?

7 SENATOR RADER: Representative Gruening.

8 REP. GRUENING: If I might be permitted a brief remark, it
9 seems to me that this -- these three contracts that are
10 before us now represent the single largest sale of our
11 natural resources since the Prudhoe Bay lease sale and I
12 hope -- I urge the legislators to hold sacred no sacred
13 cows in approaching the assumptions upon which this --
14 these three contracts are based. And, as the Senators
15 have pointed out, the principal reason that we are
16 considering these contracts today is to effect a political
17 decision in Washington, not to raise revenue for the State.
18 So, I would urge everyone to focus on at least what I
19 believe to be the principal question, what are we giving
20 up by entering this contract, if anything, and what are
21 we getting in return for the State -- for the people of
22 this state.

23 SENATOR RADER: Unless there are any further remarks, we'll
24 go back to our schedule here. I'll ask Commissioner Martin
25 if he would present his testimony and those of his

1 associates in whatever order he approves. Commissioner,
2 how would you like to handle questioning?

3 COMMISSIONER MARTIN: I'd like to ask Attorney General Gross
4 and Commissioner Gallagher to join me here and I'll
5 introduce the other individuals, Mr. Chairman.

6 SENATOR RADER: Would you want us to defer until the end
7 of your presentation for questions or ask questions as
8 we go along?

9 COMMISSIONER MARTIN: I think it would be most useful because,
10 as I'll explain, we have a fairly brief presentation, to
11 defer questions until the end, and then just have a
12 continuous question period after that.

13 SENATOR RADER: Does anyone on the committee object to that
14 procedure, any legislators object? That will be the way
15 we'll proceed then.

16 COMMISSIONER MARTIN: Is Mr. Gallagher here? I thought I saw
17 him earlier. Do you want to come up, Sterling?

18 Mr. Chairman, I have spoken, as you know, pre-
19 viously to a joint meeting of the two special committees
20 at least, and to both of the Chairmen of the two special
21 committees and, as I understand it, we have some options
22 for procedure, and I want to explain that before I begin.
23 We discussed either having a prolonged briefing by the
24 Administration in which as many as eight or ten individuals
25 could participate and give really very detailed information

1 with regard to every phase of this as opposed to a more
2 summarized presentation followed by questions. And my
3 understanding of the consensus of those -- the choice
4 between those two and which I checked with you earlier
5 this morning, was that a more summarized statement of
6 the administration's position in view of the fact that
7 we have already submitted a tremendous amount of written
8 material to the committees, would be preferred. So, if
9 that's all right, I'll proceed in that vein.

10 Now, my attention today is to first read a state-
11 ment sent down by Governor Hammond, followed by a statement
12 by Attorney General Gross, who is a chairman of the
13 State's Gas Line Task Force, and then to -- then allow
14 the committee to simply ask questions of all the individ-
15 uals that are here. And, let me very quickly indicate
16 who is here and how I think we can be of assistance to
17 the committee's informational needs today. Governor
18 Hammond has asked me to be a principal spokesman on this
19 issue and to attempt to see that you get the answers that
20 you need, both here and otherwise, and I'll be pleased
21 to serve in that capacity. With me here today, in
22 addition to Attorney General Gross, who is the chairman
23 of the Task Force and who was also responsible for putting
24 together our FPC case, is Commissioner Gallagher, who
25 done a -- Commissioner of Revenue, who has done a great

1 deal of work on the economics associated with the various
2 line proposals and with the royalty gas contracts. Also
3 here, and I'll just ask these individuals to raise their
4 hands so you can identify them, is Mr. Bob LeResche, -- Dr.
5 Bob LeResche, who is the coordinator -- the Director of
6 Division of Policy & Planning in the Governor's office
7 and was basically the substantive coordinator of the
8 comparative route study done on the gas line issue. Also
9 here is E.Z. Gilbreth, who is the Director of the Division
10 of Mineral & Energy Management, the Department of Natural
11 Resources, who is responsible at least for representing
12 here today, the work that the State has done on royalty
13 gas demand and is also in charge of our effort on the
14 unitization of the Prudhoe Bay field. In summary, he is
15 in charge of our management function with regard to the
16 Prudhoe Bay field.

17 Also here is Mr. Hoyle Hamilton, who is Director
18 of the Division of Oil and Gas Conservation. Mr. Hamilton
19 is in charge of the field operation for the State,
20 pursuant to the State's conservation statute, and is the
21 individual who is coordinating our work on the reservoir
22 simulation study and other aspects of the performance
23 of the reservoir.

24 Also here is Assistant Attorney General Fred
25 Boness, who is the individual at the Department of Law

1 who coordinates legal oil and gas work, assisted me
2 staunchly throughout the negotiation of this contract
3 and is also the coordinator from Juneau of the State's
4 work in the FPC case. He's really our man on this issue.

5 And finally, Jack Byrd, who is sitting on the
6 end there. Jack is a -- I think safe to say a nationally
7 known consultant. He is an attorney, a nationally known
8 legal consultant in the area of natural gas. He is an
9 FPB attorney and has served as our gas contracting
10 consultant, particularly on matters of price and FPC
11 regulations throughout the negotiations.

12 There are other individuals involved who -- to
13 a lesser extent who can also be here to assist from time
14 to time but this is basically the team. I might say,
15 Mr. Chairman, that we really want to thank the committee
16 for making an effort to consolidate its hearings. We
17 have a number of individuals here who are going to be
18 difficult to get in one room on very many occasions and
19 we appreciate the fact that you allowed us the privilege
20 of making at least our factual presentation on this in
21 one -- in one instance. Mr. Byrd and Mr. Boness, par-
22 ticularly, will have demands on their time in the next
23 couple weeks will make it very difficult to get our
24 entire group together very often, but we'll try to
25 cooperate with the committee as far as we can to see

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1 that we can get the people you need to be available.
2 With that, I would like to read a statement that was
3 sent down by Governor Hammond to the committee and then
4 ask Av Gross to give a statement of his own.

5 "Members of the Committee, members of my Adminis-
6 tration are here today to discuss a proposal of great
7 importance to the future of the State. Because your
8 review of this proposal should be as thorough as possible,
9 I would like to preface the more detailed comments of
10 others with my own statement. My objective is to lend
11 perspective regarding the issues involved, and to define
12 elements important to your ultimate decision.

13 Like the Native Claims Settlement Act, the Trans-
14 Alaska Oil Pipeline and 17 D(2) Lands, the issue of North
15 Slope natural gas transportation and use is a critical
16 decision for Alaska. Present national energy emergencies
17 and last year's passage of the Natural Gas Transportation
18 Act of 1976 leave little room to doubt that a national
19 decision on the gas transportation system is imminent.
20 The question is: what, if any, will, can and should --
21 what role, if any, will, can and should we play in that
22 decision to best protect our own interests within the
23 constraints imposed by overriding national interests?

24 After first analyzing various alternatives, my
25 Administration concluded that the best, most expeditious

1 transportation system from both the state and national
2 viewpoint was that which would take gas from Prudhoe
3 Bay to tidewater in Prince William Sound. This
4 legislature reflected a similar conclusion in a resolution
5 adopted two years ago. Polls indicate that almost --
6 indicated that almost eighty-five percent of the people
7 of Alaska stood solidly behind that choice. The
8 congressional delegation concurred. Such support was not
9 given lightly. Unlike the oil pipeline, the gas pipeline
10 route had been widely discussed through the state, both
11 in the media and through public meetings, before a decision
12 was made. That decision is one which can be supported on
13 principle as well as politics.

14 Having made the decision on which route to support,
15 we actively participated in Federal Power Commission
16 hearings; successfully advanced the unprecedented amendment
17 to protect later state uses of royalty gas, and took our
18 case to the people in the Lower 48 in an effort to offset
19 the considerable opposition. After all, nearly all major
20 distribution companies favored the Arctic Gas consortium.
21 Mid-western states, which had sought a Trans-Canada oil
22 pipeline, argued that the gas pipeline should go directly
23 to them. After participating in this process for some
24 time, and in light of legislative expression and congressional
25 consultation, I felt it necessary to do more to gain support

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1 for our position from outside the state. That conclusion
2 led to the royalty gas contract you see before you now.

3 The major purpose of these contracts is to build
4 a national constituency in support of the Trans-Alaska
5 line while protecting and enhancing the in-state uti--
6 lization of Alaskan royalty gas wherever possible so long
7 as consistent with national needs. We believe the
8 proposed contracts protect the state's interests as fully
9 as possible under the circumstances. We are not, as
10 some suggest, simply trying to buy lobbyists in Washington.
11 That could have been done simply through hiring qualified
12 personnel. The royalty contract does far more. It gives
13 people throughout most other states an interest in seeing
14 that the Trans-Alaska route is approved. A decision on
15 this matter will ultimately be made by the President
16 and the Congress. Their overriding concern will be in
17 the national interest. Overriding national interest can
18 be demonstrated best if the largest number of people
19 possible directly benefit from approval of the Trans-
20 Alaska line.

21 Our actions in bringing forth these contracts
22 are what I believe the people of Alaska, the legislature
23 and the congressional delegation believed we should do.
24 I suspect that if my administration had not negotiated the
25 best contracts possible and advanced them under these

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1 circumstances and then given them to you, we would surely
2 be asked by many of you where the royalty gas sale
3 proposals were rather than being questioned about
4 proceeding. As your legislative resolution indicated
5 to use "all resources at my command" to further a Trans-
6 Alaska gas pipeline route. Certainly, there are politics
7 involved in any such contractual agreements. However,
8 there is nothing at all wrong with political forces being
9 countered by political forces when the politics one uses
10 coincide with principle. So long as we believe the Trans-
11 Alaska route truly is in the state's and the nation's
12 best interests, we would be remiss should we not garner
13 what support we can so long as we do not do violence to
14 propriety or principle in the process.

15 My instructions for our negotiators were to seek
16 the best contract possible for the state to carry out the
17 policies articulated and to do so on a time schedule
18 which would allow the legislature the earliest possible
19 opportunity to review this alternative. After reviewing
20 the results of the negotiations, I concluded it to be in
21 the best interests of the state that this alternative be
22 advanced. That decision won the endoresement of a broad
23 spectrum of the Alaska public and the congressional
24 delegation and was, as well, accorded approval of the
25 Royalty Board as mandated by statute.

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1 In negotiating the contracts, the State recovered
2 a good price; it protected the future in-state use of
3 gas; it gave the State the best opportunity to utilize
4 and protect its royalty gas pursuant to the amendment
5 we drafted and proposed to Congress for protection of our
6 royalty gas; and at the same time we've gained support
7 for the state's position on the gas pipeline debates.
8 Moreover, the contracts are consistent with the direction
9 the legislature gave to the administration when it not
10 only indicated its support for the Trans-Alaska route but
11 later appropriated money to aid in the negotiation of
12 contracts.

13 Some concerns have been raised concerning the
14 so-called "flexibility provision" in the contract. That
15 clause would permit the state through the governor to
16 change its position on the route issue at some subsequent
17 time. Some assert that no flexibility at all should be
18 possible and that the state should lock itself into an
19 all or none position in support of the Trans-Alaska route.
20 I think this is self-destructive, for I am sure that
21 nearly every person in the state would agree that if we
22 cannot have the El Paso route, the Alcan route is far more
23 desirable than the Arctic Gas route. And they would want
24 the State to be able to do what it can to gain the next
25 best choice should our first choice be impossible or unwise.

1 Other persons suggest that while flexibility is desirable,
2 any change of position should only be made with the
3 concurrence of the legislature. Normally I have great
4 sympathy with legislative participation in policy decisions
5 of the nature -- of this nature and my record bears it
6 out, but in this case you must recognize the realities of
7 the situation. Our support for the Trans-Alaska route
8 is strong and will not waiver unless and until it becomes
9 clear that that route cannot succeed. That point, if it
10 comes at all, will probably come at some time later in
11 the pipeline decision--perhaps in the closing debate in
12 Congress. Decisions will have to be made quickly if they
13 are to have any impact at all. I can assure you that if
14 I have to make a decision to shift our support from the
15 El Paso route to the Alcan route it will be only after a
16 clear consensus has emerged from our Congressional Delegation
17 that such a shift was necessary and after a similar
18 consensus had emerged through consultation with the State
19 legislative leadership. We would all recognize it to be
20 in the best interest, I think, if that -- in our best in-
21 terest, I think, if that moment arose. But, reconvening
22 the legislature and seeking a new full-scale debate on
23 the question would simply be unrealistic considering that
24 we might be dealing with decisions which would have to be
25 made in literally hours or days. If there were time, I

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1 would honor a request by the legislative leadership to
2 call a special session, but I cannot support a requirement
3 for a mandatory session under any circumstances, for it
4 would tie our hands unnecessarily and perhaps jeopardize
5 the best interests of the state. I hope you will consider
6 these contracts very carefully. I have tried to have
7 them available for you at the onset of the session so that
8 you might move quickly on them, but I do not want in any
9 way to pressure you into a decision before you are
10 satisfied that the contracts are in the state's best
11 interests. At the same time, you know and I know the
12 timetable of the federal decision, and waiting an un-
13 reasonable period of time before giving your endorsement
14 to what we have done may indicate on a national level that
15 our support is vacillating or, for that matter, that our
16 support will not be translated into meaningful action in
17 enough time to have an impact. I am sure you are aware
18 of these factors just as I am, and thus will deal with the
19 contracts reasonably and expeditiously.

20 I hope this brief review clears the air on certain
21 aspects of the decision before you. Members of my
22 administration will be available to you today and later
23 to answer questions which led up to the contracts. I
24 have instructed them to stay here as long as they are
25 needed by the committee and to answer the questions you

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1 have. Some of them will have additional statements to
2 make concerning the contracts. And, the Governor expresses
3 his thanks, Senator Rader.

4 At this time I would like to ask Attorney General
5 Gross to make a statement, the only other prepared
6 statement we'll be making today, which indicates the
7 work that was done by the Gas Line Task Force.

8 ATTORNEY GENERAL GROSS: Thank you, Commissioner Martin.

9 As the Governor has just indicated in his statement, one
10 of the major purposes for the contracts before you is
11 to build national support in favor of the Trans-Alaska
12 pipeline route. I think it is fair to say that approval
13 or disapproval of this contract by the legislature will
14 be interpreted in large part as approval or disapproval
15 of the Governor's decision to support the Trans-Alaska
16 line. Since that is the case, it seems to me incumbent
17 upon the administration to outline for you why we have
18 come to the conclusion that support for the all-Alaska
19 line is in the state's best interest. You have an enormous
20 amount of material before you that has already been
21 furnished by the administration to justify its decision,
22 but it is perhaps fitting as we begin these hearings
23 that I briefly outline how we have reached this point in
24 the decision-making process.

25 As one of the first acts of his administration,

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1 Governor Hammond appointed me as chairman of the Gas
2 Pipeline Task Force. The purpose of that group was to
3 gather and analyze the available data on alternative
4 pipeline routes and then to recommend to the Governor
5 which route was in the state's best interest. The Task
6 Force was composed of commissioners from the departments
7 which would have involvement in the construction of a
8 gas pipeline, such as Community and Regional Affairs,
9 Revenue, Natural Resources, Highways and Commerce. Mr.
10 Champion, the Pipeline Coordinator, served on the
11 committee, as did Lowell Thomas, the Lieutenant Governor.

12 In candor, there were enormous pressures on the
13 task force. A review of the files indicated that little,
14 if any, prior substantive analysis had been done of the
15 alternate route proposals. Accordingly, we had to develop
16 the information on which our decisions were based from
17 scratch. The members of the task force had little prior
18 expertise in gas pipeline regulation matters or the kinds
19 of decisions which were relevant to choosing a particular
20 route. We had to gain that knowledge before we could
21 make any kind of an intelligent decision. Finally, we
22 were put under a lot of pressure by the schedule of
23 events having to do with the pipeline route decision.
24 The FPC hearings were about to begin and if the state was
25 to take any meaningful position, it was necessary that we

1 make a prompt decision on what position we would take in
2 those hearings.

3 We tried to arrive at a position fairly and
4 honestly. By that I mean we tried to evaluate the data
5 made available to us in an unbiased fashion. We did not
6 try to reach a politically popular result just for the
7 sake of that popularity. The Governor instructed us to
8 reach a position that we could rationally support, and
9 we knew we had to do that since if we were to promote
10 our case before the FPC and in the national forum, a
11 decision based purely on political considerations would
12 be quickly and obviously exposed for exactly what it
13 was. We may have made mistakes, Mr. Chairman, in our
14 deliberations, but I can assure you that they have not
15 been through lack of commitment or effort to do what
16 was best for the state.

17 Initially we had but two alternative route
18 proposals--the Arctic Gas route and the El Paso route.
19 In analyzing those choices, we used information provided
20 by the companies both to us and in their filings before
21 the Federal Power Commission. That information was
22 subjected to the scrutiny of various departments which
23 evaluated the information with a view toward testing its
24 authenticity. We commissioned an economic study on the
25 alternative routes. Evaluating all the evidence, the

1 task force concluded unanimously that from both economic
2 and environmental viewpoints, the El Paso route was
3 clearly the best for the state. We recommended it to
4 the Governor and he accepted our recommendation, committing
5 the state to supporting that choice.

6 The reasons for the choice are, I think, now
7 obvious, at least in retrospect. From an economic stand-
8 point, the El Paso route generated a great deal of in-
9 state employment during construction and created a number
10 of long-term job opportunities within the state. The
11 El Paso project meant a greater amount of capital in-
12 vestment in the state. It also provided opportunity for
13 in-state use of gas, a matter of critical importance.
14 The Arctic Gas route provided little lasting economic
15 base for the state. Environmentally the Arctic Gas route
16 intruded on the Arctic Wildlife Range, one of the last
17 undisturbed wilderness areas in Alaska, while the El Paso
18 route for the most part utilized an existing pipeline
19 corridor developed for the Alyeska route. Every single
20 major environmental group involved in this matter joined
21 us in our support of the El Paso route as opposed to
22 the Arctic Gas route. It was one of the few issues on
23 which those who promote rapid development in our state
24 and those who are strict conservationists agreed.

25 Finally, very real questions have been raised as

1 to whether the Arctic Gas route can even be built, at
2 least in the foreseeable future. Native land claims
3 problems in Canada are very real right now. And, as we
4 all know, from our personal experience, those claims can
5 have very real impact.

6 Now, approximately a year after our initial
7 decision and a good part of the way through the presen-
8 tation of the case before the Federal Power Commission,
9 a new route alternative developed. That was the route from
10 Prudhoe Bay to Fairbanks, and then down the Alcan Highway.
11 That is the route that is now known as the Alcan proposal,
12 and it has some real benefits for Alaska. For instance,
13 it permits in-state use of royalty gas (though it does not
14 bring the gas to tidewater), and it provides a greater
15 long-term economic base in the state than is provided by
16 the Arctic Gas route. Environmentally the Alcan route
17 uses existing pipeline corridors to Fairbanks and then
18 follows the highway to the Canadian border, with minimal
19 environmental impact. Environmental groups started to
20 split with the surfacing of this proposal. Some of them
21 now advocate the Alcan route.

22 The Governor asked at that time that the task
23 force re-evaluate our position in light of the Alcan
24 proposal, and we did so, using basically the same process
25 as we used to reach our original decision. The task

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1 force concluded after substantial study, including two
2 additional comprehensive economic analyses, that while
3 the Alcan route was far better than the Arctic Gas route,
4 it still was not as beneficial to the state as the El
5 Paso route. In long-term employment, for instance, the
6 El Paso proposal will create nearly one thousand more
7 jobs in the state than the Alcan proposal. On a net
8 basis, the El Paso route will produce approximately Five
9 Hundred and Twenty-five Million Dollars in income for the
10 state treasury during the effective life of the line, as
11 opposed to approximately Three Hundred and Fifty-seven
12 Million Dollars for the Alcan route. Only the El Paso
13 route will take gas to tidewater where prospective use of
14 our royalty gas will probably be greatest. Moreover,
15 from a national viewpoint, our analyses indicate that the
16 El Paso route can give as much as One Billion Dollars
17 more net benefit to the nation, primarily through the
18 fact that more of the project is built with American
19 labor and materials, and is subject to only United States
20 taxation.

21 Environmentally the case between Alcan and El Paso
22 is very close. The task force favored El Paso since it
23 used existing corridor technology. Now, that is important,
24 since it means that we can use the wealth of material
25 that we have developed on rivers, tundra, and wildlife

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1 as the Trans-Alaska pipeline was built. Moreover, we
2 would, in effect, channelize our pipeline development in
3 the state. But there are real benefits to Alcan as well.
4 It is a purely subjective judgment and I would not
5 seriously quarrel with any of you who felt that Alcan was
6 the better environmental choice, but, in my view, it is
7 not so much better as to countervail the substantial
8 economic benefits which flow to the state if the Trans-
9 Alaska pipeline route is selected.

10 As chairman of the task force, it was my basic
11 function to coordinate the efforts of the various depart-
12 ments involved. I do not pretend to be an expert on the
13 various studies which have been done, technical aspects
14 of construction or difficult questions involving environ-
15 mental matters. We have here today, however, people who
16 can answer those questions, and Commissioner Martin and
17 I can direct your questions to the people who can best
18 respond to them. We are available to help you in any way
19 we can in explaining what we have done and why. I think
20 we have made the right decision and I hope we can convince
21 you that we have made the right decision. Thank you.

22 COMMISSIONER MARTIN: Mr. Chairman, I'm -- having said a
23 great deal on these contracts in prepared statements and
24 the other night before Senator Gruening's committee, I'm
25 not going to make a prepared statement in addition to

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