

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

543 SCOMM16: JOINT SPEC. COMM. ROYALTY OIL & GAS 1977-78

might be reviewed for applicability under current costs.

- b. It is doubtful that the State would contract with ANG at a fixed price for 15 years. Contract terms should provide for price equal to highest price paid in area for gas of similar quality to assure that State is not receiving less than they would otherwise receive. Present royalty value on North Cook Inlet gas field is highest value received for gas by State.
2. ANG would use North Cook Inlet gas throughout system. Since present Nikiski contract was for total volume of ¹⁰ bcf over ten year period ending May 1, 1977, it is apparent that new amount desired (75 bcf) is basically an addition to reserves and not for North Kenai Road customers. Bernice Lake paid \$.657 mmbtu in 1972 (1974 Alaska Power Survey p. 52) almost 4 times the fuel cost of Beluga power generation. Chugach Electric Association owns both facilities and has been operating Bernice Lake at capacity until the Knik Arm submarine cable between Beluga and Anchorage is repaired. Probably Bernice Lake station will be reduced to standby or peak load power source. Since

Bernice Lake uses 90% of the Nikiski gas contract this will greatly reduce the depletion of that gas supply.

ANG summary does not list price paid for Nikiski contract gas. If price is similar to that of Anchorage contract gas, Bernice Lake indicated cost of 65.7¢ per MM8TU allows a healthy margin for ANG for the short distance involved. ✓

3. ANG purchase of North Cook Inlet royalty will benefit ANG customers to the extent that it will increase remaining reserves committed to ANG. The price will be higher than present price paid to Union Marathon for Anchorage contract gas and will raise the price to the consumer by that increment. * The benefit to Chugach Electric CEA customers seems doubtful since CEA Beluga contract is at a 16¢ MMBTU rate which is 1/4 of the rate charged by ANG at Bernice Lake. 64p

* Unless, of course, you roll in prices as was already suggested by APC in their letter/memo of August 20, 1975

ANG asserts that the North Cook Inlet royalty gas at present royalty price would be a lower cost than the other alternatives explored by ANG, the alternative prices are not available for comparison.

III. Proposed Price, Escalation, Total Volume, Annual Volume, Contract Term, Deliverability and Transportation.

a. Price and Escalations

"ANG proposes to pay to the State the same price which the State would have otherwise received from Phillips export of the North Cook Inlet royalty gas to Japan for the duration of that export and thereafter not less than"

Price paid to State should not be less than

- (1) price which the State would have otherwise received from Phillip's export of the North Cook Inlet royalty gas to Japan including any future escalations in price received by Phillips.
- (2) the highest price paid in the area by any buyer to any seller of gas of similar quality.

b. Total Volume, Annual Volume, Contract Term, Deliverability

ANG does not require specific deliverability. Proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year or "if and as deliverable".

Contract term, total volume and annual volume depend on Phillips production from the North Cook Inlet gas field and the State should not specify amounts. Term should not be open end however. Phillips contract with Tokyo Gas & Tokyo Electric expires 6-1-84 unless extended. Contract term for State should not exceed terms of Phillips' contract, also should include proviso to protect State if Phillips production is terminated for any reason. *Consider a 10 yr term for 50 bcf?*

c. Transportation

ANG proposes that transportation of royalty gas from platform to LNG plant site be done by Phillips for the present charge of 5.45¢ per MCF. ANG expects to contribute its proportionate share of additional transportation cost or compression cost with option of contributing capital or higher transport charge.

Phillips has raised the issue of APUC classifying gas pipeline as a utility if it transports gas for a third party for resale. Phillips indicated they would not transport gas if this situation arose.

It seems doubtful that the State could transfer the present transport situation with Phillips to another party without Phillips consent. The State lease provides that when the Lessor elects to take its royalty in-kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon). Further, the transport charge itself may be open to negotiation between Phillips and ANG.

In the event that the State does contract with ANG for the purchase of its royalty gas, the point of taking and transportation charges could become key issues. The possibility of selling the State's royalty gas to ANG with the result of higher transport charges reducing the net value to the State should be avoided.

ANCHORAGE NATURAL GAS

Anchorage Natural Gas has an immediate problem coupled with a potential long range problem.

- A. The immediate problem is Anchorage Natural Gas's ten billion cubic feet per year Nikiski contract gas will be used up within a few months and they have not been able to find another source for this eight million cubic feet per day demand. (Bernice Power Plant services the liquid natural gas and ammonia plants plus other areas; they are the major user.)
- * They have tried to contract for 75 billion cubic feet (15 million cubic feet per day) over 15 years with no luck.
- B. The long range problem is the need to have more committed gas reserves for future consumer needs and to avoid financial problems that will result from a shortage of gas.

Solutions

SHORT RANGE PROBLEM (Need gas now)

* Obtain State's royalty gas from the north Cook Inlet gas field. Twelve and one half percent of the average yearly production from this field would be about 5.5 billion cubic feet per year or approximately 75 billion cubic feet over 15 years. This would give Anchorage Natural Gas up to 15 million cubic feet per day, enough to satisfy the eight million cubic feet per day for Kenai and a surplus for building up reserves.*

LONG RANGE PROBLEM (Need more gas reserves for future)

1. Obtain more reserves by exploration. They have undertaken this, but so far have a dry hole at \$ 500,000 cost. *their share.*
2. Obtain reserves by using royalty gas and extending the reserves in their existing contracts. They are proposing this. *Present proposal will only add 1 yr at best - no solution to long range. ANG will have to make new contract for large amount similar to*

*The north Cook Inlet field is the only source they can tap since their contract for the Kenai field (with Union-Marathon) stipulates if royalty gas is used it will reduce the existing 550 billion cubic feet contract. *present contract and price will certainly be higher.*

PROS AND CONS OF THE
ANCHORAGE NATURAL GAS PROPOSAL

Pro

1. If Anchorage Natural Gas does not acquire gas for its Nikiski contract loss, Bernice Power Plant will probably switch ^{fuel} to oil with higher costs to consumers and added environmental problems with oil burning. *doubtful - can use only light distillate*
Royalty gas to Anchorage Natural Gas would help hold costs down and ease potential environmental problems.*
2. Royalty gas will help Anchorage Natural Gas's long range gas reserves. They will only need eight million cubic feet per day for the Kenai problem and can apply the other seven million to strengthen the overall reserve problem. *Over 15 yrs might add 1 yrs supply.*

3. After a precedent is set, additional royalty gas may become available to strengthen the long term reserve picture for Anchorage Natural Gas. *Only if deliverable from other than Kenai gas field*
4. Committing royalty gas at reasonable prices will help keep our consumers from paying future high energy costs resulting from outside shortages.

5. This decision should encourage additional exploration for Gas reserves in the Cook Inlet.

Con

No
Industry doesn't care
Phillips objects
The petroleum industry does not like it. It ^{will} ~~may~~ create an economic hardship upon Phillips Petroleum Company by taking some of their feedstocks

to the Kenai Liquid Natural Gas Plant. It will also set a precedent.

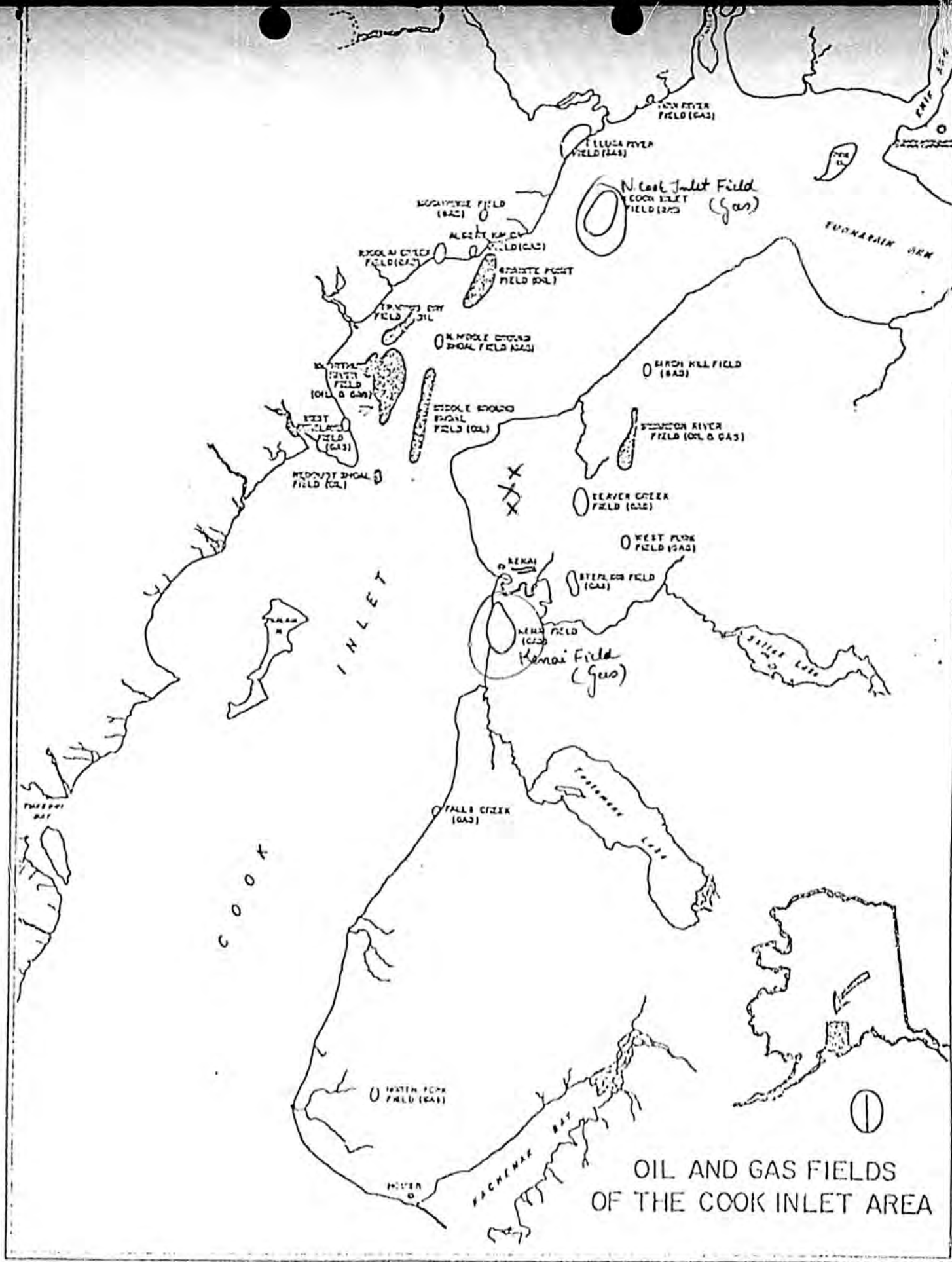
Phillips will have to increase production by amount of royalty will shorten life of field by that amount - might need additional well
The oil industry will not be able to assume that it has 100% of gas reserves to cost for long term projects.

*If Anchorage Natural Gas faces a long term gas shortage problem, they may have to cut off the military--switching them to oil? *1990!*

SUMMARY

Operational problems of Anchorage Natural Gas are going to directly affect the Alaskan consumer since it is a major supplier of energy to the public. Our public gas suppliers, such as Anchorage Natural Gas, need adequate gas supplies for as long a period as possible. It is disturbing to find that present ^{dedicated} reserves will not last over 15 years and the Alaskan consumer may be forced into paying competitive California prices for its own gas, or not being able to obtain the gas since it could all be committed to other states.

ANG is a profit making corporation well able to make additional contracts for increased supply of gas as they have in the past. This play is economic and not desperate need for reserves. The Alaskan consumer will have to pay competitive prices for additional gas unless subsidized by state through royalty gas prices or regulatory control similar to past experience with FPC (low prices - no gas)



The Case for Committing
Alaska State Royalty Gas
from the North Cook Inlet
gas field to Alaska Pipeline
Company ("Anchorage Natural
Gas")

Presented to the Royalty Board
on November 10, 1975

TAB
NUMBER

TABLE OF CONTENTS

I	ANG's Need for Additional Gas Reserves
II	Reasons for Requesting North Cook Inlet Royalty Gas
III	Proposed Price, Escalations, Total Volume, Annual Volume, Contract Term, Deliverability, Transportation
IV	Question of (hypothetical) "possible subsidization of Anchorage gas consumers at state taxpayers' expense"
V	Copies of Prior Correspondence
VI	General and Miscellaneous Comments

Introduction

Alaska Pipeline Company and its distribution affiliate Alaska Gas and Service Company, Division of Alaska Interstate Company, collectively known as "Anchorage Natural Gas" have requested to purchase the State's 1/8 royalty share of the North Cook Inlet gas field, which is operated by Phillips Petroleum Company. In response, Anchorage Natural Gas has been requested to appear on November 10, 1975 to discuss this matter with the Royalty Board. This memorandum is submitted as advance information to the Royalty Board and for their convenience in considering the matter.

Summary

Anchorage Natural Gas (ANG) is the most logical choice of any potential purchaser of North Cook Inlet royalty gas, because:

1. ANG is prepared to accept delivery of this gas immediately, on an "if and as available" basis, and at the same price the State now receives for this gas while it is being liquefied and shipped to Japan.

Assuming that delivery to ANG can be made by "exchange," there would be no necessity for capital expenditure for new pipelines or other facilities at present.

2. ANG would utilize this gas as part of its gas supply for its entire service area, from Kalifornsky to Eklutna, and thereby be able to provide improved assurance of the availability of natural gas to all its customers, and at lower cost to ratepayers than is possible through any other alternative known to ANG.
3. Without this gas, ANG may not be able to continue serving the Bernice Lake power plant of Chugach Electric Association, or, if an alternate source is found, then the cost to ANG's customers is likely to be very substantially more than would apply to purchase of State royalty gas. Thus, ANG's purchase of State royalty gas will be of material benefit to ANG's residential and commercial gas customers, and of even greater benefit to Chugach Electric Association and all its customers from Homer to Talkeetna. More than 50% of Alaska's population would be affected, either as gas consumers or as power customers, and thus nearly all of Alaska's taxpayers would be benefited.

For the reasons given, ANG requests the Royalty Board to give ANG highest priority as a prospective purchaser of State royalty gas from the North Cook Inlet gas field, and to recommend such an arrangement for priority action in the next legislative session. Export of this gas, whether to Japan or elsewhere, is not in the best interest of Alaska's citizens.

I. ANG's Need for Additional Gas Reserves

ANG has two gas supply contracts at present. First, the "Anchorage" contract has committed a total of 550 BCF (billion cubic feet) from January 1, 1972 through December 31, 1992, delivered at a master meter in the Kenai gas field. This contract provides 160 million cubic feet per day of deliverability through 1985, and thereafter a deliverability of 1-1/3 times the "average daily" reserves remaining. The price for this gas is:

22¢ per MCF through December 31, 1975

24¢ per MCF 1/1/76 through 12/31/80

27¢ per MCF 1/1/81 through 12/31/85

* "Area Price" 1/1/86 through end of contract

(1) * Area Price is related to sales to third parties in the vicinity of Cook Inlet, as defined by the contract.

In addition to the foregoing contractual price schedules, ANG pays 19.5¢ per MCF for deliverability of 160 million cubic feet per day, escalated each January 1 by the ratio of the Wholesale Price Index (WPI) for November 1975 divided by the WPI of November 1974. Thus, effective January 1, 1976 ANG will pay 24¢ plus 19.5¢ plus the (estimated 1¢) WPI escalation or 44.5¢ per MCF, for a deliverability of 160 million cfd and take-or-pay of 72 million per day (annual average).

(2) ANG's second gas contract (both are with Union and Marathon as equal partners) is called the "Nikiski" contract. It provided 10 million cfd of deliverability, 10 BCF of reserves, and was for 10 years ending May 1, 1977. Delivery is at ANG's choice of three pipeline taps on Union-Marathon's 20" pipeline between the Kenai gas field and the industrial area on the North Kenai Road. At the current level of sales, the 10 BCF of reserves will be exhausted in 1976, prior to the end of the contract term. ANG has several hundred residential and commercial customers on the North Kenai Road, but by far the greater share (90% or more) of this gas is sold to the Bernice Lake power plant of Chugach Electric Association.

Because of the impending early exhaustion of the "Nikiski" contract reserves, and because of the need to obtain additional reserves for the "Anchorage" area, ANG wrote to Union, Marathon, Phillips, and Shell to inquire for a total of 75 BCF over a 15 year period. The only written response was from Shell, who said they had no uncommitted gas available for sale to ANG. Phillips responded in a telephone conversation that since the North Cook Inlet gas was in part potentially committed to

Northwest Natural (Portland) and since both Portland and Pacific Lighting (Los Angeles) were "negotiating" for the State royalty from this field, Phillips could not offer any to us. No response has been received from Union or Marathon other than an informal reaction that 75 BCF is an unreasonably large amount of reserves for us to request in the circumstances.

The information that the gas companies in Portland and Los Angeles are attempting to obtain the State royalty gas from the North Cook Inlet gas field accentuated ANG's interest in the royalty gas and its approaches to the Alaska Department of Natural Resources which has led to this presentation.

ANG's information is that a wellhead value of 45¢ per MCF applies to Phillips' purchase of State royalty gas for its LNG export to Japan. This price is net of 5.45¢ per MCF transportation cost from the platform to the LNG plant, so that a price of 50.45¢ per MCF is in effect for gas delivered at the LNG plant. This is the price ANG contemplates paying for royalty gas from the North Cook Inlet gas field.

ANG has made several other efforts to obtain additional gas reserves. First, it has tried to purchase surplus gas which is now committed to the gas company at the City of Kenai, with no indication of interest in response. Second, ANG inquired to purchase gas now being flared at the Swanson River oil field as a safety measure. This was declined as being "temporary." Third, ANG is negotiating to purchase gas from a well which is controlled by Mike Halbouty ("West Fork"). The deliverability and reserves from this well are probably negligible in relation to ANG's requirements, however.

ANG is aware of the "going price" for intrastate gas sales in areas such as Texas, and has hoped that it could avoid such pricing and make the best possible purchase by applying for the North Cook Inlet royalty gas, as it has done.

Quite apart from the urgent need for gas to replace the "Nikiski" contract, ANG must maintain a supply of reserves related to the term outstanding on its long term financing. When the reserve life falls below the financing term remaining, ANG will have to pre-pay installments on this long term debt, as it had to do in 1970-71 prior to obtaining the current reserve commitment.

The tables and graphs attached present the historical trends and the range of future gas sales. It is clear that if present trends continue, ANG will face pre-payment in 1980 and thereafter unless additional supplies can be secured. It is with that fact in mind that ANG has formed a subsidiary corporation, Gas Supply Corporation of Alaska ("GASCOA"), to explore for natural gas in the vicinity of Anchorage. ANG has invested more than \$500,000 to date in this activity, and has drilled (with others) an exploratory well on acreage at the mouth of the Big Susitna River. Although this well was plugged and abandoned, it did not condemn the area, and further exploration is contemplated as time and financing permit.

ANG cannot be complacent about its future need for gas, even without considering the exhaustion of its "Nikiski" contract reserve commitment. But that urgent problem requires early and positive action, because the gas supply there will last less than a year. The North Cook Inlet royalty gas is seen to be the ideal and only realistic solution to that immediate problem, and helpful to ANG's long term reserves needs as well.

II. Reasons for Requesting North Cook Inlet Royalty Gas

North Cook Inlet royalty gas is interchangeable with Kenai gas field gas, as may be seen by the fact that the two streams are blended (in a 70/30 ratio) as feedstock to the Phillips-Marathon LNG plant on the North Kenai Road. Both fields are essentially pure methane. All the necessary pipeline systems exist to allow an "exchange" to be made so that ANG could "receive" the royalty gas at the Kenai gas field. Such exchanges already are being made by the operators (Phillips, Marathon, Union). ANG can easily agree to "take" whatever royalty gas may be produced at the North Cook Inlet gas field, day by day, without requiring any investment by either of these operators. At the times such deliveries from the North Cook Inlet gas field might be limited temporarily by production facilities or by pipeline facilities, ANG could "work within" (exchange correspondingly less) that limitation, day by day. Alternatively, ANG could readily agree to take the full 1/8th royalty share each and every day if that were preferred by the operators (Phillips, Marathon, Union). When pipeline facilities from the North Cook Inlet may permanently limit its capacity to deliver the royalty gas, ANG could participate in the cost of compressors or additional pipeline necessary to maintain the delivery.

While the "exchange" described above is the only rational and reasonable method of implementing ANG's purchase of royalty gas, ANG could, if necessary, construct a pipeline to deliver the royalty gas into its pipeline to Anchorage. Obviously it would appear to be unnecessary and ludicrous for ANG to be hauling royalty gas south along the North Kenai Road while Union-Marathon is hauling identical gas north along the same road. Thus the "exchange" would be in the public interest, and in the mutual best concern of all the operators.

No other royalty gas is so readily available or really available at all, to ANG. Royalty at the Kenai gas field cannot be taken by ANG to advantage, since this was considered and such limitations are contained in ANG's contract at the Kenai gas field. If ANG does not take North Cook Inlet royalty gas it will be exported to Japan or to Portland or to Los Angeles. ANG's use of this gas to serve its Alaskan gas customers cannot be regarded as being less appropriate than these export arrangements, provided ANG pays no less than exporting the gas would have paid.

III. Proposed Price, Escalations, Total Volume,
Annual Volume, Contract Term, Deliverability, and
Transportation

(a) Price and Escalations

ANG proposes to pay to the State the same price which the State otherwise would have received from (Phillips') export of the North Cook Inlet royalty gas to Japan, for the duration of that export and thereafter not less than

- (1) the average price in effect during the last full year prior to termination of the export contract, and not less than
- (2) the price in effect, from year to year, for gas purchased by ANG at the Kenai gas field (from Union-Marathon)

(b) Total Volume, Annual Volume, Contract Term, Deliverability

ANG proposes to purchase 1/8th of the production of the North Cook Inlet gas field, day by day and year by year. ANG understands that at current production rates, approximately 15,000 MCF per day, or 5.5 BCF/year, would be available. AGAS would not, however, require any particular amount by day or by month or by year or in total. ANG contemplates that its commitment to purchase North Cook Inlet royalty gas would be for the life of production and probably at least 15 years, so that about 75 BCF would be available. ANG also understands that at present the maximum daily royalty production is about 20,000 MCF, related to a condition in which North Cook Inlet gas is supplying the entire input to the LNG plant, which would be unusual and temporary, since the contractual arrangement is for 70% North Cook Inlet gas and 30% Kenai gas to the plant.

ANG has adequate deliverability under contract at the Kenai gas field, and contractual ability to interrupt, so that it does not require a deliverability feature to be part of an agreement to purchase royalty gas -- ANG can take royalty gas on an "if and as available" basis. If, for the convenience of the operators (Phillips or Marathon or Union), a specified daily quantity should be desired, such as 15,000 to 20,000 MCF per day, ANG could so agree.

(c) Transportation

ANG proposes that transportation of the royalty gas would be by Phillips, to the LNG plant site, at the present amount which is understood to be 5.45¢ per MCF. ANG understands that as field pressure will decline during the life of the field, compression will become necessary and will cause additional cost for transportation. ANG further recognizes that compression may also become necessary as a result of increased throughput at the LNG plant whether as a result of increased plant loading or as a result of expansion of the LNG plant. ANG would expect to contribute its proportionate share of such additional transportation cost either by participating in the necessary investment or by compensating Phillips appropriately if Phillips makes the entire investment. ANG proposes that it should have the option of making the capital contribution or paying a higher transportation charge, to assure that Phillips is fairly compensated, without controversy.

IV Question of (hypothetical) "possible subsidization of Anchorage gas consumers at state taxpayers' expense" (Raised in Mr. Fackler's letter of October 15, 1975)

ANG believes that its offer, to pay the same price the State would otherwise receive from Phillips on the sale of the royalty gas for export to Japan, precludes any suggestion of "subsidization," particularly in view of ANG's further proposal to pay not less than the "area price" in the event the export to Japan is terminated. ANG further believes that it would not be in the public interest for Anchorage gas consumers to sustain a higher price for this royalty gas than would be payable on its export to Japan, although ANG understands that competitive bidding might result in a higher price than the price for export to Japan.

ANG contemplates that if the State were to deny ANG's offer to purchase the North Cook Inlet royalty gas on the terms described above, and to invite competitive bidding for this gas in the hope of realizing a higher price, severe complications might arise which would delay or prevent the consummation of such a sale. As an example, Phillips-Marathon have been attempting to sell their gas from this field to the gas company in Portland, Oregon for several years, but have not resolved the matter of jurisdiction by the Federal Power Commission (FPC) since the sale involves interstate commerce.

A sale of royalty gas in interstate commerce would have the same regulatory character, and involve the same jurisdiction by the FPC. A sale to ANG, however, does not involve the FPC in any way, being intrastate.

Aside from the regulatory problem, there easily could be other problems with an interstate sale, such as the need for additional drilling to "prove" the reserves or deliverability; additional pipeline facilities to assure delivery to the LNG plant; and possibly additional LNG storage facilities. All of these problems could require negotiation by the several parties (Phillips, Marathon, State, and the high bidder). Investment for new facilities would require time for engineering and design - which would not be required for ANG's purchase of the gas for pipelining to Anchorage and use by the Bernice Lake power plant and ANG's other customers on the North Kenai Road.

ANG believes that the possible benefits of a higher price through competitive bidding would be more than outweighed by the timeliness and appropriateness of ANG's purchasing this gas for use in Alaska, by the avoidance of regulatory problems (FPC), and by the relatively simple negotiation which ANG's proposal would entail. ANG believes that the suggestion of "subsidization" is illusory and that in fact ANG's proposal will be beneficial to all Alaskan taxpayers as well as Anchorage gas consumers, in that ANG's proposal can be implemented immediately upon approval by the Royalty Board and the legislature, if the parties can agree as described. This would result in increased production of natural gas and thus more income to the State, at the earliest possible date.

LIST OF COPIES OF CORRESPONDENCE

1. August 1, 1975 Letter to Chugach
2. August 1 Letters to Union, Marathon, Phillips, Shell
3. August 20 Letter to O.K. Gilbreth
4. August 25 Letter and Memo of August 22 to Alaska Public Utilities Commission
5. September 4 Letter from Shell Oil Company
6. September 24 Memorandum to Commissioner Martin
7. September 29 Letter to Standard Oil of California
8. September 30 Letter to Commissioner Martin
9. October 10 Letter from Standard Oil of California
10. October 15 Letter from W.C. Fackler (Invitation to Royalty Board Meeting, Nov. 10)



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

August 1, 1975

Chugach Electric Association, Inc.
8th and Gambell
Anchorage, Alaska 99501

Gentlemen:

It has just come to my attention this week that our supply of gas which we deliver to you at the Bernice Lake power plant is diminishing at a rate which is cause for serious concern and requires the earliest and best possible attention. Although our contract for the supply runs to May 1, 1977, your continuing heavy use of this plant this year may exhaust the remaining reserves during this coming winter. Based on your purchases to June 30 this year, we have well less than a one year supply remaining under contract. We assume that when you activate the new land line to Wasilla and complete your cable repairs, your requirement to operate Bernice Lake will be substantially reduced, but in the event this does not occur we could have a critical situation (as to a contractual supply only--not physical) this winter. At any rate there is an early requirement for us to make new arrangements for this supply and we wanted you to be so advised so that you could consider the availability of oil which you used during the years of operating this plant prior to its use of gas.

We have notified our suppliers regarding this matter and hopefully they may be able to expedite their consideration at least for a short term solution. As you know, however, at the moment we are operating without "flow through" provisions and in fact without a definite rate structure. It may be that we will be unable to consummate agreement for additional gas, even for a short term, until these matters are resolved. We have appealed to the APUC for reinstatement of the "flow through" provisions, and informally for a permanent rate structure, hoping for a favorable decision. We would then proceed immediately on the matter of reserves to supply Bernice Lake. But we may have to consider other action, even interruptions, due to regulatory or legal developments. We will, of course, keep you advised on this matter, and we regret that we have not had time in recent months to review such important matters with our staff continually.

Very truly yours,

Dale Teel
Dale Teel
President

DT:lkd

AGO 801851

Alaska Public Utilities Commission
ALASKA GAS AND SERVICE COMPANY



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Union Oil Company of California
P.O. Box 7600, Union Oil Center
Los Angeles, California

Attention: Mr. Larry Bradford

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977 and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year, 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Bart Emery, Marathon, Findlay, Ohio



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Marathon Oil Company
539 South Main Street
Findlay, Ohio

Attention: Mr. Bart Emery

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

cc: Mr. Larry Bradford, Union Oil, Los Angeles

AGO 801853



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Phillips Petroleum Company
Phillips Building
Bartlesville, Oklahoma 66600

Attention: Mr. John Horn

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering out requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

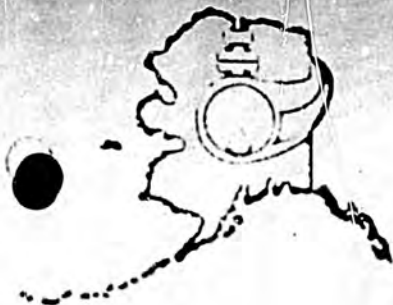
Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

AGO 801854



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 1, 1975

Shell Oil Company
Alaska Mutual Savings Bank Building
Anchorage, Alaska

Attention: Mr. Tom Cates

Gentlemen:

Our contract for gas on the "Kenai North Road" will expire May 1, 1977, and it appears that the remaining reserves may have been purchased prior to that date, possibly early in the year 1976.

We would ask for your proposal to commit additional reserves, considering our requirement to be up to 15 million cubic feet per day, and 75 BCF over a 15 year period to commence upon usage of our remaining reserves or not later than May 1, 1977.

Because of the limited time available, we would ask for a response at your earliest opportunity.

Very truly yours,

Original Signed by
DALE TEEL

Dale Teel
President

DT:lkd

AGO 801855

SUBSIDIARY OF ALASKA INTERSTATE COMPANY



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

Mr. O. K. Gilbreth, Director
Division of Oil and Gas
State of Alaska
Department of Natural Resources
3001 Porcupine Street
Anchorage, Alaska 99504

Dear Easy:

We have a gas supply contract with Union-Marathon for 10 BCF on the Kenai North Road which expires May 1, 1977. Due to accelerated sales to Chugach Electric's Bernice Lake power plant this year, it appears the entire reserve quantity could be used up within less than one year from now, and we are soliciting a replacement supply of gas to serve Chugach and our other customers on the Kenai North Road.

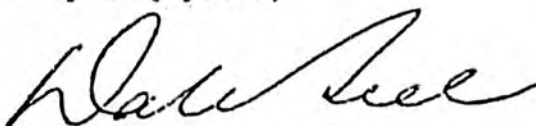
We are in a position to commit to take more than our North Road requirements, however, and would like to offer to purchase the State's royalty share of Phillips' production from North Cook Inlet, delivered to a metering point near the Phillips-Marathon LNG plant on the Kenai North Road. The excess above our Kenai North Road sales would be used to displace deliveries by Union-Marathon to us at the Kenai gas field, and thus serve to prolong the adequacy of our reserve commitment at the Kenai gas field. We are not certain as to whether or not the displacement can be made "on paper," or whether we would be required to lay a pipeline to connect into our Anchorage pipeline either at or near the Kenai gas field or at or near our compressor station east of the Kenai River.

Please consider this letter to be an application to purchase royalty gas as described, pursuant to AS 38.06.010. Since limited time is available to do any necessary construction, we hope all procedural requirements can be determined readily. We would anticipate paying the State the same price it would have received from Phillips, which we believe to be 45¢ per MCF plus 5.45¢ transportation fee, as compared to the current 41.5¢ cost of gas (and deliverability) at the Kenai gas field.

We are relying on approval by the Alaska Public Utilities Commission for us to "flow through" the increased cost of gas to Chugach's Bernice Lake power plant and to "meld" the (higher) cost royalty gas with the (lower) cost Kenai field gas, on a day-to-day basis, since the amount of royalty gas we would receive would depend on the rate of production of the Phillips-Marathon LNG plant and be outside our control. When this plant is down for any reason, we would be utilizing Kenai field gas as replacement.

Please advise regarding any questions or further procedure we should follow in presenting a formal offer to the State.

Very truly yours,



Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-8881
TELEX 23-187

August 25, 1975

Alaska Public Utilities Commission
1100 MacKay Building
338 Denali Street
Anchorage, Alaska 99501

Gentlemen:

The enclosed "Memo to File" (August 22, 1975) was prepared for discussion with the APUC or staff, in connection with our filing for reinstatement of our tariff section "708," (purchased gas cost adjustment). It illustrates the effect this section would have on various gas rates in the event we were successful in obtaining the state royalty gas which we have proposed to buy.

Also enclosed are a map of the Upper Cook Inlet and copies of our letters of August 1 and August 13 to Phillips. It is intended that the enclosures are for the information of the APUC and staff, but would not become "public" information at present.

Very truly yours,

Dale Teel
President

DT:lv
Enclosures

AGO 801858

Teel. Shono

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

August 22, 1975

Memo To: File

Subject: Intended Applicability and Operation
of
AGAS Tariff Section 708
Purchased Gas Cost Adjustment

AGAS now has a filing at the APUC for reinstatement of its Section 708, modified to the apparent (verbal) satisfaction of the APUC staff (Dwight MacCurdy and Bob Lindblom). AGAS is relying on approval of this filing at the earliest possible date because of its imperative need to be contracting for additional gas reserves, both for continued service to customers on the North Kenai Road (especially Chugach's Bernice Lake power plant) and to avoid (postpone) future problems with the provisions of AGAS' long term financing. AGAS' reserves to serve North Kenai Road customers could be exhausted during the winter of 1975-1976 if Chugach continues its current rate of consumption. Unless an alternate solution is developed, AGAS must require Chugach to interrupt the use of gas beginning in October 1975, through March 1976, to the maximum allowable by tariff (Schedule PI), which is 10 days per calendar month during those months.

AGAS' preferred solution is to apply for and obtain state royalty gas from Phillips' North Cook Inlet gas field, rather than to face the (unknown) price of new reserves from its present supplier (Union-Marathon) and rather than to consume, on the North Kenai Road, the reserves dedicated for the Anchorage area. Accordingly AGAS has offered the State the price of 45.0¢ plus 5.45¢ or 50.45¢ per MCF for royalty gas which the State in effect is now selling to Phillips and Phillips in turn is exporting to Japan. To do so, AGAS would expect to build about 35 miles of 8" pipeline at the earliest opportunity, along the Homer Electric power-line right-of-way, from the Phillips LNG plant to the AGAS (APC) Gudenrath compressor station. This pipeline initially could flow in reverse, supplying gas to North Kenai Road customers out of AGAS' (APC's) pipeline to Anchorage, but as soon as royalty gas becomes available, gas would flow from the North Kenai Road to the AGAS Anchorage pipeline. The amount of royalty gas is assumed to be $1/8 \times 70\% \times 140$ million cfd or 12.25 million cfd. Normally it is expected to run at a fairly steady rate, somewhat higher than 12.25, but it could go as high as 17 million, or as low as zero when the LNG plant is shut down. Thus the taking of royalty gas would introduce new dynamics into AGAS' transmission system. Similarly, as a result of these dynamics, AGAS' cost of purchased gas will be constantly varying and thus its rates to customers also will be constantly varying, depending on the mix of Kenai field gas and State royalty gas obtaining for a given month.

AGAS' tariff Section 708-Purchased Gas Cost Adjustment-was designed with the intent of application to such changing costs of gas: each month AGAS would determine its cost of gas for the prior month and would adjust its effective rates upward or downward to reflect the variation from the base price, which will be 43.5¢ after January 1, 1976.

AGO 801859

August 22, 1975

Page Two

Applying Section 708 in this way, the following examples are given:

1. Assume a summer load condition as follows:

Anchorage/Soldotna Market:	50,000,000 cf/day
North Kenai Road Market:	8,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (58 - 15 = 43) 43,000 MCF x 43.5¢ or	<u>18,705.00</u>

Total \$26,272.50

Average cost of 58,000 MCF is 45.297¢/MCF

After 1/1/76, all rates are based on gas cost of 43.5¢ (includes 2¢ escalation of 1/1/76, per paragraph 9, page 17 of Order No. 4, U-75-30). The average cost of gas above (45.30¢) less this base price of 43.5¢, is 1.8¢ effective increase which would "flow through" to all AGAS customers per tariffs and contracts. Thus, using the illustrated average rates given on page 19 of APUC Order No. 4, and adding the 2.0¢ escalation of 1/1/76, the "flow through" effect of applying Section 708 as described would be:

Schedule A:	157.08 plus 2.0 is 159.08; plus 1.8 is 160.88; 1.1%
B:	142.48 plus 2.0 is 144.48; plus 1.8 is 146.28; 1.2%
C:	102.58 plus 2.0 is 104.58; plus 1.8 is 106.38; 1.7%
*Chugach I-5:	73.78 plus 2.0 is 75.78; plus 1.8 is 77.58; 2.4%
**Chugach PI :	51.78 plus 2.0 is 53.78; plus 1.8 is 55.58; 3.3%
City Contract:	53.48 plus 2.0 is 55.48; plus 1.8 is 57.28; 3.2%
Military:	60.20 plus 2.0 is 62.20; plus 1.8 is 64.00; 2.9%

August 22, 1975

Page Three

2. Assume an average winter load condition as follows:

Anchorage/Soldotna Market:	90,000,000 cf/day
1/ North Kenai Road Market:	10,000,000 cf/day
2/ State Royalty gas:	10,000,000 cf/day

Thus the cost of gas for this condition would be

10,000 MCF x 50.45¢ or	\$ 5,045.00
plus (100 - 10 = 90) 90,000 MCF x 43.5¢ or	39,150.00
Total	\$44,195.00
Average cost of 100,000 MCF would be	44.195¢/MCF (say 44.20¢)
and rates would be 0.7¢/MCF increase over the base of 43.5¢/MCF.	

As for Condition "1" described above, the effect of 0.7¢ per MCF increase would be as follows:

Schedule A:	159.08 plus 0.7 is 159.78; 0.44%
B:	144.48 plus 0.7 is 145.18; 0.48%
C:	104.58 plus 0.7 is 105.28; 0.67%
I-5:	75.78 plus 0.7 is 76.48; 0.92%
PI:	53.78 plus 0.7 is 54.48; 1.30%
City:	55.48 plus 0.7 is 56.18; 1.25%
Military:	62.20 plus 0.7 is 62.90; 1.13%

- 1/ The North Road Market is mostly Chugach's Bernice Lake power plant, thus there will not be much increase for winter over summer.
- 2/ The LNG plant operation is typically less in winter than summer due to slower passage of the LNG ships to/from Japan.

August 22, 1975

Page Four

3. Assume a peak winter condition as follows:

Anchorage/Soldotna Market:	150,000,000 cf/day
North Kenai Road Market:	12,000,000 cf/day
State Royalty gas:	15,000,000 cf/day

Thus the cost of gas for this condition would be

15,000 MCF x 50.45¢ or	\$ 7,567.50
plus (162 - 15 = 147) 147,000 MCF x 43.5¢ or	<u>63,945.00</u>
Total	\$71,512.50

Average cost of 162,000 MCF is 44.144¢, and rates would be increased 0.64¢ over the base of 43.5¢ per MCF. Effect on rates almost same as Condition "2" above.

4. Assume a summer condition such that LNG plant is at maximum operation, but Chugach Bernice Lake plant is shut down for repairs or other reason, and thus essentially all the State royalty gas would be entering the Anchorage system:

Anchorage/Soldotna Market:	40,000,000 cf/day
North Kenai Road Market:	2,000,000 cf/day
State Royalty gas:	17,000,000 cf/day

Thus the cost of gas for this condition would be

17,000 MCF x 50.45¢ or	\$ 8,576.50
plus (42 - 17 = 25) 25,000 MCF x 43.5¢ or	<u>10,875.00</u>
Total	\$19,451.50

Average cost of 42,000 MCF is 46.313¢, and rates would be 2.813¢ (say 2.80¢) over the base of 43.5¢ per MCF.

The effect on AGAS rates for this condition would be:

Schedule A:	159.08 plus 2.80¢ is 161.88; 1.76%
B:	144.48 plus 2.80¢ is 147.28; 1.94%
C:	104.58 plus 2.80¢ is 107.38; 2.68%
I-5:	75.78 plus 2.80¢ is 78.58; 3.69%
PI:	53.78 plus 2.80¢ is 56.58; 5.21%
City:	55.48 plus 2.80¢ is 58.28; 5.05%
Military:	62.20 plus 2.80¢ is 65.00; 4.50%

Condition "4" above is about the worst probable effect of royalty gas on AGAS' rates. Clearly the effect of such "worst conditions" is not such as to raise doubts as to the acceptability of applying AGAS' Section 708 to melding of State royalty gas with Kenai field gas. Only with Section 708 in effect can this melding be accomplished, and thus this Section is essential to AGAS' utilizing royalty gas (or any other new gas supply).

AGO 801862

While the foregoing discussion indicates that APC would expect to construct a pipeline from the LNG plant site to the site of APC's Gudenrath compressor station, the more logical step would be to accomplish the "delivery" of the royalty gas by "paper exchanges" rather than physical transportation of the gas. Both North Cook Inlet gas and Kenai field gas are essentially pure (99% plus) methane and no adjustment for heating value or other quality aspect is necessary as a result of such "paper exchanges." The term "paper exchange" here means that with the consent and cooperation of all the parties involved, AGAS (APC) could pay to the State as if it were actually accepting royalty gas from the State, but in fact would continue to receive gas only as at present, at its Kalifonsky metering point, and on the North Kenai Road, produced at the Kenai gas field. The effect would be that AGAS would deduct from actual deliveries at the Kenai field meter an amount of gas equal to the royalty production for a month and would pay the Kenai gas field producers for the remainder. AGAS (APC) would continue to receive gas from these producers at the Kenai North Road at presently existing taps on their pipeline, and would add these deliveries to the "net" deliveries at the Kenai gas field for purposes of computing APC's "purchases" each month from the Kenai gas field. Then Marathon and Union Phillips could resolve the balancing of their records as follows:

The amount of Phillips' royalty production (12.5% of Phillips' total) for a given period, probably on monthly scheduling, would displace Marathon's actual delivery to the LNG plant, and Phillips would increase its other-wise "share" (70% of plant input) to compensate, during the following month, or later in the year if preferred by the parties for their convenience.

Obviously, there would be a requirement for additional production (wells in operation) and transmission by Phillips, unless for economic reasons the additional productive capacity were to be installed at the Kenai gas field with appropriate cost reimbursement being made by Phillips to Union-Marathon.

Because of the anticipated complexities of having all the parties--Marathon, Union, Phillips, State of Alaska, and AGAS (APC) affirmatively cooperate in the above "paper exchange," this memo has presumed that a new pipeline and physical movement of the gas would be necessary. Hopefully there can be a negotiation to eliminate the need for such a pipeline, however.

From the total actual "takes," at the Kenai field meter plus the taps on Union-Marathon's pipeline on the Kenai North Road, would be deducted each year, the Phillips' royalty in order to determine the net usage of Kenai field gas against the contractual total of 550 million MCF. Guaranteed deliverability, now contracted at 160,000 MCF per day, would not be improved by the "paper exchange" alternative to a pipeline, while such a pipeline could improve deliverability, but only to the extent of royalty gas being available when needed, which would be coincidental and not within our control. However, this indefinite and debated improvement on deliverability resulting from the new pipeline would not alone justify the cost of the pipeline.



SHELL OIL COMPANY

601 W. 5TH AVENUE, SUITE 810
ANCHORAGE, ALASKA 99501

September 4, 1975

Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Subject Middle Ground Shoal Field
Associated Gas Reserves

Attention Mr. Dale Teel

Gentlemen:

Thank you for your letter of August 1, 1975, inquiring into the possibility of the purchase of gas at our North Kenai Road onshore facility. Unfortunately, our gas is committed on a long term basis to another buyer in the area and, therefore, we are not in a position to consider your proposal.

Should we be so fortunate as to develop new reserves in the Anchorage Basin, we would gladly entertain your proposition.

Very truly yours,

T. S. Cate
Land Representative

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM

TO: Mr. Guy Martin
Commissioner of Natural Resources

FROM: Dale Teel

DATE: September 24, 1975

SUBJECT: Alaska Pipeline Company's Request to Purchase State Royalty Gas from the North Cook Inlet Gas Field ("Phillips")

Alaska Pipeline Company (APC) and its affiliate Alaska Gas and Service Company ("Anchorage Natural Gas") supply natural gas to 285 customers on the North Kenai Road and to the Bernice Lake power plant of Chugach Electric Association. The gas is obtained from the industrial pipeline which supplies the LNG plant, the Ammonia/Urea plant, and gas for reinjection into the Swanson River Oil field, and comes from the Kenai gas field (Union-Marathon), under a contract which runs to May 1, 1977. Due to unexpectedly heavy usage by the Bernice Lake power plant, the reserve quantity, 10 billion cubic feet (BCF), will be used prior to May 1, 1977, and at that point the contract will terminate. A contract extension and additional commitment of reserves has been requested of Union-Marathon, or the right to receive gas on the North Kenai Road which is committed for the Anchorage area under a separate contract. There has been little if any progress made on these requests thus far.

Alaska Pipeline Company's contract with Union-Marathon has a provision that if APC were to obtain royalty gas from the Kenai gas field, then the commitment of gas reserves by Union-Marathon (originally 550 BCF) would be reduced an equal amount, and thus in effect APC is barred from negotiating for royalty gas from the Kenai gas field.

APC has inquired for a commitment of gas from Phillips, with the (telephone) response that since Phillips' obligations to the gas company of Portland, Oregon are in suspense due to hearings at the Federal Power Commission and since the gas company at Los Angeles is attempting to purchase royalty gas from the North Cook Inlet gas field, Phillips is not clear to negotiate a commitment of reserves to APC. It is known also that the Portland gas company is requesting to purchase North Cook Inlet royalty gas (discussions with Governor Hammond).

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

APC has written to the State (letter to O.K. Gilbreth, August 20, 1975, attached) requesting to purchase the North Cook Inlet royalty gas at the price of 50.45¢ per MCF, which is the price which now applies to the royalty gas which Phillips utilizes for its LNG manufacture, which is known to be 45¢ wellhead plus 5.45¢ transportation. If this gas were to be offered to APC, APC could build a pipeline from the LNG plant to deliver the gas into its pipeline to Anchorage as well as to supply its North Kenai Road customers. Such a pipeline (approximately 35 miles of 8") could be built in the right of way now occupied by Homer Electric Association's power line from the Bernice Lake power plant to "Quartz Creek." However, construction of such a pipeline should not be necessary, because existing pipeline systems could be utilized to "exchange," or "displace," gas and the transaction could be made entirely on paper, continuing actual movement as at present, without change. North Cook Inlet gas is identical to Kenai field gas (the streams are interchangeable at the LNG plant), so adjustments can be made by volume only.

APC would appear to be the ideal customer for State royalty gas because it would "blend" (by price/rate adjustments) the higher priced royalty gas into its present supply, with relatively small impact on its rates to Alaskan gas users. APC has negotiated "deliverability" with Union-Marathon so that it is in a position to take none or the full royalty share of North Cook Inlet gas without placing its suppliers (Union-Marathon) in any hardship and without having to rely on constant or steady rate production from the North Cook Inlet field. In other words, APC could take the State royalty gas from North Cook Inlet if and as it is produced, without requiring "deliverability."

The foregoing description assumes that the producers (Union, Marathon, Phillips) and the State can readily agree to the "exchange" or "displacement" as indicated. If APC were to build the new pipeline so that the royalty gas actually were to be moved from the LNG plant to APC's pipeline to Anchorage, the same general situation would obtain as for displacement, but operation would be relatively complex since gas would have to move to or from the LNG plant in the new pipeline depending on whether or not the LNG plant were running and at what rate. It is anticipated that normally there would be adequate notice available so that flow rate and directional changes would be practical - in fact displacement could be utilized even with such a pipeline, to foster best scheduling by all the parties. Such displacement actually occurs already, from time to time, although it involves only the producers (Union, Marathon, Phillips) and, of course, does not affect APC or the State at present. The proposed displacement, either with or without a new pipeline being added, should be just as practical if the parties would so agree.

DT/js
enclosure

AGD 801866

DALE TEEL
PRESIDENT

ALASKA PIPELINE COMPANY
P. O. BOX 5288
ANCHORAGE, ALASKA 99502

September 29, 1975

Mr. John Rowland
Standard Oil Company of California
3001 C Street
Anchorage, Alaska

Dear John:

I want to thank you for the courtesies extended to me Saturday, September 27, by Walt Larman at your Swanson River compressor plant. I met Ed Saltz there also, and renewed an acquaintance of 10 years or more ago, when he was assisting us in restoring gas service after the 1964 earthquake.

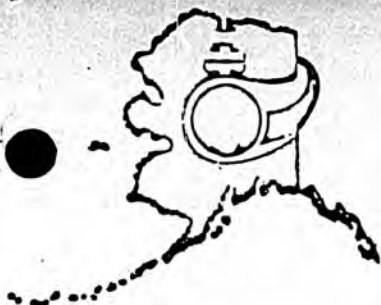
Naturally, I can't avoid thinking about possible uses for the gas now being flared as a safety measure at the plant. I can visualize various possibilities such as piping it into our pipeline to Anchorage, or to Soldotna, or to the North Kenai Road. We have a centrifugal compression unit at Mile 25 on our pipeline which might be adapted to handle this gas especially during the summer season, when it is not needed for capacity, and we have available an electric motor-driven reciprocating unit which could be installed at your plant. We need the gas and might be able to justify the 20 miles of pipeline if the gas were available "free," or nearly so, even without a commitment of deliverability or a reserves quantity -- in other words, "if and as available." I would like to continue discussion of this possibility with you at your convenience.

Cordially,



DT/js

AGO 801867



ALASKA PIPELINE COMPANY

P. O. BOX 6283
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 30, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Mr. Martin:

Confirming our discussion at the Anchorage airport on September 30, and my letter to Mr. Gilbreth of August 20, and memorandum to you of September 24, Alaska Pipeline Company is requesting to purchase the royalty share of North Cook Inlet gas field at or near the Phillips-Marathon LNG plant on the North Kenai Road, at the price used by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. We believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline(s) and compression would be minimized. Since our supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being it should be practical that we would take whatever amount of the North Cook Inlet royalty gas may be available day by day by displacement into our system at the Kenai gas field. Later, when additional investment would be required for transporting this royalty gas to shore, we could negotiate our participation in investment, or install our own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned.

The essential aspect of our request is that we have an immediate need for additional gas on the North Kenai Road and we have a long term requirement for additional gas reserves to serve Alaskan customers in our present service area. We believe that it is in the public interest that we should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. We will begin preparing a formal

AGO 801868 4

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Guy Martin
September 30, 1975
Page 2

application to purchase this gas and will appreciate having your guidance as to what supporting data or format may be desired, if any, for presentation to the Royalty Board or to the legislature to satisfy statutes or regulations which apply.

Very truly yours,


Dale Teel

DT/js

cc: O. K. Gilbreth, Director 
Division of Oil and Gas

Alaska Public Utilities Commission

AC-801868-B



**Standard Oil Company of California,
Western Operations, Inc.**

P.O. Box 7-839, Anchorage, AK 99510 • Phone (907) 279-9666

J. L. Rowland
Area Supervisor
Producing Department

October 10, 1975

Mr. Dale Teel, President
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Dale:

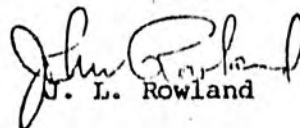
Thanks for your letter of September 29, and for your interest in our flared gas at Swanson River.

Since speaking with you, I have reviewed our gas handling capacity with our Engineering group and have determined the gas ~~phase~~ is still considered temporary. As you know, we have made several adjustments in the past year, including the installation of ~~ten~~ field compressors, and we are actively pursuing other remedies which will relieve our flaring problem.

It is my opinion that the laying of a 20 mile pipeline, based on the limited volumes which we foresee, would be a very high risk venture.

We do appreciate your asking about the possibilities and we'll certainly be alert to those opportunities which may become available.

Very truly yours,


J. L. Rowland

JLR:mld

AGO 801869

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M — JUNEAU 99801

JAY S. HAMMOND, Governor

October 15, 1975

Mr. Dale Teel
Alaska Pipeline Company
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

Your letter and memorandum regarding the proposal of Alaska Pipeline Company to purchase state royalty gas from the North Cook Inlet Gas Field was read into the minutes of the October 12 meeting of the Royalty Board.

The Royalty Board invites you to attend the next meeting which will be November 10, 1975, in the Alaska Division of Lands Conference Room in Anchorage beginning at 8:30 a.m. to discuss your proposal.

Items to be addressed in your presentation should be the need for additional gas reserves, reasons for requesting North Cook Inlet source of gas, price and schedule of escalation, total volume, annual volume, deliverability, term of proposal, transportation and so forth. A question has been raised as to the possibility that this proposal would be a subsidization of Anchorage gas consumers at state taxpayer's expense. You might wish to anticipate this point also in your discussion.

Please advise me if I can be of further assistance.

Very truly yours,



William C. Fackler
Deputy Commissioner

cc: Mr. Robert H. Reynolds
921 East Sixth Avenue
Anchorage, Alaska 99501

AGO 801870

LIST OF TABLES AND GRAPHS

1. Table of gas consumption
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
2. Graph of data per Table (1)
3. Table of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)
4. Graph of data per Table (3)
5. Table of life of remaining reserves
Actual, 1971-1975 (estimated)
Projected, 1976-1985 (growth at 1, or 2, BCFY)

Note: This is the quotient of reserves data in
Table (3) divided by consumption during
the prior year per Table (1)
6. Graph of data per Table (5)
7. Graph of North Cook Inlet gas production since 1969

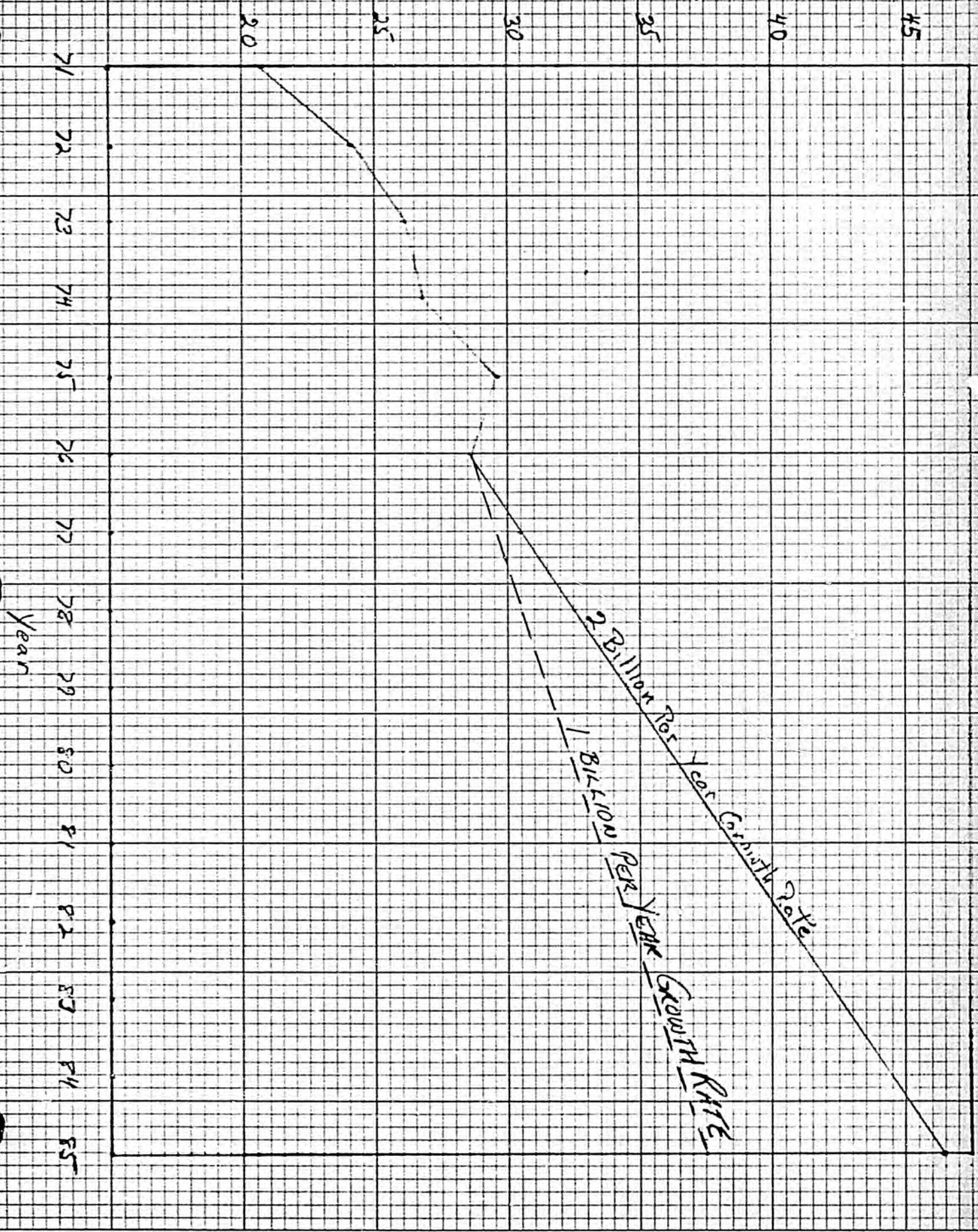
ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Gas Consumption BCF

Year	Consumption (One Billion/yr Growth Rate)	Consumption (Two Billion/yr Growth Rate)
1971	20.6	20.6
1972	24.1	24.1
1973	26.1	26.1
1974	26.7	26.7
1975	29.7	29.7
* 1976	28.5	28.5
1977	29.5	30.5
1978	30.5	32.5
1979	31.5	34.5
1980	32.5	36.5
1981	33.5	38.5
1982	34.5	40.5
1983	35.5	42.5
1984	36.5	44.5
1985	37.5	46.5

*Reflects loss of deliveries to Chugach Electric 11/4/75

Consumption - Billions of C.F. per Year

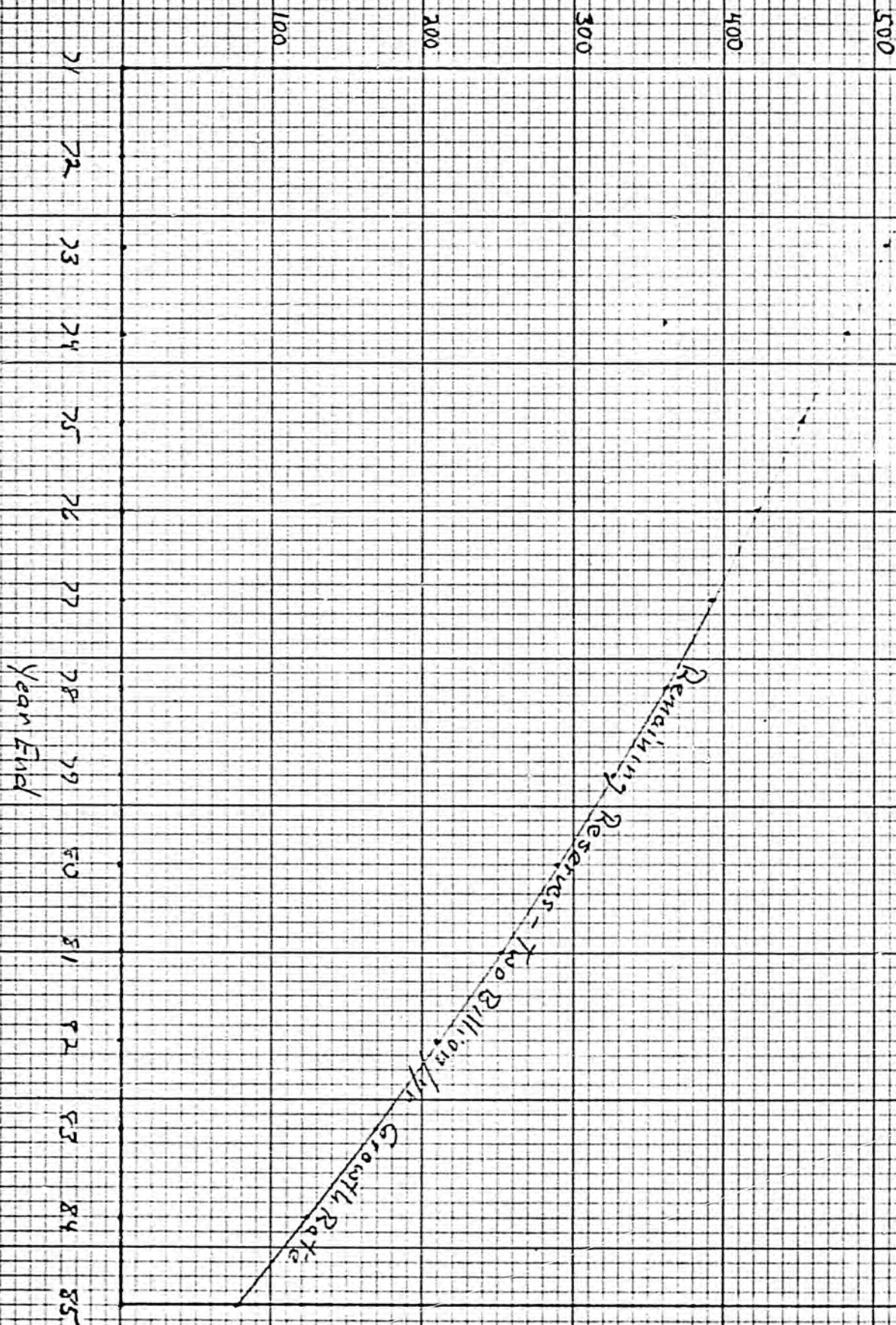


ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Remaining Reserves

Year End	Reserves-MCF ^B (One Billion CF/yr Growth Rate)	Reserves-MCF ^B (Two Billion cf/yr Growth Rate)
1971	559	559
1972	535	535
1973	509	509
1974	482	482
1975	452	452
1976	424	424
1977	394	393
1978	363	361
1979	332	326
1980	300	290
1981	266	251
1982	232	211
1983	196	168
1984	160	124
1985	122	77

Remaining Reserves - Billions of Cubic Feet



Remaining Reserves - Billions of Cubic Feet

500
400
300
200
100

71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

Year End

Remaining Reserves - One Billion/yr Growth Rate

ALASKA GAS AND SERVICE - ALASKA PIPELINE COMPANY

Table of Life of Remaining Reserves

Year End	Life-Years (One Billion CF/yr Growth Rate)	Life-Years (Two Billion CF/yr Growth Rate)
1971	27.1	27.1
1972	22.2	22.2
1973	19.5	19.5
1974	18.1	18.1
1975	15.2	15.2
1976	14.9	14.9
1977	13.4	12.9
1978	11.9	11.1
1979	10.5	9.5
1980	9.2	7.9
1981	7.9	6.5
1982	6.7	5.2
1983	5.5	4.0
1984	4.4	2.8
1985	3.3	1.7

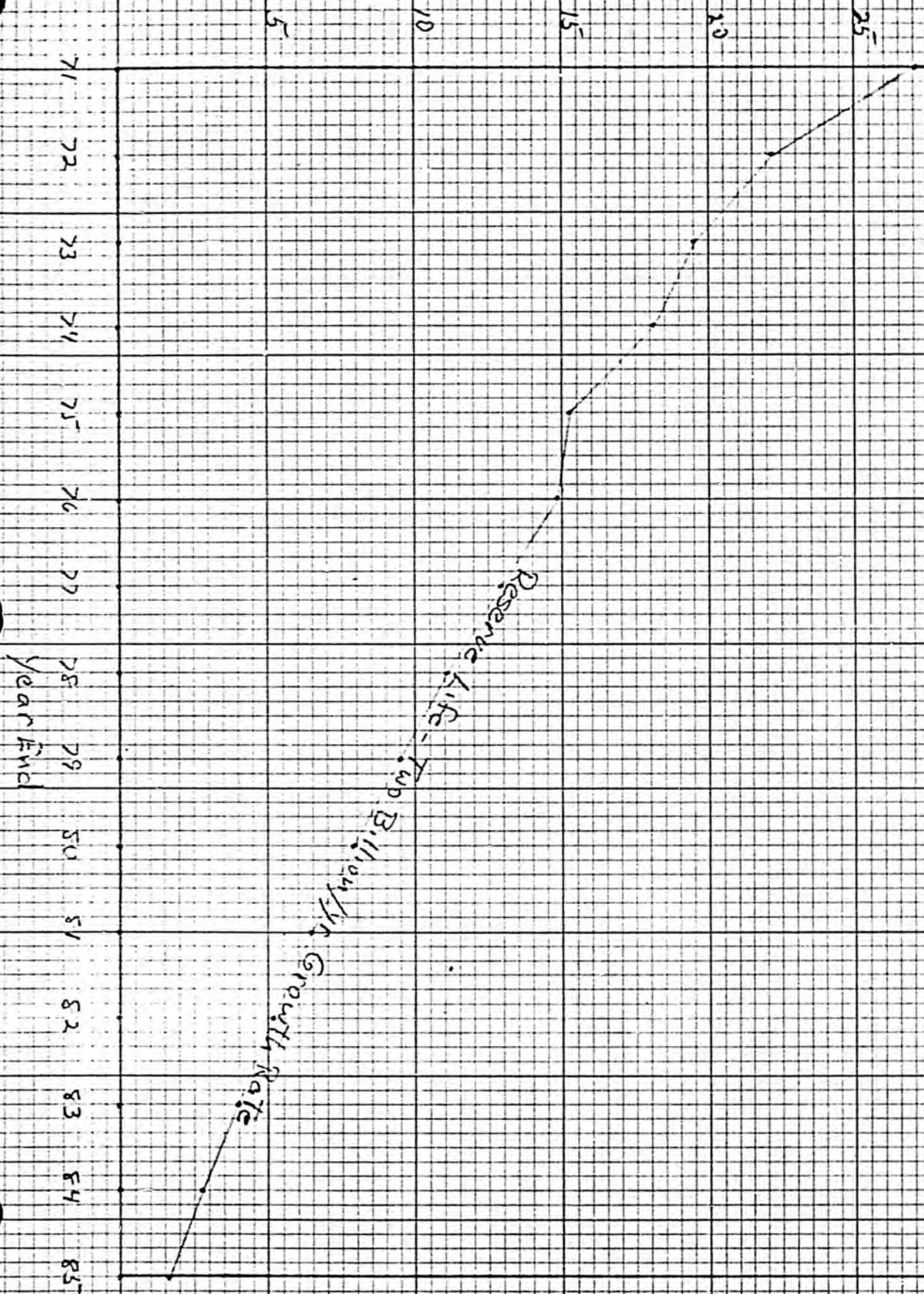
Life of Remaining Reserves - Years

71
72
73
74
75
76
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84
85

Year End

Reserve Life - One B. Bill / yr Growth Rate

Life of Remaining Reserves - Years



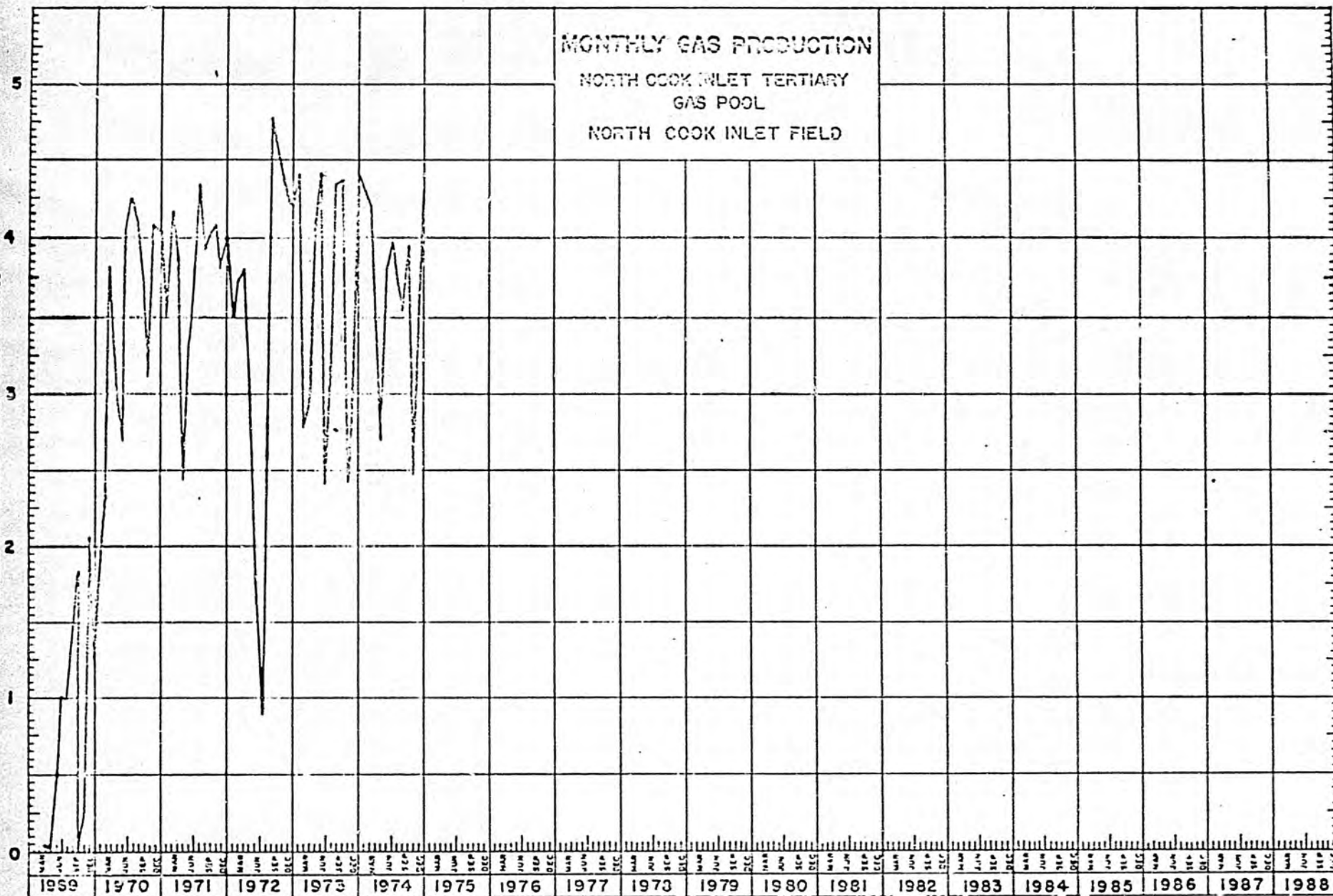
-561-

BILLION CUBIC FEET PER MONTH

MONTHLY GAS PRODUCTION

NORTH COOK INLET TERTIARY
GAS POOL

NORTH COOK INLET FIELD



AGO 801880



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 30, 1975

Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Mr. Martin:

Confirming our discussion at the Anchorage airport on September 30, and my letter to Mr. Gilbreth of August 20, and memorandum to you of September 24, Alaska Pipeline Company is requesting to purchase the royalty share of North Cook Inlet gas field at or near the Phillips-Marathon LNG plant on the North Kenai Road, at the price used by Phillips to acquire this gas from the State for the manufacture of LNG for export to Japan or elsewhere. We believe the most reasonable method for handling the delivery and sale would be by "exchange," or "displacement," so that construction of new pipeline(s) and compression would be minimized. Since our supply at the Kenai gas field is interconnected to the North Cook Inlet gas supply at the LNG plant, for the time being it should be practical that we would take whatever amount of the North Cook Inlet royalty gas may be available day by day by displacement into our system at the Kenai gas field. Later, when additional investment would be required for transporting this royalty gas to shore, we could negotiate our participation in investment, or install our own facilities if necessary, in order to accomplish the purchase on the most reasonable basis for all concerned.

The essential aspect of our request is that we have an immediate need for additional gas on the North Kenai Road and we have a long term requirement for additional gas reserves to serve Alaskan customers in our present service area. We believe that it is in the public interest that we should be allowed to purchase this State royalty gas for local consumption rather than for this gas to be exported to Japan or elsewhere. We will begin preparing a formal

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OCT 6 1975

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801881

DEPARTMENT OF
NATURAL RESOURCES

OCT 6 1975

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JUNEAU, ALASKA

SIDIARY OF ALASKA INTERSTATE COMPANY

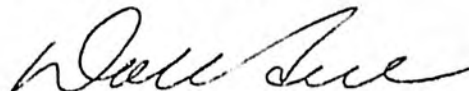
ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

Mr. Guy Martin
September 30, 1975
Page 2

application to purchase this gas and will appreciate having your guidance as to what supporting data or format may be desired, if any, for presentation to the Royalty Board or to the legislature to satisfy statutes or regulations which apply.

Very truly yours,



Dale Teel

DT/js

cc: O. K. Gilbreth, Director
Division of Oil and Gas

Alaska Public Utilities Commission



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

September 26, 1975

WJS
Mr. Guy Martin
Commissioner of Natural Resources
State of Alaska
Juneau, Alaska

Dear Guy:

I have been reading of your appearances in various cities and am not surprised that we have not been able to get together for lunch or otherwise. Now I'm trying to leave the country on October 10 for two weeks. If the royalty board meets October 9 as I've heard, I could attend -- but not on the 10th. Meanwhile, I've put down some of my ideas in a memo and enclose it to you as an indication of what we have in mind on the royalty gas. We are also attempting to obtain the earliest possible restoration of the "flow through" provision of our tariffs at the Alaska Public Utilities Commission so that we will be in a position to contract at the earliest opportunity if our request is approved.

Sincerely,

Dale Teel
Dale Teel
President

DT/js

cc: Alaska Public Utilities Commission

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SEP 29 1975
ALASKA ROYALTY
OIL & GAS BOARD

*see 12/2/75
letter to
APUC, last
paragraph.*

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

MEMORANDUM

TO: Mr. Guy Martin
Commissioner of Natural Resources

FROM: Dale Teel

DATE: September 24, 1975

SUBJECT: Alaska Pipeline Company's Request to Purchase State Royalty
Gas from the North Cook Inlet Gas Field ("Phillips")

DEPARTMENT OF
NATURAL RESOURCES

SEP 29 1975

RECEIVED
JUNEAU, ALASKA

Alaska Pipeline Company (APC) and its affiliate Alaska Gas and Service Company ("Anchorage Natural Gas") supply natural gas to 285 customers on the North Kenai Road and to the Bernice Lake power plant of Chugach Electric Association. The gas is obtained from the industrial pipeline which supplies the LNG plant, the Ammonia/Urea plant, and gas for reinjection into the Swanson River Oil field, and comes from the Kenai gas field (Union-Marathon), under a contract which runs to May 1, 1977. Due to unexpectedly heavy usage by the Bernice Lake power plant, the reserve quantity, 10 billion cubic feet (BCF), will be used prior to May 1, 1977, and at that point the contract will terminate. A contract extension and additional commitment of reserves has been requested of Union-Marathon, or the right to receive gas on the North Kenai Road which is committed for the Anchorage area under a separate contract. There has been little if any progress made on these requests thus far.

Alaska Pipeline Company's contract with Union-Marathon has a provision that if APC were to obtain royalty gas from the Kenai gas field, then the commitment of gas reserves by Union-Marathon (originally 550 BCF) would be reduced an equal amount, and thus in effect APC is barred from negotiating for royalty gas from the Kenai gas field.

APC has inquired for a commitment of gas from Phillips, with the (telephone) response that since Phillips' obligations to the gas company of Portland, Oregon are in suspense due to hearings at the Federal Power Commission and since the gas company at Los Angeles is attempting to purchase royalty gas from the North Cook Inlet gas field, Phillips is not clear to negotiate a commitment of reserves to APC. It is known also that the Portland gas company is requesting to purchase North Cook Inlet royalty gas (discussions with Governor Hammond).

RECEIVED
SEP 29 1975

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801884

ALASKA PIPELINE COMPANY

ANCHORAGE, ALASKA

- 2 -

APC has written to the State (letter to O.K. Gilbreth, August 20, 1975, attached) requesting to purchase the North Cook Inlet royalty gas at the price of 50.45¢ per MCF, which is the price which now applies to the royalty gas which Phillips utilizes for its LNG manufacture, which is known to be 45¢ wellhead plus 5.45¢ transportation. If this gas were to be offered to APC, APC could build a pipeline from the LNG plant to deliver the gas into its pipeline to Anchorage as well as to supply its North Kenai Road customers. Such a pipeline (approximately 35 miles of 8") could be built in the right of way now occupied by Homer Electric Association's power line from the Bernice Lake power plant to "Quartz Creek." However, construction of such a pipeline should not be necessary, because existing pipeline systems could be utilized to "exchange," or "displace," gas and the transaction could be made entirely on paper, continuing actual movement as at present, without change. North Cook Inlet gas is identical to Kenai field gas (the streams are interchangeable at the LNG plant), so adjustments can be made by volume only.

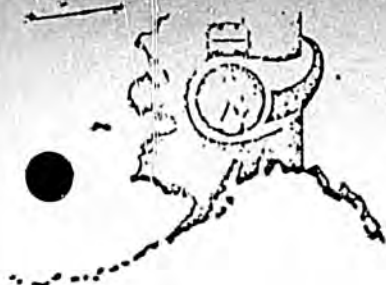
APC would appear to be the ideal customer for State royalty gas because it would "blend" (by price/rate adjustments) the higher priced royalty gas into its present supply, with relatively small impact on its rates to Alaskan gas users. APC has negotiated "deliverability" with Union-Marathon so that it is in a position to take none or the full royalty share of North Cook Inlet gas without placing its suppliers (Union-Marathon) in any hardship and without having to rely on constant or steady rate production from the North Cook Inlet field. In other words, APC could take the State royalty gas from North Cook Inlet if and as it is produced, without requiring "deliverability."

The foregoing description assumes that the producers (Union, Marathon, Phillips) and the State can readily agree to the "exchange" or "displacement" as indicated. If APC were to build the new pipeline so that the royalty gas actually were to be moved from the LNG plant to APC's pipeline to Anchorage, the same general situation would obtain as for displacement, but operation would be relatively complex since gas would have to move to or from the LNG plant in the new pipeline depending on whether or not the LNG plant were running and at what rate. It is anticipated that normally there would be adequate notice available so that flow rate and directional changes would be practical - in fact displacement could be utilized even with such a pipeline, to foster best scheduling by all the parties. Such displacement actually occurs already, from time to time, although it involves only the producers (Union, Marathon, Phillips) and, of course, does not affect APC or the State at present. The proposed displacement, either with or without a new pipeline being added, should be just as practical if the parties would so agree.

DT/js
enclosure

cc: Alaska Public Utilities Commission

AGO 801885



ALASKA PIPELINE COMPANY

P. O. BOX 6288
ANCHORAGE, ALASKA 99502

3000 SPENARD ROAD
PHONE (907) 277-5551

August 20, 1975

COPIES SENT TO:

Paul Robison
Sebe Eastland
Harold Schmidt
O. C. Honig

Mr. O. K. Gilbreth, Director
Division of Oil and Gas
State of Alaska
Department of Natural Resources
3001 Porcupine Street
Anchorage, Alaska 99504

Dear Easy:

We have a gas supply contract with Union-Marathon for 10 BCF on the Kenai North Road which expires May 1, 1977. Due to accelerated sales to Chugach Electric's Bernice Lake power plant this year, it appears the entire reserve quantity could be used up within less than one year from now, and we are soliciting a replacement supply of gas to serve Chugach and our other customers on the Kenai North Road.

We are in a position to commit to take more than our North Road requirements, however, and would like to offer to purchase the State's royalty share of Phillips' production from North Cook Inlet, delivered to a metering point near the Phillips-Marathon LNG plant on the Kenai North Road. The excess above our Kenai North Road sales would be used to displace deliveries by Union-Marathon to us at the Kenai gas field, and thus serve to prolong the adequacy of our reserve commitment at the Kenai gas field. We are not certain as to whether or not the displacement can be made "on paper," or whether we would be required to lay a pipeline to connect into our Anchorage pipeline either at or near the Kenai gas field or at or near our compressor station east of the Kenai River.

Please consider this letter to be an application to purchase royalty gas as described, pursuant to AS 38.06.010. Since limited time is available to do any necessary construction, we hope all procedural requirements can be determined readily. We would anticipate paying the State the same price it would have received from Phillips, which we believe to be 45¢ per MCF plus 5.45¢ transportation fee, as compared to the current 41.5¢ cost of gas (and deliverability) at the Kenai gas field.

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SEP 29 1975

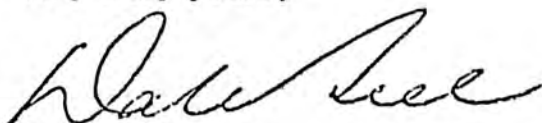
ALASKA ROYALTY
OIL & GAS BOARD

AGO 801886

We are relying on approval by the Alaska Public Utilities Commission for us to "flow through" the increased cost of gas to Chugach's Bernice Lake power plant and to "meld" the (higher) cost royalty gas with the (lower) cost Kenai field gas, on a day-to-day basis, since the amount of royalty gas we would receive would depend on the rate of production of the Phillips-Marathon LNG plant and be outside our control. When this plant is down for any reason, we would be utilizing Kenai field gas as replacement.

Please advise regarding any questions or further procedure we should follow in presenting a formal offer to the State.

Very truly yours,



Dale Teel
President

DT:lkd

cc: Alaska Public Utilities Commission

HEA



Homer Electric Association, Inc.

P. O. BOX 429

HOMER, ALASKA 99603

PHONE (907) 235-8551

file: Homer Elec

February 16, 1977

Mr. Don Wold
State of Alaska
Royalty Oil & Gas Development Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wold:

During the year of 1976, because of an unprecedented growth in the population of its service area, the Homer Electric Association became aware of a pending crisis in its future supply of wholesale electrical power.

This association serves all of the communities on the Kenai Peninsula except Cooper Landing and Seward. The current number of meters served is 7200 and anticipated growth in numbers is expected to be (based upon actual growth in 1976) approximately 20% per year for the next few years.

Homer Electric has enjoyed a wholesale electrical supply contract wherein they purchased their needs at cost from the Chugach Electric Association since 1969. Present demands upon the Chugach system plus a reluctance upon the part of Chugach to provide for the future power requirements of Homer has dictated a departure from this present arrangement. Late in 1976, Chugach agreed to let Homer acquire its gas fired generating facility located nine miles north of Kenai (known as the Bernice Lake Plant) and thence Homer would provide for its present and future needs of electrical supply as required by the growth of its service area.

Upon investigation it was revealed that a gas fuel supply would not be certain at the Bernice Lake facility after April 30, 1977. Homer has made application to all of the major gas suppliers and producers in the area and has not received an assurance of a gas supply at any price. The Homer Electric Association is now applying to the State of Alaska, through its Department of Natural Resources, to make available the State's royalty share of natural gas from the Kenai field for use at the Bernice Lake Plant. This gas is presently being used by various producers in the field at a reported price of from 24.5 to 34.8 cents per thousand cubic feet.

What happened to Kenai gas supply?

Mr. Don Wold
February 16, 1977
Page Two

Homer is willing to pay the State 60¢ per thousand cubic feet delivered to the Bernice Lake Plant for quantities set out in our letter of February 11, 1977.

The State has a supply of gas that it can make available for use to the benefit of the citizens of the Kenai Peninsula as set forth in the information attached marked Exhibit A.

It will be noted by reviewing the attached exhibit that only 14.6 percent of the gas used in 1974 was for the direct benefit of the citizens of Southcentral Alaska. Projected use in 1980 indicates only 11.7 percent will be used for the purpose stated above.

Sincerely yours,



W. C. Rhodes
General Manager

(EXHIBIT A)

Current production of "dry gas" on the Kenai Peninsula represents only 2% of known reserves and only slightly more than 1/2 of 1% of known plus patented reserves according to the Stanford Research Institute study released in December of 1975. Natural gas is being consumed or utilized for the following purposes:

<u>Catagory</u>	<u>Use 1974(Billion CF)</u>	<u>Use 1980(Billion CF)</u>
Electric Power Gen.	17.11	33.04
Ammonia Manufacturing	22.10	44.20
Household-Commercial	9.87	14.83
Refinery Fuel	.87	2.28
Lease & Plant fuel	14.37	16.73
Shrinkage & Flaring	9.58	7.23
Military Use	5.86	5.86
Export LNG	61.87	88.38
Repressure (Gross Injection)	86.81	86.81
	<u>228.44</u>	<u>459.92</u>

Source: Reference number 7 of the above mentioned study.

Table 18 of this study estimates a recoverable existing reserve as of January 1, 1975 of 7,117 billions of cubic feet or a 31.42 year supply based upon 1974 actual use or a 15.6 year supply based upon estimated 1980 usage.

Insufficient demand is the reason that nine of the existing gas fields are still shut-in and the remainder are producing well below capacity. Production of gas could be more than doubled without addition to known reserves.



file: #100000
Proposals
Homer Electric Association, Inc.

P. O. BOX 429

HOMER, ALASKA 99603

PHONE (907) 235-8551

February 11, 1977

file
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FEB 14 1977

**ALASKA ROYALTY
OIL & GAS BOARD**

Mr. Don Wold
State of Alaska
Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wold:

Confirming our various telephone conversations, the purpose of this letter is to formally request your cooperation in obtaining for our association the State Royalty Gas available from the Kenai Gas Field. We would like to use this gas as fuel for the Bernice Lake Power Plant beginning May 1, 1977. The plant is located North of Kenai, adjacent to the Standard Oil Company.

We are presently conducting negotiations with Chugach Electric Association to acquire this plant, now owned by them, and to re-acquire our large transmission lines presently leased to them, which originate in the Kenai Lake area and provide electric service to the Peninsula. The reason for the acquisition of this property is the constant deterioration of electrical service to the industrial plants on the North Kenai Peninsula, and the inability or reluctance of Chugach to guarantee our association adequate wholesale power for our future needs.

If we are successful in acquiring a gas supply at an acceptable price for the Bernice Lake plant we will conclude our negotiations with Chugach and proceed to build additional generating facilities at the Bernice Lake site. During the interim period, until the additional generating facilities are installed, we will require an average of approximately 5,700 mcf per day. With winter peaks, that may require 9,000 mcf. After January 1, 1979, which is our target date for the completion of the new generation facilities, our daily average requirement would be slightly in excess of 8,000 mcf with peaks that could approach 17,000 mcf.

Your urgent cooperation is requested in assisting us to obtain a fuel supply as a decision must be reached in our negotiations within the next few days.

The alternative to our acquisition of the generating facilities will be a future dependence upon wholesale electrical energy supplied by Chugach. They have indicated that they are unwilling to continue to supply us wholesale energy for use by industry under the present rate structure, and have said that they will insist upon a substantial increase if they are forced to continue under the present contract. The existing wholesale electric supply

February 11, 1977

contract is effective until the Year 2008, and, of course, would be cancelled if we acquire their property on the Kenai Peninsula.

We hope the above background information is sufficiently complete to assist you and your staff in drafting a proposal. However, if you should have any questions please contact me and we will provide any additional material that you may require.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

STATE
of ALASKA

MEMORANDUM

RECEIVED
JAN 11 1977

TO: [

Guy Martin, Commissioner
Department of Natural Resources

Department of
Natural Resources

DATE

January 7, 1977

FROM:

Don Wold
Alaska Royalty Board
Department of Natural Resources

SUBJECT: Homer Electric Association Inc.

Bill Rhodes, General Manager, called 1-6-77 in an attempt to set up a meeting between the Alaska Public Utilities Commission, Gordon Zerbetz, Alaska Pipeline Company, Dale Teel, Harold Schmidt, Homer Electric Association, Bill Rhodes, Phillips Petroleum Co., John Horn, Department of Natural Resources, Guy Martin, Don Wold.

Mr. Rhodes is, of course, still attempting to purchase gas to run the Bernice Lake power plant which he is attempting to purchase from Chugach Electric. He desires to purchase the royalty gas presently under contract to Alaska Pipeline Company. Mr. Rhodes is aware that presently Alaska Pipeline Company is unable to receive the gas because they are unable to obtain a waiver of Jurisdiction by the PUC for Phillips over the pipeline to be used to deliver the gas. Mr. Rhodes believes that since Alaska Pipeline Company cannot receive the gas then he should be allowed to purchase it and try to solve the delivery problem. I understand that Mr. Rhodes will proceed to purchase the Bernice Lake power plant and will use it for standby only and run diesel of fuel oil as needed if he cannot purchase gas at a reasonable price. He also says that he can purchase gas from the Kenai Utility at 50¢/MM BTU but it cannot be exported from that area. He may have to purchase that gas and have his power generated there and run a power line to his service area. He also states that he is working on other alternative supplies of gas. Finally, he is asking for a meeting between all parties to get the issues resolved.

Called Harold Schmidt, Alaska Pipeline Company, who recommended that all sides of the story be known before such a meeting. He would also like to meet to review the gas contract and explain part of the problem. He will visit Juneau on Monday and Tuesday, 1-10-77 and 1-11-77 for such discussions.

Called Gordon Zerbetz, PUC, on 1-7-77 who states that PUC can do nothing unless Phillips makes application for the waiver. Phillips apparently will make no attempt to do so. Mr. Zerbetz also states that the Alaska Pipeline Commission has been meeting with the PUC to determine if APC has jurisdiction over such pipelines. He also suggested that we meet to discuss the issues in detail.

AGO 801894



Homer Electric Association, Inc.

P. O. BOX 429

HOMER, ALASKA 99603

PHONE (907) 235-8551

December 9, 1976

Mr. Gordon Zerbetz, Chairman
Alaska Public Utilities Commission
1100 MacKay Building
338 De la H Street
Anchorage, Alaska 99501

RECEIVED **RECEIVED**
DEC 13 1976
DEC 13 1976
ALASKA ROYALTY
OIL & GAS BOARD
Department of
Natural Resources

Dear Sir:

Our Association has entered into active negotiations to acquire generating facilities presently owned by the Chugach Electric cooperative, located approximately 9 miles north of Kenai, and known as the Bernice Lake Power Plant.

The acquisition of these facilities, along with the cancellation of a long-term "all requirements" wholesale energy contract with Chugach, will enable this association to plan and provide for generating and transmission facilities as future needs dictate. This plan will also allow us to promote the early construction of the Bradley Lake Hydro generating plant, which will provide electric energy in the future without dependence upon fossil fuels.

We attempted to negotiate with the Alaska Gas and Service Company to obtain a dependable source of fuel for the Bernice Lake generating plant, however, that company did not give us any assurance of a permanent supply of gas as evidenced by their letter of November 16 to us with a copy to the Commission.

In the letter from the Alaska Gas and Service Company, they mention a contract with Phillips, which is dependent upon a waiver of jurisdiction from the Commission, an amendment to the gas company's contract with the State of Alaska for Royalty Gas, financing additional pipeline, construction of that line, and then Commission approval of a rate design for a special contract with us. It is obvious that these items will require negotiations covering a span of several months.

In order for our association to go forward with the plan to acquire the Bernice Lake facilities, we have certain deadlines to meet that have a relationship to the pending change in personnel brought about by a change in the national administration. If we cannot go forward with this plan prior to the change-over in the hierarchy of the Rural Electrification

AGO 801895

December 9, 1976

Administration in Washington, it will be necessary to re-educate a group of people far away from Alaska unfamiliar with the needs of our association. The incumbents of these positions are sympathetic with our negotiations with Chugach and await only a formal document for final approval of the above mentioned arrangement.

The Alaska Gas and Service Company's proposed contract with Phillips is dependent upon a waiver of the Commission. We do not feel that the Commission can grant such a waiver because the gas company would then take this gas for use in intra-state commerce, and, hence, in our opinion, will be properly subject to regulation by the Commission.

We are presently negotiating with Phillips and the Alaska Gas Royalty Board for direct acquisition of the Royalty Gas from Phillips, to be used at the Bernice Lake site as fuel for the existing generators and for additional generating facilities that are planned to be installed at the earliest possible date.

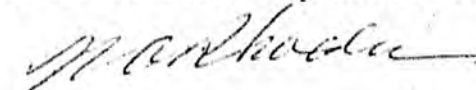
The purpose of this letter, in addition to keeping you informed as to our overall plans, is to request from the Commission a statement that can be used in our negotiations with Phillips to the effect that the Commission will not take jurisdiction over this State Royalty Gas because our use of this gas will be for the purpose of manufacturing electrical energy for resale under tariffs directly under the control of the Commission. In our opinion the gas fuel would not be subject to the Commission's regulation any more than fuel oil or the purchase of components necessary to erect the generating station.

We have a meeting scheduled with Phillips Petroleum Company in Bartlesville on December 17, and an expression of the Commission's feelings in writing prior to that date would aid us greatly in these negotiations.

We sincerely appreciate your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: John Horn, Phillips Petroleum
cc: Alaska State Royalty Board

AGO 801896



Homer Electric Association, Inc.

P. O. BOX 429

HOMER, ALASKA 99603

PHONE (907) 235-8551

November 30, 1976

Mr. Don Wald
State of Alaska
Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Wald:

Thank you for calling me on the telephone today and discussing price and availability of State Royalty Gas from the North Cook Inlet Field.

To help clarify the matters discussed in our telephone conversation, we are enclosing a copy of our letter of November 12 to the Alaska Gas and Service Company and a copy of their response dated November 16

You will note that we requested that the gas company quote us prices for a continuous supply of natural gas, and in the absence of such assurance, we further requested their permission to obtain gas from any other available source in that area. The gas company maintains that this area is in their certificated service area, however, I have been unable to verify this with the Alaska Public Utilities Commission.

In reading the letter from the gas company, you will note that they did not promise a continuous supply of natural gas, nor did they give us permission to obtain gas from other sources.

In other correspondence from the gas company they indicated that they are not certain that they would be able to use all of the Royalty Gas available in that area, and would re-negotiate their contract with the Royalty Board to seek permission to return part of the Royalty gas to Phillips. In fairness to the electric consumers on the Kenai Peninsula whose rates for service will eventually be based partially on the cost of fuel for generating purposes, we can see no logic in the State turning this gas over to the Alaska Gas and Service Company, whose only customer for the Royalty gas, under the present conditions, is the power plant that we are in the process of acquiring in the North Kenai Area.

AGO 801897

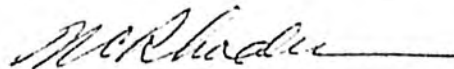
November 30, 1976

We, therefore, request the Royalty Board to consider making this gas available to the Homer Electric Association, who admittedly cannot use all of the gas at the present time, but would be willing to negotiate a sale for that quantity that is surplus to our needs, and, hence, assure the State of a market for all of the Royalty gas presently being delivered to Phillips.

We appreciate your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

Enclosures

From: *Wold*

11-30-76

The Alaska Royalty Oil and Gas Development Advisory Board

Homer Electric Assoc

Bill Rhodes - 235-8677

*Wants to know price of Cook Inlet royalty gas to Alaska
Pipeline - Has ltr offering to sell at \$6.81¢/ft³ on 2 hr notice
interest - from T&E to Alaska Pipeline -*

*Trying to purchase largest Beemer Lake Plant - 4 man - contract
expires Apr '77*

Needs ~~8820~~ 8000 ft³/day

*Alaska Pipeline cannot handle all gas and apparently
will result in to shut down.*



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3000 SPENARD ROAD
P. O. BOX 6288 ANCHORAGE, ALASKA 99502 / PHONE (907) 277-5551
TELEX 25-187

November 16, 1976



Mr. W. C. Rhodes, General Manager
Homer Electric Association, Inc.
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

Confirming our conversation of November 12, 1976 and in response to your letter of that date, we can offer only interruptible (not continuous) service to you for the Bernice Lake power plant. Interruptions or curtailments would be upon two (2) hours' notice. The service would be by a special contract and thus subject to the approval of the Alaska Public Utilities Commission (APUC).

We would propose service to you at a minimum bill of \$5,000 per month and with a price, at this writing, of \$0.8681 per MCF for gas of approximately 1000 btu per cubic foot (but not less than 950 btu/cf), and at pressure and quality suitable for use as fuel for the Bernice Lake power plant.

This is the price in effect as our rate "SK-5", which is a filed tariff. We would expect to have the contract take effect January 1 or the date of your acquisition of the Bernice Lake power plant if earlier, and continue indefinitely.

Per our discussion, our gas supply on the North Kenai Road is indefinite; we are attempting to begin purchasing State royalty gas on or before May 1, 1977 on the expiration of our contract with Union-Marathon. Alternately, we would hope to extend our contract with Union-Marathon until purchase of royalty gas could begin. We are planning a pipeline along the route and in the right of way of your power transmission line (from Quartz Creek to Bernice) to cover any outages of royalty gas and to gather royalty gas into our pipeline to Anchorage. It may not be practicable to complete this pipeline by May 1, and it might be necessary for some oil to be used although we will make every effort to have the line built or else to get the extension of our supply by Union-Marathon. As you know this plant burned oil for 10 years or more and it is essential that oil capability be maintained.



Alaska Gas and Service Company

GENERAL OFFICES LOCATED AT 3800 SPENARD ROAD
P. O. BOX 5218 ANCHORAGE, ALASKA 99502 / PHONE (907) 277 3551
TELEX 25-187

Mr. W. C. Rhodes
November 16, 1976
Page -2-

is that completed

We are of course proud of our record of reliable service with a minimum of curtailments, and we would hope to continue it with you as our customer. However, many elements are now operating which may be or are beyond our control. First, we urgently need APUC waiver of jurisdiction over Phillips. Second, we need to amend our contract with the State to conform with the contract with Phillips (I gave you a copy). Third, we must get financing for the pipeline, and Board approval; fourth, we must build the line; and last, we must get APUC approval of our rate design generally and the special contract with you in particular. Our rate design will be at hearing December 6, and we will draft the special contract for service to you upon the conclusion of that hearing. We can pledge to you our best efforts in all these undertakings, but we cannot commit their timely completion. We appreciate your helpfulness thus far and may need to call on you again.

Very truly yours,

Dale Teel

dh

cc: APUC with copy of HEA Letter 11/12/76

*No contract yet?
what basis*



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99503

PHONE (907) 235-8551

November 12, 1976

Royalty Gas File

Mr. Dale Teel, President
Alaska Gas Service Company
3000 Spenard Road
P. O. Box 6288
Anchorage, Alaska 99502

Dear Mr. Teel:

Confirming our conversation of today, we are in the process of negotiating the acquisition of the Bernice Lake Power Plant from Chugach Electric Association.

In order to go forward with these negotiations, it will be necessary to have a commitment from your organization that a continuous supply of natural gas for fuel will be available at the Bernice Lake site, and the anticipated price and conditions of a proposed contract.

In absence of this assurance that we will be able to obtain the gas supply, we request your permission to obtain gas from any other available source in your service area.

As the anticipated closing date of these negotiations is the first week of January, 1977, we urge your immediate attention to this matter.

Thank you for your cooperation.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes

W. C. Rhodes
General Manager

by Eme

WCR: em

AGD 801902

April 6, 1976

Mr. W. C. Rhodes
Homer Electric Association, Inc.
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

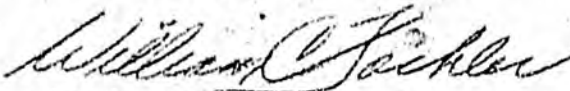
Your letter to Commissioner Martin withdrawing your application for the North Cook Inlet Field royalty gas has been forwarded to me.

We will place your name on our mailing list to keep you advised on the Board's activities.

Attached is a copy of the notice and informative summary to define "industrial use". This regulation does not attempt to set a priority status. Presumably priorities would be set from time to time as warranted by conditions at that time and might well be a matter of State policy which is beyond the Board's responsibility.

We appreciate your notification of withdrawal and are pleased that you have made satisfactory arrangements for a gas supply.

Yours truly,



William C. Fackler
Executive Director

Attachment

WCF:dk



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99603

PHONE (907) 235-8551

March 30, 1976

RECEIVED
APR - 2 1976

Department of
Natural Resources

Mr. Guy Martin, Commissioner
Royalty Oil and Gas Development Advisory Board
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Dear Sir:

In our letter to Mr. Fackler dated January 22, 1976, and at a hearing before your Advisory Board, we applied for the State Royalty Gas that you plan to make available from presently producing fields in the North Kenai area.

The purpose of this letter is to inform you that we have been able to obtain commitments to purchase fuel for the proposed new electric generating facility at North Kenai from what we believe to be a reliable source; and, further, Mr. Dale Teel of the Alaska Pipeline Company has agreed to supply our Association with natural gas for fuel for the existing electric generating plants in the North Kenai area if we are successful in acquiring these from Chugach Electric Association.

In view of the foregoing, we feel that it is in the best interest of all concerned that we withdraw our application as outlined in our letter of January 22.

As the Kenai Peninsula continues to attract industry, we do not wish to imply that we will not, at some future time, be interested in dealing with the State for royalty gas that may become available in other, yet to be developed, fields on the Kenai Peninsula area. If, at any time, additional royalty gas does become available we would appreciate it very much if your office would advise us so that we can ascertain whether or not it would be needed in our ever-expanding operation.

We note with interest the development of the Advisory Board's intention to adopt a regulation in Title 11 of the Alaska Administrative Code to interpret and make specific Alaska Statute 38.06, including the determination of surplus.

RECEIVED
APR 05 1976

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801904

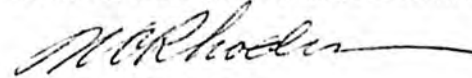
March 30, 1976

We sincerely hope that the proposed regulation 11AAC26.900(a) (5) will define the term "industrial use" as referred to in existing regulations, and that the State's royalty gas will be made available first to industrial use and then to all other uses, according to priorities established by your office.

We sincerely appreciate the courtesies extended to our Association by the Advisory Board and your office, and we are looking forward to further negotiations should the need arise.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: Rep. Leo Rhode
cc: Mr. Dale Teel



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99603

PHONE (907) 235-8551

February 11, 1976

RECEIVED
FEB 17 1976
ALASKA ROYALTY
OIL & GAS BOARD

Mr. William C. Fackler, Executive Director
Department of Natural Resources
State of Alaska
Alaska Royalty Oil & Gas Development Advisory Board
Pouch M
Juneau, Alaska 99811

Dear Mr. Fackler:

Thank you for your letter of February 9, 1976, addressed to Mr. W. C. Rhodes, with reference to H.E.A.'s interest in purchasing North Cook Inlet royalty gas, and advising of the February 23 meeting in Juneau.

Since Mr. Rhodes is presently out of the state, but will return prior to the meeting, this is to advise that he definitely wishes to be scheduled for the February 23 meeting.

Thank you for your cooperation in this matter.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

Elaine McCullough

Elaine McCullough
Secretary to General Manager

em

RECEIVED
FEB 17 1976

Department of
Natural Resources

AGO 801906

Alaska Royalty Oil & Gas Development Advisory Board

February 9, 1976

Mr. W.C. Rhodes
Homer Electric Association
P. O. Box 255
Homer, Alaska 99603

Dear Mr. Rhodes:

The Royalty Board has received your letter advising that the Homer Electric Association is negotiating with Chugach Electric Association for the Bernice Lake generating facility, and consequently H.E.A. is interested in purchasing North Cook Inlet royalty gas.

The North Cook Inlet royalty gas sale will be an item on the agenda for the next Board meeting which is February 23, 1976, in Juneau in the Fifth Floor Conference Room of the State Office Building. The meeting will begin at 10:00 a.m.

It would be advantageous for you to present your position in person at the meeting. I suggest that you include such items as amount of gas, point of delivery, price, term of contract and so forth.

Please advise me if you wish to be scheduled for that meeting.

Yours truly,


William C. Fackler
Executive Director

WCF:dk

file H.E.A.
DK

AGO 801907



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99603

PHONE (907) 235-8551

January 22, 1976

Mr. William C. Fackler, Exec. Secy.
Alaska Royalty Oil & Gas Advisory Board
Pouch M
Juneau, Alaska 99811

RECEIVED
JAN 26 1976

Department of
Natural Resources

Dear Mr. Fackler:

The purpose of this letter is to inform you and your Commission that our Association is entering into negotiations with Chugach Electric Association to acquire their gas fired electric generation facilities at Nikiski.

These facilities are presently consuming approximately 9 million cu. ft. per day of natural gas, which is purchased from the Alaska Pipeline Company. In addition to the present gas consumption, we intend to construct prior to the end of calendar year 1978 an additional generating facility at that location requiring an additional 5 to 6 million cu. ft. per day.

We are familiar with the on-going negotiations between your office and the Alaska Pipeline Company concerning State Royalty gas for resale to Chugach and the Anchorage area.

Please consider this letter as an inquiry to determine whether or not we will be able to purchase Royalty Gas in the amounts described above pursuant to Alaska Statutes AS 38.06.010. We would anticipate purchasing all of the royalty gas available at the Phillips Petroleum LNG Plant with the assumption that the amount in excess of our needs available on a day to day basis could be resold to Phillips for their processing plant.

We assume that we would be required to pay the current market price for the gas which we believe to be 45¢ per MCF plus a negotiated transportation fee. Our negotiations to acquire the electric generating facilities in the area and build additional generation facilities is dependent upon our ability to acquire the State Royalty Gas or a like quantity of other gas in that area.

RECEIVED
JAN 22 1976

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801908

January 22, 1976

Our association is a non-profit cooperative. The membership includes all of the residents and business organizations of the Western Kenai Peninsula. We will greatly appreciate any cooperation that your office can lend us in bringing these negotiations to a mutually beneficial conclusion.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.



W. C. Rhodes
General Manager

WCR:em

cc: O. K. Gilbreth
W. I. Palmer
Sen. Clem Tillion
Rep. Hugh Malone
Rep. Leo Rhode
Guy Martin

January 20, 1976

The Honorable Leo Rhode
House of Representatives
Pouch V
Juneau, Alaska 99801

Dear Mr. Rhode:

The recent correspondence from Mr. W.C. Rhodes, Homer Electric Association, is the first indication I have had that the HEA is interested in State royalty gas.

Mr. Rhodes should write me as Chairman, Alaska Royalty Oil and Gas Development Advisory Board, Pouch M, Juneau, Alaska 99811 and advise the Board of his desire to purchase royalty gas. His letter should include the amount of gas he needs, possible delivery point or points, suggested term of contract and any other provisions that might apply.

This matter would be placed on the agenda for the next meeting which is February 23, 1976 at Juneau, Fifth Floor Conference Room, State Office Building. Meeting begins at 10:00 a.m. It probably would be advantageous for Mr. Rhodes to make a statement to the Board of his plans and needs and respond to any questions that the Board might have.

The Board will give Mr. Rhodes' request every consideration.

Yours truly,

Guy R. Martin
Commissioner

GRM:dk
cc: WCF

Alaska State Legislature

REP. LEO RHODE

BOX 406
HOMER, ALASKA 99603

LEGISLATIVE ADDRESS
POUCH V
JUNEAU, ALASKA 99801



COMMITTEES:
NATURAL RESOURCES
COMMERCE

House of Representatives

January 14, 1976

Guy Martin, Commissioner
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

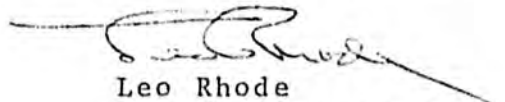
Dear Guy:

Rather than go into any lengthy detail I am enclosing a copy of a letter from W. C. Rhodes, General Manager of the Homer Electric Association Corporation, relative to the sale of state royalty gas from the Kenai Peninsula.

Mr. Rhodes ably explains the feasibility and need of local consumption for the use of the state's royalty gas at the point of production.

If a hearing is to be scheduled on this subject I am certain Mr. Rhodes would like to testify. Also since I am a director of the Homer Electric Association my interest would be two-fold; however, not in any way would my directorship interest jeopardize the maximum source of state revenues. Your comments would be appreciated.

Very truly yours,


Leo Rhode
State Representative
District 13

LR:jp

cc: W. C. Rhodes

enclosure

AGO 801911

RECEIVED
JAN 16 1976

Department of
Natural Resources



Homer Electric Association, Inc.

P. O. BOX 255

HOMER, ALASKA 99603

PHONE (907) 235-8551

December 30, 1975

The Honorable Leo Rhode
House of Representatives
Pouch V, State Capitol
Juneau, Alaska 99811

Dear Sir:

An article in the December 22nd issue of the Oil and Gas Journal states that Alaska is moving to claim for domestic use about 15 million cubic feet per day of state royalty gas, presently exported to Japan, from Phillips-Marathon LNG on the Kenai Peninsula.

The article goes on to state that the gas, representing state royalty of Cook Inlet production, would be used to supply customers in Anchorage under a proposal by an Alaska Royalty Oil and Gas Development Advisory Board.

Another interesting facet of the article indicates that, if this measure is approved by the Legislature, Anchorage Natural Gas Company could be taking gas by late next year. The current through-put of the Phillips-Marathon plant is about 170 million cubic feet per day. It is interesting to note that the 15 million cubic feet per day of royalty gas is almost exactly the amount of natural gas fuel required for electric generation on the Kenai Peninsula during the next four or five years.

We sincerely hope that you will use your good office to make certain that the non-profit electrical cooperatives operating on the Kenai Peninsula will have an opportunity to purchase this gas if it becomes available directly from the State of Alaska. We can see no logical reason why this gas should be turned over to the profit oriented Anchorage Natural Gas Company for resale to the general public on the Kenai Peninsula or in the Anchorage area.

We wish you continued success in the forthcoming session in Juneau, and we will very much appreciate your cooperation when this matter is finally legislated.

Sincerely yours,

HOMER ELECTRIC ASSOCIATION, INC.

W. C. Rhodes
General Manager

MISC.

NOTES