

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 867243

643 SCOMM21: ROYALTY OIL & GAS FILES 1977-78

Setback ^{2/22/77} for gas contracts ^{ADN}

From Our Juneau Bureau

JUNEAU — Voting along party lines, the House special committee considering three contracts to sell Alaska's royalty gas recommended Tuesday evening the contracts be rejected.

The committee also issued a 17-page report largely critical of the proposed contracts, saying legislators must be aware of the costs of approving the contracts before they vote.

LED BY Chairman Rep. Clark Gruening, D-Anchorage, the three Democrats on the special committee recommended each of the three contracts not pass the House. Gruening was joined in voting against approval by Reps. Joe McKinnon, D-Anchorage, and Charles Parr, D-Fairbanks. The committee's two Anchorage Republicans, C. V. "Chat" Chatterton and Joe Hayes, urged approval of the contracts.

The primary concern of the Democrats seems to be whether the state will be able to take back its share of the gas for in-state use if it wants to, despite a take-back provision in the contracts. The committee report also cited a "loss of flexibility in dealing with other potential buyers of the state's royalty gas" if the proposed contracts are approved.

The contracts would sell the state's one-eighth share of Prudhoe Bay natural gas to three gas transmission companies — Southern Natural Gas Co., El Paso Natural Gas Co., and Tenneco Alaska Inc. In return for the gas, the three companies would throw their support behind a trans-Alaska gas pipeline route proposed by El Paso.

"... **THE COST** considerations cast doubt on the advisability of committing gas for export from the state in order to gain marginal political leverage in the gas pipeline routing decision," the committee



Clark Gruening

report, prepared by Gruening, said. "If in the opinion of individual legislators, these cost considerations are outweighed by the likelihood that commitment of the gas will have some favorable effect, the committee strongly recommends that 100 per cent of the state's royalty gas not be committed."

"In addition, approval of any or all of the proposed contracts should be done only after the method of determining what is surplus to the intrastate domestic and industrial needs of the state of Alaska is clarified in the contracts."

The report also said a pipeline "to carry the state's royalty share... to Fairbanks or tidewater has not yet been given the serious consideration it deserves."

THE HOUSE Finance Committee will now have the last review of the contracts before they come to a vote before the full house. Most legislators expect the full vote to come next week.

Senate Amends Plan To Sell State Gas ^{SEAE} 2/22/77

By CHUCK KLEESCHULTE
Empire Staff Reporter

The Senate Finance Committee this morning threw a major curve into the consideration of the sale of the state's share of North Slope gas by adding an amendment to the proposed contracts.

The finance panel, chaired by Sen. John Sackett, R-Galena, on a 4 to 3 vote, approved an amendment first proposed by the Senate Resources Committee Monday, and revised this morning by Sen. Chancy Croft, D-Anchorage.

The amendment calls for the automatic termination of the administration-negotiated pacts if Congress repeals a section of the Alaska Gas Transportation Act of 1976 prior to the Federal Power Commission (FPC) bestowing its blessings on the contracts with three transmission firms: Tennessee Gas Co., Southern Natural Gas and El Paso.

The federal transportation act, approved last October, gives Alaska the right to remove its gas from interstate commerce at any point it wishes without FPC approval being required.

Acceptance of the amendment marks a defeat for proponents of the royalty gas sale, since while it doesn't affect the contracts, it affects the resolution granting legislative approval for the contracts. The amendment makes legislative approval of the contracts conditional and probably will require renegotiation of the pacts, to relieve the uncertainty the amendment will create.

Administration officials repeatedly have stressed that requiring renegotiation of the pacts could prove tantamount to rejection of the contracts since the process will prove sufficiently time consuming that the state will lose the political support for an all-Alaska gas route it is seeking to obtain.

The vote also sets the stage for a Senate floor battle where contract proponents will attempt to disengage the pacts from the amend-

ment, fighting for approval of the former and the rejection of the latter.

"The effect of the amendment is to net not only political support for the El Paso line in Congress, but also support for Alaska's right to keep its access to gas for in-state uses," Croft said before the vote.

When the vote came Sackett joined three committee Democrats, Croft, Sens. George Hohman, D-Bethel, and H.D. "Pete" Meland, D-Sitka, in voting for the amendment, while Republican Sens. Clem Tillion, Halibut Cove; Joe Orsini, and John Butrovich, Anchorage, voted against the pacts.

The committee then voted to move the contracts to the floor with Sackett recommending that none of the three proposals be approved, while the other Republicans asked that the pacts win approval without the amendment, and the Democrats refused to make a recommendation.

Croft's amendment is aimed at guaranteeing the state will not forfeit the right to use its gas for in-state uses, by signing a contract now before gas first starts to flow through any pipeline system to the lower-48.

Attorney General Avrum Gross argued the amendment was not needed since the pacts will not go into affect until the FPC approves the entire package including two provisions in the pacts designed to give the state the right to remove its gas for valid in-state uses when it wishes.

Croft, however, argued that once the contracts are signed the state is legally committed to selling its gas in interstate commerce. He argued the FPC might approve the state's contracts with the transmission firms, contracts which contain the "takeback" provisions, but that such a safeguard would be worthless if the overriding takeback provision in the gas transportation act is already repealed.

Tillion, who argued strongly against the amendment this morning, promised a strong floor battle against the amendment.

House Group Nixes ^{SEAE} ^{2/22/77} The El Paso Contract

Contracts calling for the sale of the state's share of royalty gas hit an obstacle Monday when a House panel questioned the need for all three contracts and recommended rejection of one pact.

The House Special Gasline Review Committee, chaired by Rep. Clark Gruening, D-Anchorage, voted 3-2 to recommend the full House reject a contract with El Paso Gas Co.—the firm seeking permission to build the all-Alaska gas pipeline system.

The proposed contract with El Paso calls for sale of 25 per cent of the state's gas to El Paso or a maximum of 650 billion cubic feet of the state's 2.6 trillion cubic feet of North Slope reserves over 20 years.

The panel did vote to report all three contracts to the House Finance Committee for further review and took a basically neutral position on contracts with Tennessee Gas Transmission Co., a subsidiary of Tenneco Inc., and Southern Natural Gas Co. These contracts call for the sale of 50 and 25 per cent of the state's gas.

Reps. Charles Parr, D-Fairbanks, and Joe McKinnon, D-Anchorage, voted not to make a recommendation on the Tenneco-Southern pacts and voted against the El Paso contract. Reps. Joe Hayes, R-Anchorage, and C.V. "Chad" Chatterton, R-Anchorage, voted for all three contracts. Gruening voted 'no' on all contracts.

The committee, on a 4 to 1 vote, approved a staff report which tended to be skeptical of the political benefits the state will net from the contracts and which is negative about the costs the state could incur by approving the administration-negotiated pacts.

"I think all the legislators are going to have to sit down and weigh the contracts and make up their own minds on whether the benefits outweigh the costs," Gruening said.

The panel's report also said it (the El Paso contract) "makes little sense even under the political objectives of building 'constituencies' and 'lobbying efforts'" to sell state gas to a company which already is firmly committed to the fight for the all-Alaska route."

The committee's report added "there has not yet appeared any compelling reason for the sale of the royalty gas at this time." It said the main obstacles to construction of the Arctic backed trans-Canadian pipeline system are and will continue to be Canadian Native land claims and delays in construction and financing inherent in the Arctic line.

"Regardless of whether the state enters into these contracts at this time, those problems will continue to be the substantial roadblocks to construction of a Canadian pipeline," the report says.

The committee's main objection to acceptance of the contracts lies with problems relating to the state's gas "takeback" provisions, Gruening said. The committee's report, backed by a Feb. 16 legal opinion by Billy G. Berrier, director of legislative legal services, argues the takeback provisions are clouded by "substantial ambiguity as to how surplus gas will be determined at the time the state decides to use the gas."

The committee recommended all three contracts be renegotiated or supplemented by let-



**REP. CLARK GRUENING
GAS PANEL CHAIRMAN**

ters of intent to back up the state's view it will have the ability to decide what gas it needs to takeback from the transmission firms.

The committee's report argues that the contracts don't set out a performance level the firms must meet in lobbying for the El Paso project and might even prove a liability given the "political mood" toward the petroleum industry at present. The report laments the "loss of flexibility" the contracts will produce for the state in seeking new markets for sale of its gas or in use of the gas in petrochemical developments.

The report leaves the issue to the full House to weigh on their own. But the committee did urge that not all the state's gas be sold at the present time.

All three Democratic members approved the panel's report and only Rep. Hayes disagreed with the conclusion drawn from the 1,100 pages of testimony gathered during joint House-Senate hearings held earlier this month.

The committee recommendations now head on to the House Finance Committee, chaired by Rep. Steve Cowper, D-Fairbanks, for consideration. Following a short trip to the Rules Committee, the issue will be before members on the floor—an action Gruening guessed might take place next week.

Readers write...

Disturbed by a question

Dear Editor:

We were disturbed by the selective concerns you expressed in your Feb. 15 editorial questioning the effectiveness of the state selling its surplus royalty gas from Prudhoe Bay.

Rather than accepting FPC Judge Litt's erratic ruling as holy writ, you might more appropriately ask how he arrived at his indefensible conclusions regarding construction and environmental conditions in Alaska and political problems in Canada. We can assure you that federal government agencies, as they begin their review of the gas line routing issue early this summer, will be asking the hard questions that Alaskans themselves should be raising.

But if you regard Judge Litt as an infallible guide to the ultimate outcome of the gas line decision (actually FPC judges have a poor track record in these matters), then you might be interested in knowing that during the state's testimony in the FPC hearings, Litt specifically criticized Alaska for doing nothing tangible to support the trans-Alaska gas line proposal. The judge told the state witnesses that if Alaska were truly serious about securing a trans-Alaska route it would commit at least some of its royalty gas to those companies working for the route.

We are not familiar with the Gilbreth memorandum you quoted, but at the same time the unanimous opinion of Alaska's congressional delegation should not be ignored. Sen. Ted Stevens, Sen. Mike Gravel, and Rep. Don Young have all repeatedly urged the state's sale of its excess royalty gas via a trans-Alaska line as crucial for achieving approval for the project. Their assessment of Washington, D.C., realities surely deserves some consideration.

I think that you should also take a harder look at the myth that, while Alaska wants a trans-Alaska route, the rest of the country is demanding a gas line through Canada. There is not such sentiment in the other states whose inhabitants are lamentably unaware even that North Slope gas is available to ease their energy problems, much less that there is a dispute over how to get it to them.

Also you should remember that Judge Litt did not recommend "a trans-Canadian route," as you put it. While he acknowledged that the trans-Alaska line is viable and certifiable, he called for approval of only the Arctic Gas route. Rightly or wrongly he wrote, "there is not even the possibility" of certifying the Alcan route. So by accepting Litt's tenuous pronouncements as the inalterable will of the US government, you are in effect giving support to the

Get something to say? Then say it, and send it to Readers Write, The Daily News, P.O. Box 1000, Anchorage, Alaska 99510. We invite readers to express their views. We ask that letters be typed, if possible, and signed with an address and phone number.

Arctic Gas project that it in no way deserves.

Benjamin F. Harding
Community Relations Director
OMAR

Gas contracts critical says Sen. Stevens

From Our Juneau Bureau

JUNEAU — Republican U.S. Sen. Ted Stevens Wednesday strongly urged the state Legislature to quickly approve three contracts to sell the state's one-eighth share of Prudhoe Bay natural gas in exchange for support of an all-Alaska gas pipeline from the North Slope.

"These contracts are a vital aid to our attempts to secure a decision in favor of the all-Alaska route," Stevens told a joint session of the House and Senate. "I hope you will approve the contracts. To reject them now would be a serious and possibly fatal blow to our efforts to convince people in Washington to support an all-Alaska line."

STEVENS' address to the legislature coincided with the arrival of a 50-member delegation from the Organization for the Management of Alaska's Resources (OMAR), which was also boosting early passage of the gas contracts.

The three contracts would be sold to Tenneco Alaska Inc., Southern Natural Gas Co., and El Paso Natural Gas Co. in exchange for support of the trans-Alaska route.

Other issues Stevens addressed:

— The trans-Alaska oil pipeline. "The main thing we must try to do is to insulate our royalty share from the transportation costs. If we can establish a market for Alaska oil at Valdez or clearly establish a value in a similar fashion, then Alaska's return would not depend on where the oil goes. There is no reason why Alaska should lose money because the Lower 48 can't figure out what to do with our oil."

— Fisheries and the 200-mile limit. "I am a co-sponsor with Sen. Kennedy of a bill which would create a fisheries assistance fund composed

(Continued on Page 2)

Gas Contracts Vital, Stevens Tells Solons

SEAE
2/17/77

Calling the proposed state royalty gas contracts "a vital aid" to Alaska's efforts to win approval of an all-Alaska gas pipeline route, U.S. Sen. Ted Stevens Wednesday urged state lawmakers to endorse the contracts as soon as possible.

Stevens in an address to a joint session of the Alaska Legislature told lawmakers "help" from the two newest participants in the gas issue, Tennessee Gas Transmission Co., a subsidiary of Tenneco Inc., and Southern Natural Gas Co., is needed immediately.

"The state simply must take a more active role in supporting an all-Alaska pipeline route. The key deadline is July 1 when federal agencies must make their recommendations to the President," Stevens said.

104 contracts in Steven's view also "firm-

up" the supply of liquified natural gas (LNG) to Southern and East Coast states—a key provision of the contracts since those states are already growing more dependent on LNG and want a dependable domestic source of the fuel rather than depending on foreign sources.

Stevens in response to an hour of lawmaker queries, specifically to a question from Rep. Russ Meekins Jr., D-Anchorage, downplayed recent proposals that the state should step in and actually help finance the El Paso all-Alaska pipeline project. Alaska's senior Republican senator said such efforts might backfire in Congress.

"One of the strong selling points of the project in Congress is that El Paso is the only project which should be able to totally finance itself in the private sector. Congressmen will admire that. I don't see any reason yet to change the picture unless El Paso asks for your help," Stevens said.

Stevens at a reception later in the day, clarified a statement stemming from a Washington news conference last week. The senator said that at that conference he was urging Canadian decision makers to publically tell the Congress and the President what they have been telling some members of Congress privately, that Canada has no intent to expedite a decision on any pipeline.

"I wasn't trying to threaten Canada or interfere with her decision process. I was just trying to get them to come out and say that even though we are friends, they have no intent to go against their own best interests even if we want them to rush to a decision," Stevens said.

He also dismissed the importance of what some newsmen last week interpreted as a veiled threat to Congress, that Alaska would reduce the gas flow from the North Slope to such an extent an Arctic pipeline would not be economical, if the Arctic route is approved.

By JOHN HAVELOCK

(First of a series of columns)

Early highway routing in the United States was usually a consequence of local private convenience and local financial limitations. As a result, when someone wanted to travel from Boston to New York, he would follow the convenience first of persons with a prior interest in going from Boston to Newton, Newton to Worcester, Worcester to Springfield, and so on to New York. The road would be wide or narrow, steep or graded, straight or crooked, point northwest or south, depending on the self-interest, the aspirations and the pocketbooks of local residents.

Though Henry Clay's "American System" proposals of 1817 conceived of a land transportation system that would bear some relationship to overall American transportation goals, no comprehensive implementation took place until the 1850s when the over-success of a single-minded national highway planning program founded a juggernaut.

ON A SOMEWHAT grander scale of distance, railroading followed a similar course of freewheeling private entrepreneurship free of long-term planning or broad regional or national conceptualization. Today's frequently redundant, largely bankrupt system of rail transportation is in large part a legacy of the absence of public transportation policy.

Do we learn? Alaska has a dozen regional zones of oil and gas potential. Pipeline transportation is the most rational and economic form of transportation for these commodities in almost every case. Yet there is no indication that federal decision making has been significantly influenced by consideration of the comprehensive needs of the next few decades.

For starters, gas pipeline decisions are given to one agency, the Federal Power Commission (FPC) and oil pipeline decisions are made (supposedly) by another agency, the Interstate Commerce Commission (ICC). Neither agency was established with the responsibility in mind, a fact reflected in the lackadaisical attention given by them to pipeline matters over the years. The Interior Department gets into the act from its perspective as a real estate holding company, which doesn't improve matters much.

THE BASIC DECISIONS on gas line routing are made as road decisions were made in 1800, on a narrow estimation of private benefit by those who hope to profit from the construction. The procedure is fundamentally flawed.

The gas pipeline routing case began as a contest between two consortia of private production ownership, marketing, processing and construction interests, one of which seems to have drawn in the State of Alaska as a party. The El Paso group is composed of a California marketing group, banking, maritime operating and shipbuilding ownership and union interests and, pulling the state in tow, most principals in the Alaska construction industry.

The Arctic Gas group has its own set of economic bed fellows including financial houses, production ownership interests, and overlapping interests in Canadian resource, construction and transportation ventures and most recently U.S. Steel as a pipe manufacturer. Carefully putting its head in blinders, the FPC as the guardian of national interest, chose to consider only the "serious" proposals, those consisting of packaged vested interests.

viable political and economic compromise and a chance to make some money in some rather obvious public concerns which the other alternatives ignored, might be characterized as the opportunists. They saw an opportunity and organized a proposal around it, but a little late.

The alternative to letting public interest be towed in the wake of private was, and in some future will be, that the public interest representatives involved, the state and the federal government, get together with the public to determine what the most efficient and effective network of pipelines for Alaska and the continent should be, schedule it and put it out to proposals for private construction, ownership and management with some level of federal guarantee for capital needs.

For those that wince at federal guarantees, consider: either existing pipeline deal is way too big (like Lockheed Aircraft) and too important for the government to let it fold, so the government is the silent partner in any case.

THOSE WHO REALLY pay the piper are the consumers and the public, national and Alaskan, since the higher interest costs which result from straining the conventional market for supposedly risk capital will be passed forward in higher consumer prices and backward in lower tax payments and royalties to the state. The center of industry profit switches to financing, transportation and processing. The public is not going to save a dime by throwing yet another "largest-ever" enterprise, on top of TAPS, on a private financial market designed to handle considerably smaller arrangements.

The decision making process on routing for the first gas line seems now fated to follow the TAPS procedure by which public interest follows in the trail of private initiative and convenience. But we are not through with pipeline construction, nor with the design of other national transportation modes. A decision-making process constrained by short term private goals which focuses on the crisis of the hour is a poor instrument of policy formation. We can hope that in the future, the nation will look at better ways of making decisions rather than abdicating to the log rolling skills of private corporate power.

(John Havelock served as chairman of the state's pipeline coordinating committee in 1972-73.)

Policy profiles

ADN 2/16/77

Why federal policies fail

routing of gas & oil lines



2/19/77

2-Anchorage Daily News, Sat

Gruening fires back at OMAR

JUNEAU (AP)—The chairman of a special House committee on the sale of Alaska's natural gas fired back Friday at accusations that the legislature is dragging its feet on the issue.

"I think the legislature should be complimented for not hurrying in to the sale of Alaska's resources," Rep. Clark Gruening, D-Anchorage, said in a speech from the House floor.

Gruening said he was prompted to address the House by published accusations from members of the Organization for the Management of Alaska Resources that the legislature was "playing games" with proposed contracts to sell Alaska's royalty share of Prudhoe Bay natural gas in return for political support for an All-Alaska gas pipeline route.

The Anchorage lawmaker denied a claim voiced Thursday by OMAR member Butch Stein of Fairbanks that "Gruening didn't even have the courtesy to call a meeting (of his special committee) so we could testify."

Stein, a member of the Fairbanks borough assembly, leveled the accusation after a delegation of about 50 OMAR members failed to convince the legislature to speed up action on the contracts.

Gruening said Stein never requested a meeting of his committee and claimed that Stein was satisfied with an informal meeting he conducted with OMAR members in the House chambers.

"I think haste makes waste and it behooves us in light of our Prudhoe Bay experience to wait," Gruening said in an apparent reference to a claim by a legislative consultant that the state may have lost up to \$40 billion because of ineffective leasing policies on the North Slope.

^{SAGA} Boucher ^{2/21/77} Claims Gas Attitudes Changing

ANCHORAGE (AP) — Former Lt. Gov. "Red" Boucher says the impact of the recent natural gas crisis has vastly improved the reception Alaskan oil and gas will get in California.

He said Friday, "The impact of California having to move its gas eastward and the overall recognition of what a similar gas shortage would do to California is having an impact."

Boucher, whose comments were made in a telephone call from Dallas, said he has been visiting the lower 48 for the past 10 days to measure the impact of the gas shortage.

He defended the legislature's refusal to give quick approval of Gov. Hammond's proposed sale of the state's royalty gas. Boucher said it's still not clear that the sale is legal.

According to Boucher, the necessary studies haven't been done and it hasn't been shown that the gas would be surplus to the state's needs.

He said criticism of the legislature by the Organization for the Management of Alaskan Resources (OMAR) is way off base.

He said, "I feel that Omar's statements concerning the actions of the legislature are totally out of order. In fact, it is typical of the pressure that has and is being applied ever since this sale was announced by governor in November to get the bill through."

Teamsters Call For Gas Pact Rejection

SEAE 2/21/77

By **CHUCK KLEESCHULTE**
Empire Staff Reporter

Alaska lawmakers Saturday were asked to reject contracts calling for the sale of the state's share of North Slope royalty gas until language is modified to drive a point home to the Federal Power Commission (FPC) in Washington.

Jeff B. Barry, business manager for Teamsters Local 950 in Anchorage and director of the union's political-action arm ALIVE, called for acceptance of the sale contracts with three firms: Tennessee Gas Transmission Co., Southern Natural Gas and El Paso, but only if one clause is amended and another controversial clause is deleted.

Barry, speaking for the teamsters, told a special joint session of the Senate Natural Resources and Senate Finance Committees that the contracts should be modified so the state initially is selling only 80 per cent of its one-eighth share of the Prudhoe Bay reserves. That would provide Tenneco with 40 percent instead of half of the state's share and give El Paso and Southern 5 per cent less gas than presently called for.

Barry said such a move would assure the state adequate future supplies of natural gas for in-state uses—uses which he said face a critical gas shortage when Cook Inlet reserves are depleted in the mid 1980's.

Barry's charge, however, also was aimed at sending a firm message

to the FPC that the state needs its gas and won't accept construction of an Arctic Gas trans-Canadian route which would effectively deny the state access to the North Slope reserves.

"Upon the evidence presented to (FPC Administrative Law Judge) Litt he had no knowledge that the vast majority of Alaskans have never had the energy benefits of natural gas or that the small area that has, may soon be blacked out.

"You must modify the contracts to show (in the formal record) that Alaska has a use for its gas," Barry said.

The representative of the state's most powerful union, in a scathing attack on the Hammond administration's handling of the state's case before the FPC, said Alaska has been "remiss and derelict in its obligation" to make clear the state's need for the gas for in-state uses.

"The state was dilatory and uncooperative," said Barry, who called the recent Litt recommendation a "shocking indictment of the state administration's" performance before the FPC.

Sen. Clem Tillion, R-Halibut Cove, strenuously objected to Barry's charge saying the proposed gas contract protects in-state use of the gas, allowing the state to takeback set percentages of the gas with one year's notice and takeback all of its gas on two years notice.

"It's not that we haven't made our case clear to the FPC. It's just that Litt hasn't paid attention to the arguments. He doesn't want our

gas to be used here in Alaska—he wants it to head to the East Coast," Tillion said.

Barry countered that the state could be barred by FPC regulations from removing its gas from even an El Paso line once the gas begins to flow. He said such a bar could result no matter what type of takeback provision is included in the contracts.

He said such a problem would be compounded if Congress follows Litt's recommendation made Feb. 1 and repeals Section 13-b of the Alaska Gas Transportation Act—the clause which allows Alaska to withdraw its gas from interstate commerce.

Barry also said the teamster's are "totally opposed" to a provision in the contracts allowing Alaska to switch its support from backing the El Paso all-Alaska gas route—a clause which allows the present three firms to switch their support to any route the state finally backs and keep their rights to the royalty gas.

Barry criticizes the clause as abrogating legislative power and said approval of the clause would give sole power to the governor to make a key decision, a process the teamsters said "set a bad precedent" for the future.

Barry under repeated questioning by Tillion said he would rather see the present contracts scrapped, even if that meant loss of the contracts and their potential political influence for the all-Alaska route. Barry, however, was quick to add that renegotiation of the contracts should not have to be a time consuming task and that approval by

both the Royalty Board and the legislature could be expedited.

Tillion, however, rejected that view. "We have to vote these up or down without changes. We don't have time to reopen negotiations given all the problems that might entail.

"Our Congressional delegation says they need these contracts and I'm not going to leave them high and dry," Tillion said.

Only Sen. John Huber, D-Fairbanks, voted against the contracts release from the Natural Resources Committee to the Finance Committee. Huber said he was holding out for the addition of an amendment which would have made it clear the pacts are dissolved if Congress would ever repeal Section 13-b.

The Resources committee eventually passed the contracts on to the Finance committee on a 4 to 1 vote. Sen. John Sackett, R-Galena, head of the Finance panel said the contracts would be up for review immediately upon receipt by his members. He said the contracts could be cleared for Senate floor action as soon as Tuesday.

Barry added the teamsters have already collected 10,000 signatures and will be attempting to net 40,000 more in the next three weeks on a petition which could easily become an initiative making it illegal for the state to cooperate in anyway with an Arctic or Alcan Gas project. The initiative if approved would force the state to fight in every way selection of Arctic route including denial of all right-of-way permits.

Gas Contracts Prompt

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FEBRUARY 23, 1977 12 PAGES TODAY 25 CENTS

Senate 'Haggling'

By G. MICHAEL HARMON
Associated Press Writer

Senate President John Rader today compared legislative haggling over contracts for the sale of Alaska's royalty share of Prudhoe Bay natural gas to the actions of a "frightened animal."

"We're like a frightened animal, a rabbit, standing in front of a hawk," Rader said during Senate floor debate on the contracts. "We're immobilized by fear."

Rader made the allusion shortly before the Senate recessed for lunch without taking a vote on the contracts to sell the state's estimated 2.6 trillion cubic feet of gas to three transmission companies in exchange for political support for an all-Alaska gas pipeline.

Floor debate centered on a last-minute maneuver to attach a potentially deadly amendment for the contracts.

Pushed by Sen. Chancy Croft, D-Anchorage, the amendment approved by the Senate Finance Committee Tuesday would automatically terminate the contracts if Congress repeals section 13-B

of the Alaska Natural Gas Transportation Act of 1976 before the Federal Power Commission acts on the pacts.

Section 13-B of the act, which establishes the procedure and timetable for federal approval of competing Prudhoe Bay gas pipeline routes, gave Alaska the unprecedented right to take its gas off the interstate pipeline for intrastate use without FPC approval.

Croft told the Senate that the amendment was necessary to protect the state's interest if 13-B is repealed, and would require the gas purchasers to lobby to retain the provision.

"The amendment says that if you want our gas, you have to lobby not only for the El Paso line but for 13-B as well," Croft said.

However, Sen. Clem Tillion, R-Halibut Cove, countered that passage of the amendment would kill the contracts and cause a Congressional backlash against 13-B.

"For us to flag 13-B in the open back in Washington now would add fuel to the fire for its repeal," Tillion said.

He also argued that takeback provisions of the contract are

"perfectly adequate" to protect the in-state use of royalty gas, and said the legislature had no authority to amend the contracts.

Tillion based his contention on a tentative opinion from Atty. Gen. Avrum Gross that the legislature has no authority to qualify the contracts, but can only vote them up or down.

Gross said the administration of Gov. Jay Hammond will consider a Senate vote to amend the pacts the same as a rejection.

Tillion claimed that the administration has the votes in the Senate to defeat the amendment but acknowledged that the ballot will be close.

Croft said the amendment was offered to counter fears about the impact of a repeal of 13-B on the ability of the state to reclaim its royalty gas once it enters an interstate pipeline.

"If Congress repeals 13-B before the FPC approves the contracts, then the state loses control of its gas," Croft said.

Gross, however, categorically disputed the Croft claim, contending the contracts have "no impact on 13-B and vice versa."

Gross acknowledged that the repeal of 13-B would cause the state "real problems," but said those problems would exist whether or not the contracts are approved.

"Let's assume that Congress does repeal 13-B before the FPC approves the contracts," Gross said. "How does this amendment protect us?"

"Whether we've got the gas because we never sold it in the first place or whether we've got it under the recall provisions of the contract—in either case we've got to get FPC approval to take it off an interstate pipeline for in-state use if 13-B is repealed."

Gross said supporters of the amendment "are trying to tie the contracts to the existence or non-existence of 13-B under the theory that if we don't have 13-B we can't protect our gas."

"My answer to that is that we can't protect our gas with or without the contracts if 13-B is repealed," Gross said.

Croft said the amendment also "makes sure we have political support not only for the all-Alaska line but for 13-B as well."

Gas line debate in ^{ADN} 2/18/77 Congress

WASHINGTON (AP) — Congress heard a long list of complaints Thursday on the initial decision of the Federal Power Commission favoring the Arctic Gas consortium plan for shipping Alaska natural gas to U.S. consumers.

The complaints came at a hearing of the House interior subcommittee on public lands. Congress has the final say on the ultimate selection of the natural gas pipeline plan.

Commission administrative law judge Nahum Litt decided last month that Arctic's plan was superior to competing proposals of Northwest Pipeline Corp. and El Paso Natural Gas.

Northwest president John G. McMillian said Litt's decision "is an advocate's brief in favor of one project, that is the Arctic Gas project, and reflects an incredible bias and antagonism toward the Alcan project," which is Northwest's plan.

McMillian said Northwest's proposed pipeline used existing technology and pipeline corridors and "substantially reduces risk of cost overruns and delays."

R. Clyde Hargrove, representing Arctic Gas, praised the FPC proceeding, pointing up Litt's conclusion that the Arctic Gas pipeline would deliver the most gas to needy midwestern users at substantially less costs than the competing plans.

Hargrove doubted that complex Canadian land claims would delay construction by Arctic Gas. He said there are legal methods which would preserve native rights and allow construction to begin.

John C. Bennett, representing El Paso, said his company's proposal would assure orderly development and transportation of North Slope gas.

Although the original El Paso plan was to ship the gas to Southern California, Bennett told the panel the tankers could make the gas available at other ports for shipment to any areas where it may be needed.

Bennett also stressed the El Paso plan would use American materials and workmen, and that the plan was the backing of the state of Alaska.

Arctic gas line proposal 2nd

FPC staff likes Alcan alternative

ADN
3/16

By ROSEMARY SHINOHARA
Daily News Staff Writer

The Federal Power Commission staff has taken issue with Law Judge Nahum Litt's rejection of the Alcan Project as an alternative to the Arctic Gas Co. proposed natural gas pipeline from the North Slope.

"Only in the case when no Alaska gas would be permitted to transit Canada is there a clear staff choice of an alternative to the Arctic Gas project, without the need for more information," the staff said in comments filed with the FPC in the wake of the Litt decision.

JUDGE LITT, in the first round of decision-making on the gas pipeline route decision, said the application of Arctic Gas was "superior in almost every significant aspect" to the other two proposals.

Litt termed El Paso Natural Gas Co.'s trans-Alaska route and tanker system a clear second choice, and he said Northwest Pipeline Corp.'s Alcan project was not worth considering.

Since the Feb. 1 Litt decision, all parties involved were given the chance to tear into the decision by filing "exceptions" for the full Federal Power Commission to consider when it makes its recommendations to President Carter on May 1.

THE FPC STAFF said it agrees "in the main" with the conclusions reached by Judge Litt in favor of the Arctic Gas route across Alaska's North Slope into northern Canada, and south along the MacKenzie River delta.

However, the staff said it is unclear that El Paso's project should be ranked as the second choice. If Canada refuses to allow a pipeline in the Mackenzie Valley corridor, as proposed by Arctic, the options would have to be re-studied, the staff said. The viability of Northwest's proposal is connected with whether or not an independent Canadian project known as the "Maple Leaf" project is built, the brief says.

Other major areas of disagreement by the staff were:

—Judge Litt's approval of a "western leg" proposed in the Arctic Gas project to deliver gas to the

California area. Without gas purchase contracts, the FPC staff said "western leg" certification is premature.

—Certain of Litt's conclusions regarding financing and tariffs for the proposals. The staff said it has not been proven that an Alaska gas project is unable to "stand on its own feet," and will need novel tariff arrangements and "government backstopping."

—El Paso proposal to build a liquefied natural gas plant at Gravina Point in Prince William Sound. The staff said alternative sites in Cook Inlet should not be brushed off in consideration of where to put the LNG plant.

Each of the three applicants for

the gas transportation system have also made critiques of Litt's decision.

EL PASO, in its criticism, said the judge gave "every conceivable benefit of the doubt" to the Arctic Gas project.

El Paso called the Arctic Gas construction schedule unrealistic, and said therefore the project costs are understated. Other criticism from El Paso concerned gas supply, environmental and Canada aspects of the Arctic Gas project.

While El Paso said Judge Litt was too generous in considering how much gas would be available from the Mackenzie Valley reserved in

(Continued on Page 2)

Gas Utilities Back^{3/14/77} Alcan^{SENE}

SEATTLE (AP) — Three of the Northwest's natural gas utilities have thrown their support behind the so-called Alcan Project to transport Alaska natural gas to the lower 48, while one utility said it still has some questions.

Wendell Satre, chief executive of Spokane-based Washington Water Power Co.; James Thorpe, president of Seattle's Washington Natural Gas Co., and officials of Portland's Northwest Natural Gas Co. said Friday they support the project. The plan is advocated by Northwest Pipeline Corp., the sole supplier of natural gas to Washington, Oregon and Idaho.

But O. Marshall Jones, president of Seattle-based Cascade Natural Gas Corp., said his utility "cannot add our endorsement of the Alcan route."

The Alcan route would follow the trans-Alaska oil pipeline to a point south of Fairbanks, then turn east to follow the route of the Alcan Highway through Alaska and Canada.

There are two other competing pipeline proposals.

Satre said the Alcan route's use of existing highways and utility corridors would minimize environmental damage and reduce the possibility of cost overruns and construction delays.

Thorpe said the Alcan route "offers the best opportunity to work out a long-range, orderly plan for new Alaskan supplies and continued deliveries of Canadian gas to our area."

Jones, though, said Cascade has "serious reservations on the content of the proposed Canadian-U.S. treaty" which would be necessary for the Alcan project.

"The treaty does have serious loop-holes that we would like to see tightened up before lending support to either of the land pipeline proposals," Jones added.

The Arctic Gas Consortium advocates a route through the Canadian Mackenzie Delta south through Canada to the American Midwest. That route was picked as the best of the three by a Federal Power Commission administrative law judge.

El Paso-Alaska proposes a route paralleling the trans-Alaska oil pipeline. Natural gas would be liquified at Valdez, Alaska, and shipped to California. That route is favored by Alaska state officials and the Seattle Chamber of Commerce.

President Carter must choose one of the three routes to recommend to Congress.

Doyon Backs Alcan Route

ANCHORAGE (AP) — The Doyon Native regional Corp. says it is backing the Alcan natural gas route.

Doyon, the third largest regional corporation, thus becomes the first Native regional corporation to shift away from support of the El Paso proposal.

The Alaska Federation of Natives, which represents all 12 corporations, endorsed El Paso's project more than a year ago.

In announcing its support of Alcan on Thursday, Doyon President Tim Wallis said that route would give Doyon two opportunities for transporting any natural gas found in the Kandik Basin lands owned by Doyon.

3/14/77

Southeast Alaska Empire, Juneau, Alaska, Monday

Hammond Dismisses Pact Critics

By G. MICHAEL HARMON
Associated Press Writer

Gov. Jay Hammond responded formally for the first time Friday night to the sudden revival of attacks from Democratic legislators on administration-negotiated contracts for the sale of Alaska's royalty share of Prudhoe Bay natural gas.

The new exchange between the Republican administration and Democratic critics blew new life into a gas contract debate which appeared to have died more than a week ago with legislature approval of the pacts.

Hammond's response largely dismissed the jab aimed at the in-

tegrity of Tenneco-Alaska Inc., the biggest beneficiary of the contracts. But the campaign picked up support from outspoken Democrats who appeared unlikely to let the issue end with one prepared statement from the governor.

Hammond's comments came in response to a harshly-worded letter from Senate Resources Chairman Kay Poland, D-Kodiak, branding Tenneco as a company which "may well be accused of profiteering in the face of a national crisis."

Poland began her attack alone Thursday, but the formal letter to Hammond on Friday also in-

cluded the signatures of Democratic Sens. Chancy Croft of Anchorage, John Huber of Fairbanks, Pete Meland of Sitka and surprisingly Republican John Butrovich of Fairbanks.

Croft, prominently mentioned as a 1978 gubernatorial candidate, and gadfly Huber have been long-time, persistent critics of the contracts which originally were advertised by Hammond as a vehicle by which to pick up political lobbying support and a national constituency for the all-Alaska gasline route of El Paso Natural Gas Co.

Under the contracts, Tenneco receives a full half of the state's

2.6 trillion cubic feet of Prudhoe Bay royalty gas while El Paso and Southern Natural Gas Co. divide the other 50 per cent.

Poland pulled the trigger on the renewed battle, but Tenneco itself provided the ammunition with the lawsuit-prompted admission that it may have violated federal law.

A veteran of seven years in the Senate, Poland called for cancellation of the Tenneco pact based on the firm's written statement that it may have improperly diverted massive amounts of natural gas from the regulated interstate market to the unregulated and more profitable in-

terstate market.

Information on diversion from midwest customers to a Tenneco subsidiary in Texas contained in Tenneco filings before the U.S. Securities and Exchange Commission was disclosed by the New York Times. The Times said the diversions could total as much as 350 billion cubic feet.

Diverted to the intrastate Texas market, Tenneco could sell the gas for nearly twice as much as in the Federal Power Commission-depressed interstate market.

Tenneco made the disclosures during the course of a suit filed by Standard Oil Co. of Indiana,

accusing the transmission company with failing to provide gas promised in a contract.

In one document, Tenneco said "it appears that such gas was released under a variety of procedures, some of which involve transactions which may have failed to meet all the regulatory requirements therefor under the Natural Gas Act."

Expressing shock at the disclosure, Poland fired off her first salvo two days ago, saying "it's a mystery to me to see how we can expect a company with such a tarnished reputation to have political clout."

Based on the admission, she

called on Hammond not to sign the Tenneco contract, but quickly learned that all the pacts had been formally inked before they even were submitted to the legislature.

Undeterred, however, Poland on Friday called wrote Hammond a letter, called her committee together and won the support of a majority.

Poland said she felt personally affronted by the company's conduct because she had voted for the contracts "in spite of considerable personal reservations" about administration claims that the pacts would generate "an unspecified amount of persuasive political support" for the all-Alaska route.

Northwest hits route decision 3/14

By ROSEMARY SHIMOMURA
Daily News Staff Writer

The chief executive officer of Northwest Pipeline Corp. says he thinks the initial North Slope gas pipeline decision made by an administrative law judge was "in bad taste."

John G. McMillian, whose company was the one most severely trounced upon in the first round of decision-making on a three-way competition for a gas pipeline project, says "I think we'll have a more sympathetic ear" before the administrative departments that will also make recommendations.

NORTHWEST HAS CHARGED that the recommendation in favor of Arctic Gas Co. made by Federal Power Commission law judge Nahum Litt was biased.

"There was no finding of facts and conclusions of law. He was an advocate for Arctic Gas," McMillian said in an interview last week. Because

of the alleged bias, Northwest has officially requested that the FPC avoid any communication with the judge and his staff while the issue is under consideration by the full commission.

Judge Litt's recommendation said the Arctic Gas proposal, across northern Alaska and down the Mackenzie River valley in Canada, was clearly superior. He said El Paso Natural Gas Co.'s proposed trans-Alaska pipeline and liquefied natural gas tanker system was also viable, but Northwest's proposed Alcan pipeline wasn't.

"**WE THINK** the decision will have a backlash effect," McMillian said.

Under the Alaska Transportation Procedures Act of 1976, the Federal Power Commission makes its findings by May and other federal agencies have until July to make their sentiments known to the President. President Carter has said he will decide by Sept. 30 on the issue, and then the matter is before Congress to accept or reject.

In Canada, Justice Thomas Berger's report on potential social and environmental impacts of a trans-Canada gasline is due next month or in May. "We think it will say that Arctic Gas is going to have a heck of a problem, and won't be able to build in the Mackenzie Valley for years," McMillian said.

NORTHWEST WAS criticized most strongly by Judge Litt for having what he termed an undersized pipeline. Now, Northwest has submitted a proposal for a larger, 48-inch pipeline to the National Energy Board in Canada.

"We think with the 48-inch line we'll come out even with Arctic or a little ahead," McMillian said.

While all that is speculation so far, Northwest has gained some support since the Litt decision came down.

(Continued on Page 2)

• Northwest

(Continued from Page 1)

ONE NORTHWEST utility threw its support behind the Alcan project last week, while another utility said it still has some questions about it, according to an Associated Press report.

Northwest Pipeline Corp. is the sole supplier of natural gas to Washington, Oregon and Idaho. Wendell Satre, chief of the Washington Water Power Co. of Spokane, said Friday that he supports Northwest's proposal.

O. Marshall Jones of Cascade Natural Gas Corp. of Seattle said his utility "cannot add our endorsement of the Alcan route." Jones said

Cascade has "serious reservations" on the content of the proposed U.S.-Canada treaty—Cascade would like to see loopholes in the treaty tightened.

IN ALASKA, Northwest Thursday picked up the endorsement of Doyon Ltd., a Fairbanks-based native regional corporation.

So far, Northwest and its Canadian partners have spent \$27 million on the chance that the Alcan route might be chosen in Canada and the U.S. for a gas pipeline.

That is less than one-fifth of the money Arctic Gas has spent in its longer-term proposal, McMillian said.

APN 3/15/77

FPC to accept more evidence on Alcan line

Northwest Pipeline Corp. officials said Monday the Federal Power Commission decision to accept additional evidence on Alaska natural gas transportation systems is "a major breakthrough for the Alcan Pipeline Project."

The FPC ruled Friday it would accept the Salt Lake-based firm's alternative pipeline system, which would use 48-inch pipe. That plan was submitted to the Canadian National Energy Board and the FPC by Northwest after FPC hearings. Judge Nahum Litt said its 42-inch pipeline system would be inadequate. He endorsed the Arctic Gas proposal for a pipeline across the Arctic National Wildlife Refuge and south through Canada, and said El Paso's pipeline-tanker proposal would be a viable option.

Northwest officials say Litt is biased in favor of the Arctic proposal.

ALN 3/15

Natives hit Canada line

By The Associated Press

Canadian and Alaska Natives blasted pipelines routed from Prudhoe Bay natural gas fields through Canada at U.S. Senate subcommittee hearings in Washington, D.C., on Thursday.

George Erasmus of the Indian Brotherhood of the Northwest Territory said routing of a natural gas pipeline through lands which may be claimed by Canadian Natives would be "genocidal in effect."

A route through those lands proposed by the Arctic Gas consortium recently was endorsed by Federal Power Commission hearings judge Nahum Litt. The judge dismissed the issue of Native claims in his endorsement, saying he did not believe Canada would permit

unresolved land claims to block its national energy policy.

But Erasmus and Daniel Johnson of the Council for Yukon Indians said they would go to court if necessary to block pipelines through territory claimed by their peoples.

Erasmus said Natives in the Northwest Territories "do not want a pipeline and do not need it. The pipeline would destroy them as a people."

North Slope Borough Mayor Eben Hopson also testified before the Senate Interior Committee's subcommittee on public lands in support of the Canadian Native stance.

"Our government has an obligation to treat the Canadian Native land claims just as fairly as it has dealt with the Alaska Native land claims," he said.

APN 3/13/77

Northwest Indians begin anti-pipeline campaign

YELLOWKNIFE, Northwest Territories (AP) — Northwest Territories Indians have begun an intensive public information campaign directed at stopping the proposed Mackenzie Valley natural gas pipeline.

"There's going to be increasing pressure on the government to delay that pipeline," Indian leader George Erasmus said in an interview here. "We're going south."

Erasmus, Northwest Territories Indian Brotherhood president, said rallies, lectures, and lobbying of politicians are planned in the south to turn public feeling against the pipeline.

"The Dene feel they have a good chance of stopping the pipeline and buying time," he added.

The Dene are the estimated 12,000 Indian people of the Mackenzie Valley. Most are status Indians represented by the brotherhood.

They say they do not want the

pipeline built at least until their land claims are settled and possibly not at all. Their claim, submitted to Ottawa last fall, calls for creation of a Dene government in the resource-rich valley.

The anti-pipeline campaign comes as the pipeline issue nears a climax. The National Energy Board is holding hearings on pipeline proposals and Justice Thomas Berger of British Columbia is expected to release his report on the social, economic and environmental impacts of a Mackenzie line next month.

Ottawa has said the pipeline decision will be made by Sept. 1, the date when President Carter is to decide how to bring Alaska natural gas to southern markets. One option is to have a Mackenzie Valley line carry gas from both Alaska and the Mackenzie Delta.

Pipeline hearings also are being held in Washington.

SEAE
Today, March 21, 1977

Do Gas And Oil Mix?

Unique Gas Idea Suggested

WASHINGTON (AP) — The United States would not need a natural gas pipeline through Alaska or Canada if some gas-derived chemicals were sent through the Alaska oil pipeline, a petroleum engineer testified Friday.

"It is unfortunate that natural gas cannot be transported as such in the oil pipeline," said Sullivan

S. Marsden Jr., an engineering professor at Stanford University. "However, some petrochemicals manufactured from natural gas could be transported in the pipeline with the oil, and this is the gist of our proposal."

Marsden told a House Interior subcommittee that chemical conversion plants could extract methane, make it into liquid

methanol and send it down the pipeline with crude oil. Tankers would take both products to refineries in the lower 48 states and separate them again.

Methane is used for industrial fuel but not to heat homes. It also is used by the chemical industry.

"We're simply proposing that the site of the conversion plants be moved from the present loca-

tions to Prudhoe Bay," Marsden said. "This would also free a considerable amount of present natural gas production which could go into readily accessible gas transportation lines."

Marsden said the petrochemical plants could be put on reinforced concrete barges and transported to the north slope of Alaska.

Committee members used the word "fascinating" to describe his plan. But they were skeptical.

"Have the Alyeska Pipeline people expressed any interest in your proposal?" asked Chairman Teno Roncalio, D-Wyo.

Marsden said they have not answered his letters. But he said consumers should conclude that

his plan would save them money.

"Does this really make economic sense?" asked Rep. James Weaver, D-Ore.

Marsden estimated the cost of moving the plants at \$2.2 billion but said that would be cheaper than building a gas pipeline.

Testimony on the proposed gas pipeline has concentrated mainly on which route it should take.

Improper gas shifts

Tenneco's shocking admission

By ROBERT D. HERSHEY JR.

(c) 1977, New York Times News Service

WASHINGTON — Tenneco Inc., which runs one of the nation's biggest operations in natural gas, improperly diverted gas contracted to interstate customers and sent it instead to a Texas subsidiary that could charge much higher prices, the company disclosed last week.

The amount of gas covered by these transactions since 1965 appeared to be substantial, but was probably not an important factor in this winter's gas shortage.

TENNECO SAID in a filing with the Securities and Exchange Commission that it uncovered the diversions while preparing its defense against suits brought against it for failure to deliver gas to two corporate customers.

It estimated the volume sold to its Channel Industries Gas Co. subsidiary in Texas during the period was 350 billion cubic feet but said only "some" of this represented gas released from contracts for interstate sale through procedures "which may have failed to meet all regulatory requirements" under the Natural Gas Act.

A spokesman at Tenneco's Houston headquarters said he would not comment on the registration statement or on a petition Tenneco filed with the Federal Power Commission on Feb. 28.

THE PETITION sought a decision on whether additional approvals were needed and, if so, that they be granted. A copy was requested of the agency this evening but could not be immediately obtained.

An FPC official said that the commission on at least one recent occasion dealt rather severely with a case involving failure to fulfill gas contracts. She added, however, that such cases were rare and that she could not recall any companies ever admitting such conduct.

In a separate development, the FPC modified its traditional policy of permitting offshore producers of natural gas to set aside up to half their production for use in fertilizer, chemical and propane plants owned by themselves or by others.

IN A DECISION involving Tenneco and other producers, the agency rejected advice from its staff that all the gas be required to be sold to interstate pipelines. By a 3-1 vote, the commission refused to approve the set-asides outright but said the producers could apply individually. The implication was that most applications would be approved, as they have been as standard practice since the surplus years of the 1960s.

The commission had been deadlocked for weeks on the question. The compromise that produced a majority was a condition that the producers be required to shift industrial gas to the pipelines if

the Alaska Legislature, after a stormy debate, this month approved the administration's contracts with Tenneco, El Paso and Southern Natural Gas companies to sell the state's royalty gas in exchange for political support of the all-Alaska gas pipeline proposed by El Paso.

Following the legislature's vote on the measures, it was disclosed last week in the New York Times that Tenneco had been improperly shifting its natural gas supplies to outside markets since 1965.

The disclosure brought new charges against Tenneco and the state gas contracts by some Alaska legislators. Sen. Kay Poland of Kodiak asked how a company such as Tenneco "with a tarnished reputation" could be of any value in the current gas pipeline battle ongoing in Washington.

Here is the New York Times' Page 1 story on Tenneco's admission.

the pipelines needed it to maintain deliveries for the highest priority uses, such as for homes and hospitals.

Commissioner Don S. Smith said

he would issue a dissenting opinion.

Tenneco, the nation's 22nd largest corporation, sends large quantities of gas into the Northeast from Louisiana and Texas. Its Tenneco

Oil Co. subsidiary is a major gas producer.

DIVERTING GAS earmarked for interstate pipelines would be economically advantageous since the interstate price is limited by the FPC. The highest rate permitted now, applying only to wells drilled since Jan. 1, 1975, is \$1.44 per 1,000 cubic feet. The intrastate price, not subject to Federal controls, now ranges between \$2 and \$2.25.

Ten years ago the range for interstate gas was between 11 and 21½ cents, the FPC said.

Tenneco's disclosure came in joint registration statements covering \$150 million of 25-year debentures and 4.98 million shares of common stock to be issued in acquiring the Monroe Auto Equipment Co.

California Drops Gas Buying Hint In A Letter To Alaska Lawmakers

By CHUCK KLEESCHULTE
Empire Staff Reporter

The chief of California's Energy Resources Commission has urged Alaska lawmakers to disapprove the proposed sale of Alaska's North Slope Royalty gas.

He hinted, instead, that the state might be able to sell its gas directly to California at potentially higher wellhead prices if the contracts aren't approved.

Richard L. Maullin, chairman of the California Energy Resources Conservation and Development Commission, Jan. 31 urged the rejection of the contracts which call for the sale of Alaska's one-eighth share of Prudhoe Bay reserves to three firms, Tennessee Gas Transmission Co., Southern Gas and El Paso.

Maullin, in a letter to Sen. John Rader, Senate President and head of the Joint House-Senate Gasline Review Committee, said California is opposed to the contracts since their approval would eventually make the state 90 per cent dependent on liquified natural gas (LNG)—an unacceptable level given the newness of LNG technology.

"If the one LNG terminal California is likely to approve were to be temporarily closed down due to an equipment malfunction, trestle damage, or earthquake, the state could face major disruptions in its gas supply delivery system.

"For this and other reasons, California supports an overland gas pipeline delivery system for North Slope gas," Maullin wrote in a letter mentioned at the public hearings, but not read publicly.

Maullin urged lawmakers to consider a proposal being reconsidered this winter in California which calls for the establishment of a California State gas purchasing authority which could then attempt to purchase Alaska's share of North Slope reserves—gas which could be purchased from Alaska at higher than regulated prices since the Federal Power

Commission (FPC) would not have control over terms of the sale price.

"There has been a lot of strong interest in the concept here among legislators in the past month. It's likely that hearings will be called soon to formally consider such an idea, but as yet it's an idea whose birth is not yet imminent," said Robert Shinn, special assistant to Maullin this morning in Sacramento.

"In the past month a number of people have focused on the concept," Shinn said. "It may well prove to be an idea whose time has come." California under present estimates will face gas shortages in the mid 1980's.

The Alaska Royalty Oil and Gas Advisory Board at its Nov. 21 hearing on the proposed gas sale noted the possibility of such a sales

agreement, but dismissed the importance of the concept given the low level of interest being shown in the proposal in California at that time.

Former FPC Commissioner Rush Moody Jr., earlier this month said such a scheme might not result in substantially higher wellhead prices under a regulated market since the FPC would continue to regulate transportation of gas and could still disapprove of a state sale to California, if the commission felt the gas price was unreasonable.

Shinn this morning said he doubted the FPC would disapprove of the contracts as long as a sale price negotiated between the two states kept the price of gas competitive with other fuels.

Interest in the idea may have been sparked in California by release Jan. 3 of a study which reported California could lose between 900 million and 1.5 billion cubic feet of gas supplies daily in the event of a shutdown of a liquification gas reprocessing plant in California. A key ingredient of the El Paso route is the liquification of the gas, and its transport by tanker to California where it would be reprocessed at a plant at Point Conception.

The letter also implied California might be willing to switch its support from favoring an Arctic Gasline to back an Alcan route, if Alaska would give up support of the El Paso pipeline route.

Of Problems ^{2/11/77} With Gas Sale

The sale of the state's royalty share of Prudhoe Bay natural gas in exchange for political support for an all-Alaska gasline could have and exactly opposite impact, Natural Resources Commissioner Guy Martin was warned in a confidential memorandum last year.

"There is a political problem, we think, in entering into a contract with anyone providing for political support," O. K. "Easy" Gilbreth, then director of the Division of Oil and Gas, said in the memo dated last March 15. "The danger in this case is particularly great, as the liability of contracting with an oil (or gas) company for political support of the trans-Alaska gas pipeline is like trying to stimulate a fire by putting (carbon dioxide) on it."

Because of a probable adverse reaction from the public and federal government, Gilbreth said, the proposed sale to Tenneco, Southern Natural Gas and El Paso "may be a much bigger liability than asset merely from the political standpoint."

The memo from Gilbreth, now director of the newly-created Division of Energy and Mineral Development, was obtained by veteran capitol reporter Joe La Rocca and published in this week's All-Alaska Weekly.

Gilbreth's memo also raised a number of largely technical and administrative objections to the proposed sale by the legislature, most of which appear to have been accommodated in the contracts submitted for approval by the administration to the legislature.

But one Gilbreth recommendation which was not adopted was his proposal to commit no more than 33 per cent of the state's estimated 2.6 trillion cubic feet of Prudhoe Bay gas to Tenneco.

"If the political motivation is so important, why not commit to five or more East Coast or Southern U.S. users and get five times the benefit," Gilbreth wrote.

Stop Arctic Movement

Hastily Called Meeting Will Try To Stem Tide

By G. MICHAEL HARMON
Associated Press Writer

A high-ranking delegation of officials from the state, El Paso Natural Gas Co. and Alcan Pipeline Corp. will appear before a hastily-called congressional hearing next week in an effort to "slow down" momentum for Arctic Gas's Canadian Gasline route.

Informed sources said the hearing will be used as a vehicle to counter a recently-launched campaign by Arctic to convince the Carter administration to speed up the pipeline decision-making process based on momentum gained from the recent ruling of a Federal Power Commission

judge in favor of the Canadian route for the transmission of Prudhoe Bay natural gas to the Midwest.

In an effort to counter the alleged maneuver, El Paso and Alcan supporters will initiate their own campaign before a House Interior Committee Subcommittee on Public Lands hearing in Washington, D.C. Feb. 17.

The campaign, sources said, will be aimed at challenging the FPC judge's decision on the grounds that it did not comply with either the letter or the spirit of the Alaska natural gas pipeline procedural bill passed by Congress last year.

Arctic spokesman Dave Har-

bour called the charge that his firm was trying to press the Carter administration for a fast decision "patently ridiculous."

Spokesmen from the state, El Paso, Alcan and the Organization for the Management of Alaska Resources all called the one-day hearing a significant and major development in the pipeline debate, but the view was not unanimous.

Alaska Congressman Don Young is a member of the subcommittee, but will not attend the hearing. He has opted in-

stead to spend the week in Alaska for a series of meetings and speeches.

Alaska Sens. Ted Stevens and Mike Gravel also did not plan to attend.

Bill Horn, a consultant to the Republican minority caucus, said Young "expressed his displeasure that the hearing would be set up on short notice when he was out of town, but was assured by the majority council for the subcommittee that these were nothing more than informational hearings for new members."

SEAE 2/11/77

Southeast Alaska Empire

Rader Predicts Gas Sale Okay^{SAE 1/13/77}

By The Associated Press
Senate President John Rader predicts proposed contracts for the sale of Alaska's share of Prudhoe Bay natural gas will face little opposition in his chamber.

"I assume it will be supported without a great deal of difficulty," the Anchorage Democrat said.

The contract generally follows a resolution passed last year by the joint Senate and House Gas Pipeline Impact Committee on sale of the gas, Rader said.

Gov. Jay Hammond's administration negotiated the tentative contracts with Tenneco, El Paso Natural Gas and Southern Natural Resources in exchange for their support for the trans-Alaska pipeline proposal before Congress. However, the contracts must be approved by the legislature.

Rader said consideration of the contracts will be one of his top priorities for the session.

On Wednesday, he appointed a special committee to review the contracts, and he has asked House Speaker Hugh Malone, D-Kenai, to appoint a similar committee.

Malone said he has not raised the proposal with the House Democratic caucus, but added that it "sounds like a good idea."

In the House, where Democrats are in control, approval of the contracts may not come as easily, however.

Malone said he does not know if any opposition will arise, but added that he has at least one question about the plan.

When the gas is used by the companies for consumers in the Lower 48, communities there may become economically dependent on it, Malone said.

Teamsters protest^{ADW 2/10/77} Canadian gas line

By The Associated Press

The International Brotherhood of Teamsters Wednesday went to the Federal Power Commission to protest a hearing judge's endorsement of a trans-Canada route for Prudhoe Bay natural gas.

Teamster General President Frank Fitzsimmons told the FPC the union believes natural gas discovered within the United States should be transported within U.S. boundaries.

The union has endorsed the so-called "all-Alaska" natural gas pipeline and tanker route proposed by El Paso Natural Gas Co. for transport of Prudhoe Bay fuel.

Fitzsimmons said Administrative Law Judge Nahum Litt's endorsement

of the Arctic Gas proposal for a route through Canada ignores the interests of Alaskans. The Teamster official said the El Paso plan would provide permanent jobs for Alaskans at liquification plants required to prepare the fuel for tanker transport.

Among Fitzsimmons' objections to a pipeline route through Canada was his contention that with a commodity as valuable as natural gas, relations between Canada and the United States "cannot help but be strained."

The Teamster leader also said the interests of Alaska and its citizens must be given greater consideration in the route decision.

Fitzsimmons said even in the United States, no institution has "been able to compel delivery of even a reasonable amount of gas from one area to another."

Violence reported in Sea-Land strike

By The Associated Press

Stevens Challenges Canadians On Gas Issue

By MARK PANITCH
Washington Correspondent

WASHINGTON—Alaska Senator Ted Stevens today challenged Canada to speed up its gas pipeline decision-making process in order to conform to the expedited U.S. schedule passed by Congress last year.

Stevens told a well-attended press conference in the Capitol that "A gas pipeline route through Canada, although facilitated through 195 miles in Alaska, could be delayed for 2,035 miles of construction on Canadian soil."

At the same time, Stevens issued a veiled threat to the rest of the country that if Alaska does not get a favorable pipeline settlement it could reduce the flow of Prudhoe Bay gas.

"Alaska could follow the procedure of the Texas Railroad Commission," he said in response to a question about Alaska's options from a Canadian reporter.

Q. What does that mean?

A. We could cut the flow of gas to make a pipeline uneconomical.

He then noted that federal pre-emption of Alaskan control over gas flow would require that the same preemption be extended to Texas, Louisiana, Oklahoma and other gas-producing states. "But I'm not threatening," he said.

Stevens said the press conference was called "to send a message to the White House" in time for a planned visit by Canadian Prime Minister Pierre Elliot Trudeau next week. He said he was trying to arrange a Capitol Hill meeting between members of Congress and Trudeau to discuss the gas line.

An informal poll of Canadian reporters immediately after the news conference yielded two major themes:

—If Canada were to accept Steven's challenge and expedite its pipeline process that would virtually guarantee the approval of the Arctic Gas project.

—In the words of one reporter, "We don't need Ted Stevens telling us what to do in Canada."

A third Canadian reporter combined the two with the comment that, "He is obviously trying to make somebody in Ottawa mad, hoping they'll dig in their heels and do nothing in response to him and this kind of assault."

In a prepared statement, Stevens described the Canadian decision-making process, noting there "is no specific time frame upon which to rely regarding eventual approval of a pipeline. We simply cannot assume Canadian approval in time to integrate construction with our expedited decision-making process."

Stevens also questioned whether the recently-signed hydrocarbon treaty between the U.S. and Canada will prevent discriminatory taxa-

tion of U.S. gas. "There is a real difference of opinion on this issue," he said.

"That issue is up to the Canadians, not the FPC, our President or the Congress," he said.

Stevens indicated he thought the biggest single problem facing Canadian approval of a gas pipeline through the Mackenzie Valley—the route proposed by Arctic Gas—is the settlement of native land claims in that region.

"The United States had its own land claims settlement," he said, "which culminated a 15-year process with the passage of the Alaska Native Claims Settlement Act in 1971. Every indication leads me to believe that the Canadian land claims problem is at least as complicated and will take at least as long to settle."

Canadian priorities, he said, would be "Canada's national interest, which is logical." But this could mean construction of the Polar Gas pipeline from the high Arctic Islands north of central Canada "where exploration has been much more successful than in the Mackenzie Delta."

Federal Power Commission Administrative Law Judge Nahum Litt came under attack also. "The FPC has its head in the ground as far as the decision affected Canada. What sense does it make to expedite the decision here in the U.S. when there is no similar sense of urgency in Canada?" he asked.

On other issues Stevens:

—Defended the proposed El Paso Gas liquefied natural gas system as the "most flexible" proposal. "When the Prudhoe Bay fields are exhausted the tankers will still be useful to move gas from offshore deposits to lower-48 markets."

—Pointed out that gas moving from the West Coast to the East Coast under the recently-passed natural gas act is a demonstration of the displacement principle that El Paso plans to use to get Alaska gas benefits to Eastern customers.

—Linked problems getting offloading facilities for Alaskan oil in California to that state's desire to get Alaskan gas. "They're holding up the oil off-loading facilities to get more of our gas." He said that California laws could be preempted by the federal government if they put a "plug in the pass" that Alaskan gas must go through.

—Defended the Arctic National Wildlife Range as a place "Alaska is trying to save." The range, he said, was the brainchild of "the ladies of the Fairbanks garden club" during the 1950's.

Stevens also made what appeared to be an unusual conciliatory gesture toward the conservation organizations that are fighting the Arctic pipeline. He blamed delay in construction in the trans Alaska oil pipeline on "lack of authority to approve right of way wider than 50 feet" instead of the conservationists.

Croft Expects Royalty Gas Trouble

By CHUCK KLEESCHULTE
Empire Staff Reporter

A member of a special committee set up in the state's Senate Wednesday to consider the proposed sale of Alaska's one-eighth share of North Slope natural gas this morning predicted the state's legislature would look at the sale critically and possibly disagree with several of its key tenets.

State Sen. Chancy Croft, D-Anchorage, said that the agreement worked out between the Gov. Jay Hammond and three natural gas distribution firms, Tennessee Gas Co., Southern Natural Gas Co. and the El Paso Natural Gas Co. failed to establish any criterion the companies must meet to uphold their end of a key section of the contract.

Hammond in announcing the royalty gas sale Nov. 12 said that the contract with the three firms was being inked at this time mainly so the state could win added political support in its battle to gain acceptance for El Paso's proposed All-Alaska route for the gas

line.

Croft complains, however, that no where in the contract is the effort the firms must make on behalf of the El Paso route listed or explained.

Guy R. Martin, commissioner of the State's Department of Natural Resources and a chief negotiator on the royalty gas pact, this morning admitted the contract did not include specific measures to indicate the support the firms must show for the El Paso plan.

But Martin said that such measures were not necessary since the contract would be nullified unless the El Paso Alaska line was selected by the Federal Power Commission, the President and later probably by Congress.

"Before the state's Royalty Board we discussed this issue and decided we couldn't set a series of standards, only use the performance criterion of whether the firm's support won the state the selection of the El Paso route," Martin said.

Croft this morning questioned whether the

state should ever sell its resources just to obtain political support for its objectives. "I think we in the legislature need to make a fundamental policy decision whether the contract is a good one, and also whether the objectives for it being made are good ones.

"I'm sure we'll give the issue close scrutiny," Croft said.

Croft also said he felt the proposed gas sale to El Paso might not be in the state's best interest since state Gas Line Task Force studies indicate that El Paso's proposed project will not deliver gas at the lowest cost to lower 48 cities. The Hammond Administration argues the El Paso project, however, will provide the greatest economic benefit to the state and provide the country the greatest net benefit when all factors are considered.

Croft's attitude contrasts with that of Senate President John Rader who Tuesday said that he felt Hammond's royalty agreement closely followed directions given by the legislature to the governor last session. Rader said his

preliminary review of the contract indicated it was a good pack for the state and he predicted the legislature would approve of the sale agreement. (See earlier story, P. 10)

Legislators this morning mostly assumed a "wait and see" attitude toward the contract which was handed out to legislators Wednesday with over a dozen supporting documents included.

Juneau's Sen. Bill Ray this morning said he was still withholding comment on the pact until he has had an opportunity to clarify several sections of the contract. Several House lawmakers also declined comment until they could read the supporting documents.

House Speaker Hugh Malone, D-Kenai, this morning said he would appoint Friday a special committee to participate in joint initial hearings with the senate on the sale agreement. After the initial hearings the contracts may be considered by both the Finance and Natural Resources Committees in both the House and Senate.

Special House Panel Created To Review The Royalty Gas Sale

SAE
1/14

By The Associated Press

A five-member special committee was appointed in the state House today to review proposed contracts for the sale of Alaska's share of Prudhoe Bay natural gas.

Gov. Jay Hammond's administration negotiated the tentative contracts with Tenneco, El Paso Natural Gas and Southern Natural Resources in exchange for their support for the trans-Alaska gas pipeline proposal before Congress. However, the contracts must be approved by the legislature.

Named to the House committee were Clark Gruening, D-Anchorage; C.V. Chatterton, R-Anchorage; Charles Parr, D-Fairbanks; Joe McKinnon, D-Anchorage; and Joe Hayes, R-

Anchorage. Gruening will chair the group.

A similar committee was named in the Senate on Wednesday. Senate President John Rader, the Anchorage Democrat who joined a Republican coalition to rule the Senate, predicted the proposed contracts would face little opposition in his chamber.

But in the House, where Democrats are in control, approval of the contracts may not come as easily. Rep. Parr has questioned what the companies would promise to do in return for a share of the gas. He also has indicated he doubts whether their support "would make that much difference" in Congress.

The Senate committee will meet Jan. 31 through Feb. 2, but the House committee has not set a meeting date.

Juneau Perspective **Royalty Gas**

By Joe La Rocca

One day last week the Hammond administration dropped on all legislators' desks a voluminous file of data designed to elicit their support for the governor's proposal to sell the state's surplus royalty gas from Prudhoe Bay — valued at \$1.3 billion — to three pipeline companies.

Under state law, the sale can't be consummated unless it's approved by the legislature.

The proposed sale of the royalty gas — totalling an estimated 2.3 trillion cubic feet — has been the subject of intense and extended negotiations between the Hammond administration and the prospective buyers who have agreed, as a binding condition of the sale, to support the state's choice of an all-Alaska gas pipeline route during the continuing political jockeying among the three competing gas transportation systems for certification by the federal government.

But missing from the documents submitted to the legislature by the administration is pertinent information recently developed by the State Department of Revenue which shows that the proposed Alcan pipeline route — which the administration says is its second choice — offers vastly more superior benefits than shown by the earlier study on which the state's choice of El Paso's proposed All-Alaska route was based.

The new data reveals, for example, that the Alcan pipeline can be in operation more than a year earlier; would cost nearly \$2 billion less; and could deliver North Slope gas to lower 48 markets far more cheaply than El Paso's proposed pipeline-tanker system.

At the same time, the missing data shows, the Alcan pipeline would result in far less wasted oil than the El Paso system because it would economically permit reduced volumes of gas production during the early development of the Prudhoe oilfield, thus resulting in the recovery of greater volumes of oil over its producing lifetime.

These data are mysteriously absent from the massive documentation which the administration has provided the legislature to guide its review of the governor's proposed royalty gas sale contracts.

The suppressed information is contained in a recent unpublished addendum to the comparative economic study of the three competing pipeline systems which was prepared by the State Revenue Department and released last November. Extensive data from the initial study are contained in the documents submitted to the legislature, but the information from the addendum — which was completed late in December — is not, presumably because it would undermine, rather than bolster, the state's decision in favor of the El Paso route.

The study addendum describes a scenario which its author calls the "Alcan incremental volume build-up case." In that scenario, the pump stations for the Alcan pipeline would be built in three incremental phases, permitting a volumetric throughput starting at 1.35 billion British Thermal Units, or BTU, per day, during the first year of operation; increasing to 1.8 billion BTU per day during the second year of operation; and reaching its maximum throughput of 2.7 BTU during the third year of operation.

One major advantage, alluded to earlier, deriving exclusively from the incremental volume build-up case is its low initial throughput, which would permit both the state and the producers to monitor and estimate better the effect of early gas production upon ultimate oil recovery. Since the amount of oil which can be recovered from the Prudhoe formation is inversely proportional to the level of gas production, low initial gas production would help to ensure the fullest ultimate recovery of oil. As the oil is depleted, gas production can be gradually stepped up — without inhibiting oil recovery — to accommodate the incremental build-up of the Alcan gas pipeline's capacity.

This kind of critical energy and economic conservation can be realized only by means of the Alcan incremental volume build-up scenario. Every other option has the opposite effect of wasting substantial volumes of energy resources.

Another major advantage deriving from the incremental build-up case is the lower initial capitalized cost of the Alcan system, which would permit an estimated over-all savings of \$1.7 billion over the cost of the El Paso system. And because initial construction time requirements would be shorter, the Alcan system could begin operation one to 1½ years earlier, according to the study addendum.

Finally — and perhaps most importantly — calculations show that the estimated average delivered price of North Slope gas over a 25-year production period would be substantially lower than the El Paso system could achieve. And since the deregulation of gas prices by Congress appears inevitable by the time any system begins operation, the much lower transportation costs achieved through the Alcan system would result in proportionately higher wellhead values and, in turn, greater state royalty and severance tax revenues.

Since, in the economic world of give and take, there is no free lunch, there is one temporary disadvantage accruing to the Alcan incremental build-up scenario. While the average delivered price of Prudhoe Bay gas over the 25-year period is estimated at \$1.88 per million BTU, its cost during the first two years of production would be very high, ranging from \$3.10 down to \$2.69 per million BTU, before beginning a precipitous decline over the ensuing years to \$1.22 per million BTU.

Hammond administration officials will doubtless argue that the data from the study addendum were not included in the documents which they submitted to the legislature because of doubts that the Federal Power Commission would allow the high prices which the gas would command during the first two years of operation. But that argument ignores, first of all, the virtual certainty that natural gas prices will be deregulated before any of the three systems goes into operation; and secondly, it assumes a value judgment which only the legislature is legally entitled to make, based upon the fullest and best information available to it.

There is another aspect of the administration's decision to support the El Paso pipeline which has been ignored or de-emphasized and that is the fact the best El Paso case put forward

—Continued on page 12

Perspective . . .

—Continued from page 4

by the administration assumes that the state would own and operate the entire LNG tanker fleet needed to carry liquified gas from Point Gravina to the West Coast. It further assumes that 80% of the \$2½ to \$3 billion needed to finance an eight-tanker LNG fleet would be taken from the state's permanent fund.

There's little doubt that the Tenth Alaska Legislature will approve the governor's royalty gas contracts, thus reaffirming the Ninth Legislature's resolved support for the El Paso route. To do otherwise would be impolitic, particularly in light of the results of a current poll released last weekend by the Hammond administration.

It purports to show that 53% of Alaskans favor the El Paso route, while only 11% prefer the Alcan route.

How could it be otherwise when two successive state administrations have manipulated, distorted and even suppressed the true facts and circumstances surrounding the gas pipeline question?

Southern, Tenneco Begin Tentative Lobby Efforts

By MARK PANITCH

Washington Correspondent

WASHINGTON—The two gas pipeline companies that hope they share the majority of Alaska's north slope royalty gas are taking their first tentative steps to encourage Congress and the Carter administration to support a trans-Alaska gas pipeline proposed by the El Paso Natural Gas Co.

Alaska signed preliminary agreements to sell its royalty gas last November.

The two companies, Southern Natural and Tennessee Gas Transmission, known as Tenneco, expect to work through lobbyists, local utilities and congressmen whose districts they serve to influence the gas pipeline selection process.

At stake for the two companies is about two trillion cubic feet of the state's more than three trillion cubic foot royalty share. The balance would go to El Paso. With both companies, but especially Southern, hard hit by the unusually cold winter in the East and South the royalty gas is fast becoming an increasingly valuable prize.

But so far the most visible lobbying effort in favor of the state's official position continues to be headed by Gary Frink, a lawyer-lobbyist on contract to the Organization to Manage Alaska's Resources (OMAR).

Frink has two full-time employees, a lawyer and a researcher, working on the Alaska gas issue. He has strong ties to the congressional Democratic establishment and to organized labor as well.

Both Tenneco and Southern plan Washington lobbying efforts, but the two companies appear to be taking somewhat different approaches to the issue.

Both companies appear, at least somewhat, to take the position that they can not begin an intensive campaign until their agreements for royalty gas are ratified by the legislature. That process began Monday with joint House-Senate hearings in Juneau.

Tenneco has hired a Washington law firm to represent it on the Alaska gas issue, with a former high-ranking Democratic Senate staff

member apparently in charge of the lobbying effort.

The company already has a well staffed and efficient Washington office. It remains to be seen what effect the change in administration will have, though, since the company reportedly had excellent connections to the departed Nixon-Ford administration. The appointment of the Democratic lawyer could offset other political disadvantages.

Walter Stark, Southern vice president for public relations, said his company has no immediate plans to set up a Washington office for the Birmingham-based operation. "The matter has to be approved by the state legislature" before we can do anything, he said. Southern executives are in Washington "nearly every week," he said. He indicated there are no immediate plans to hire anyone to work full-time on Alaska, although "I anticipate doing a lot of work in Washington myself."

There was one thing he was definite about, though. "The people in the Southeast are very enthusiastic about getting some of that Alaska gas."

Southern serves all or part of Mississippi, Alabama, Georgia (including Plains, President Jimmy Carter's home), South Carolina, Tennessee, Louisiana and Florida.

There have been meetings between Stevens and his staff and both Tenneco and Southern officials. There have apparently been fewer contacts with Sen. Mike Gravel and his staff.

Frink says he has not been contacted by either Tenneco or Southern and there are no arrangements so far to coordinate their lobbying campaigns. He says he found out that Tenneco had hired a lobbyist to work on Alaska gas from an acquaintance at a chance meeting.

While about three trillion cubic feet of royalty gas could go to Southern, Tenneco and El Paso, there is still another 23 trillion cubic feet available for commercial sale by the producers after the state takes its one-eighth royalty.

Quick action seen on royalty gas sale

From Our Juneau Bureau
JUNEAU — With state Senate President John Rader pushing for quick action, the legislature may approve as early as mid-February contracts to sell Alaska royalty natural gas in exchange for support of an all-Alaska gas line.

Public hearings on the contracts will be held Jan. 31-Feb. 2, and Rader, D-Dist. J, predicted that within a day or two following the hearings, contracts would go to House and Senate committees for study.

RADER warned a special royalty gas committee Tuesday, "I'm concerned about public reaction to any unseemly delay in this matter." The Senate president has said he considers approval of the contracts one of his top priorities for this legislative session.

Senate and House royalty gas committees will conduct joint hearings in Juneau, and state officials and legislative consultants will be asked to evaluate the contracts.

Gov. Jay S. Hammond late last year contracted with three petroleum companies to sell Alaska's share of the natural gas which is to be pumped from Prudhoe Bay, in exchange for the companies' support of a trans-Alaska route for the pipeline. Three routes have been proposed for a pipeline, and the Federal Power Commission will make its recommendation of a route to President Carter in several months.

ADN 1/19/77
The administrative law judge of the FPC will make his recommendation at about the same time the state is conducting hearings into the contracts.

IF THE trans-Alaska route is not chosen the state's contracts with Tenneco Alaska, Southern Natural Gas and El Paso Natural Gas would not be binding.

The legislature will pay three out-of-state consultants to help it examine the contracts and question administration officials.

Joe Kilgore will represent Walter Levy Associates, which is on a \$45,000 retainer with the legislature. Rush Moody, a Washington attorney and former FPC commissioner, will be paid for his participation in the three-day hearings. And Carl Swanson, of Boston - headquartered Jensen Associates, an energy planning and economic analysis firm, will be paid \$19,000.

THE PRESIDENT may make his gas line route decision by Sept. 1, and Congress then has 60 days to take action on the proposal.

Here are the three gas line proposals: El Paso is pushing for authority to build a pipeline from Prudhoe Bay to Prince William Sound; Arctic Gas is seeking permission to build a pipeline from the gas field into Canada and then down to the midwestern United States, and Northwest Pipeline Co. wants to build a pipeline about as far south as Fairbanks parallel to the oil pipeline route and then following the Alaska Highway to the Lower 48.

Rader's estimate of early action on the contracts is echoed by House Speaker Hugh Malone, D-Kenai. Malone said Tuesday he expected the contracts to be acted upon by the legislature at least by the end of next month.

Litt decision 'hard to overturn'

By ROSEMARY SHIMOHARA
Daily News Staff Writer

The Federal Power Commission will find it hard to overturn the recommendation of administrative law judge Nahum Litt in favor of Arctic Gas Co. in the view of a California gas company executive who sits in the middle of the controversy.

Keith McKinney, vice president and general manager of both Pacific Alaska LNG and Western LNG Terminal Co., will be responsible for the southern end of El Paso Natural Gas Co.'s pipeline and tanker project to haul North Slope gas, if it is approved.

AT THE SAME TIME, parent and sister companies of his company are part of the Arctic Gas consortium. "I'm neutral," McKinney said in an interview. His Western LNG Terminal Co. has a contract to provide a Southern California terminal for El Paso if it wins.

He believes the full FPC, which makes the next move in the gas pipeline controversy, could make minor changes, but will do nothing major to alter the conclusions reached by Judge Litt.

"I think because of the very careful job he's done, it would be surprising if his decision, at least as to transportation mode, didn't hold up," McKinney said.

THE ALCAN PROJECT proposed by Northwest Pipeline Corp. of Salt Lake City never matched the others in sophistication, and McKinney said he thinks it unlikely the Northwest proposal could be "resurrected to overcome a Litt decision."

The day the Litt decision came down, the Pacific Lighting Gas Development Co., a relative of McKinney's companies, approached Atlantic Richfield Co. to discuss purchasing ARCO's North Slope gas.

Pacific Lighting and ARCO had negotiated a sales commitment earlier, but because the arrangement called for Pacific Lighting to advance substantial amounts of money ahead of time, the California Public Utilities Commission opposed it.

THE LACK OF sales contracts between the owners of Prudhoe Bay gas and gas distributors was cited by Litt as a problem for the deliberation on which transportation system would be best.

"It will be essential for them to sell it (the gas) before too long," McKinney said. Before transportation systems can be finally settled, the destination of the gas has to be determined. Litt also indicated that gas companies which will receive the gas will need to participate in financing the transportation project.

Western LNG Terminal Co., became involved

in the El Paso project because the company was planning two other liquefied natural gas (LNG) terminals in California to handle Cook Inlet natural gas and Indonesian gas.

EL PASO was looking up and down the western coastline for a terminal site at the same time the Pacific Lighting companies were planning the other two terminals, McKinney said.

By handling all of the terminals, Western LNG Co. may be able to combine them, for a total of two terminals. None of the projects have received final approvals from the California state government, or from Alaska's government, which must approve the Cook Inlet LNG project.

But with the natural gas shortages being experienced by the cold weather states in the East this winter, California officials seem anxious to assure supplies won't run out in their state, McKinney said.

THE PERMIT PROCESS in California will probably be expedited so the new gas supplies can be on line in 1980, he said.

"If we don't get some new gas supplies by the end of 1980, we'll be out of gas for some customers that need it whether it's cold or not," he said.

California already favors the projects—it's a question of how many terminals will be built, and where they will go, McKinney said.

Compare

Gas shortage cost: 1.5 million jobs

WASHINGTON — Between 1.2 million and 1.57 million persons — most of them in Ohio and New York — have been laid off their jobs because of the natural gas shortage, new federal and state reports indicate.

A report given White House energy advisor James R. Schlesinger over the weekend shows gas-shortage unemployment in at least 17 states, ranging from about 1,000 each in Mississippi and Wisconsin to an estimated 250,000 in New York and 550,000 to one million in Ohio. The report is based on estimates prepared by the Commerce Department and by state agencies.

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is badly overworked.

A similar, 150-bed jail — at a cost of \$18 million — was proposed by the Hammond administration last year as part of a \$30 million bond package. That was pared to \$10 million by the legislature, and only \$2 million was allotted for the Anchorage jail.

STATE VOTERS defeated the bond proposition at the polls in November.



Wonzo, with his parents Mr. and left, receives a check for winning test. Billy led all carriers by sell-
ipions. Presenting the check are
Hugh Fleischer, co-chairmen of
Newspapers, a citizens organiza-
-orning paper gain new circula-
a party for Billy and other top
offices earlier this week.

Gas contracts may aid state

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — The president of Arctic Gas Co. agreed Thursday that the sale of state royalty gas to gain political support for the all-Alaska pipeline route of arch-rival El Paso Natural Gas Co. will have "some impact" in the lower 48.

"In all candor and in my opinion, the contracts are pretty good from the standpoint of what the state wants," Robert Ward told legislative hearings on the administration - negotiated contracts with El Paso, Tenneco and Southern Natural Gas Co.

Ward said there was "no question" that El Paso, like any of the three competing pipeline firms, would be helped by the the commitment of Alaska's one-eighth royalty share of Prudhoe Bay natural gas, but added that he could not quantify the potential impact on the upcoming federal route decision.

"They've got to have some impact," said Ward, whose firm is proposing a pipeline route from Prudhoe Bay across the Arctic Wildlife range and then down through Canada to the Midwest. "Anybody who says they won't is wrong. Whether they are necessary, I don't know. I'm not convinced they will help that much, but they won't hurt."

Ward also said he thought the state was "pretty well protected under the contracts," in getting the highest price for its gas.

But he also said there was "no question" that Congress would endorse his firm's proposal while acknowledging that Arctic faces major problems in winning Canadian approval of its route.

Ward's assessment was in conflict

with other testimony Thursday from Morris Thompson, vice president of Northwest Pipeline Corp., who said the contracts were a bad deal for the state and would not be decisive in the route decision.

Northwest's proposed Alcan pipeline route would extend from Prudhoe Bay to Fairbanks and then down the Alaska Highway to Washington state.

Thompson said the sale of Alaska's royalty gas could have played a role in the pipeline route decision before passage late last year by Congress of a gasoline

(Continued on Page 2)

Lt. Governor will campaign for Alaska line

Alaska Lt. Gov. Lowell Thomas Jr. will carry the state's position favoring a "Trans - Alaska, All - American system" to transport North Slope natural gas to market to Washington Feb. 15 and 16.

Thomas said Thursday he plans to spend one - half hour with Interior Secretary Cecil Andrus, and he also will visit the Treasury and the Transportation Departments.

The trip to the nation's capital will be a prelude to a promotional tour Thomas plans to make in mid - March on behalf of El Paso Natural Gas Co.'s proposal for a trans - Alaska gas pipeline and tanker system.

Thomas said he will spend up to 30 days campaigning for the project on a trip that will be partially financed by himself, and partly by the state.

(Continued on Page 2)

• Royalty gas

(Continued from Page 1)

procedural bill, but not now.

"Now the executive branch makes the selection with Congress having only 60 days to vote it up or down," Thompson. "And I feel any selection by the President will be approved."

"What impact will political clout have upon a regulatory agency (the Federal Power Commission) and a new President?"

Croft Questions Royalty Gas Sale Ethics

By G. MICHAEL HARMON
Associated Press Writer

An influential state lawmaker has called on Gov. Jay Hammond to answer "serious ethical questions" about his proposal for the sale of Alaska's share of Prudhoe Bay natural gas.

Sen. Chancy Croft, D-Anchorage, issued the invitation Tuesday in voicing major reservations about the Hammond administration recommendation to peddle the state's royalty gas to three firms in exchange for their support of El Paso Natural Gas's proposed all-Alaska pipeline.

"I see a lot of serious ethical questions about the contracts," said Croft, a member of a special Senate committee appointed to review the deal. "The major question is whether it's a good public policy of the state to sell its resources for political influence."

"I think we (the legislature) will want to examine very closely whether that's the way America's largest resource extracting state should handle its public policy."

Croft, a former state Senate President and a potential candidate for governor in 1978, said Hammond never has addressed the ethical issues raised by the proposed contracts currently up for approval by the legislature.

"I would like to know why this administration feels the only way the desires of the people of Alaska can be implemented is by hiring special interests to lobby in our behalf," Croft said. "I want to know how the administration feels about that."

Croft also said he was concerned because the proposed contracts between the state and Tenneco Alaska, Inc., Southern Natural Gas Co. and El Paso Natural Gas Co. were the result of secret negotiations.

"We may or may not have gotten the highest possible price for our gas in the contracts, but even assuming we did, the fact remains that we made a secret deal without competitive bidding and that the thing that supposedly the state got was political influence," Croft said.

Croft also raised questions about "open ended provisions of the contract which in effect allows the administration to shift the state's position without any further review by any public body."

"Apparently the state's position is to support the El Paso route," Croft said. "But once the legislature gives its approval of these contracts, they would allow the administration to shift its support to any route without any public input."

In another criticism, Croft said the contracts should have included a requirement that the state's royalty gas be "taken to tidewater in Alaska."

"I think we ought to insist that whoever purchases our royalty gas be required to bring a major portion of that gas to tidewater in Alaska because of the ability that would give us to use our resources to the maximum extent possible," Croft said.

Croft said the Hammond administration also has not addressed the question of gas pipeline impact on Prudhoe Bay oil reserves and

production.

"There's a fairly wide range of figures but ballpark estimates have concluded that taking gas out of Prudhoe Bay in excess of two billion cubic feet a day will have a fairly substantial impact on future oil production," Croft said. "Even to the degree of jeopardizing five to 10 per cent of recoverable reserves."

He said El Paso will need to pump at least 2.5 million cubic feet a day to keep its project in the black.

"I want to see how the administration addresses that problem because the oil companies have no firm water drive commitment at this point," Croft said.

But despite his concerns, Croft said he would "have to predict at this point that the contracts are going to be approved" by the legislature.

The special Senate committee and a like panel in the House have scheduled joint hearings on the proposed contracts for next week.

Martin Defends Gas Sale Pact

SEAB 2/8/77

By G. MICHAEL HARMON
Associated Press Writer

To reject administration-negotiated contracts for the sale of Alaska's one-eighth share of Prudhoe Bay natural gas, the legislature "must accept the risks that aren't worth taking," Natural Resources Commissioner Guy Martin said Monday.

Martin said the pacts represent a good deal for Alaska even if lawmakers cannot quantify what the state will receive in the form of political support for the proposed all-Alaska natural gas pipeline route.

Martin made the comments as special House and Senate committees concluded six days of joint hearings on the administration-negotiated contracts with three major gas transmission companies in return for their support for El Paso Natural Gas' proposed Prudhoe Bay to Gravina Point pipeline route.

Saying he was appearing as the legislature's "advisor and negotiator," Martin said he had heard nothing during the hearings "that would persuade me on balance that these contracts do not best achieve a series of crucial and important objectives for the state."

In addition to the question of "political clout" for the all-Alaska gasline, Martin said other provisions of the contracts which require the purchasers to pay the state the highest price charged by any producer at Prudhoe Bay and provisions which allow the state to take back whatever gas is needed for in-state demands are equally important.

"To reject these contracts, Martin declared, "you have to be willing to accept the risk that

the additional help afforded by the buyers either won't be any help at all or won't help enough and your rejection of these contracts will be viewed as a rejection of the all-Alaska route itself.

"Given the fact that the contracts will be void if we lose, given the fact that they clearly are of extreme importance to our congressional delegation, given the fact that they are void if the take back scheme is not approved federally, given the fact that they allow us to do all we can to develop in-state uses for the gas—given all these facts I don't think the risk of rejecting additional assistance makes a great deal of sense."

Martin said the contracts represent a "balanced package of terms on key objectives for the state."

Although he acknowledged that lawmakers are not going to be able "to get a quantitative idea of what these companies are going to do," Martin said he had a good idea of their plans.

"I think each of them will mount substantial efforts in support of the trans-Alaska line in Congress," Martin said.

Al. Gov. Lowell Thomas Jr. told the hearings that the kinds of support outlined by Martin already were showing results, presenting the committees with copies of a resolution by the Alabama legislature in support of the contracts and the El Paso route.

The chairmen of the House and Senate special committees planned to let the hearings "sink in for a couple of days" before scheduling separate meetings to draft their recommendations to their respective chambers.

Natural Gas Distributors May Gain Windfall Profits

PITTSBURGH (AP) — Natural gas distributors may reap up to 100 per cent increases in first-quarter profits because of this winter's bitter cold, say utility officials and investment analysts.

But they say a call-to-arms by outraged consumers would be premature because the profit bulge is likely to disappear amid shortages later in the year.

"Profits will be astronomical," said a spokesman for the Buffalo, N.Y.-based National Fuel Gas Co., which serves 665,000 customers in Pennsylvania, New York and Ohio. "But the main reason for that is because we're selling most of our gas in the first quarter."

Foster Corwith, a natural gas specialist for Standard and Poor's investment service, said he expects some companies to report first-quarter profit increases of 100 per cent over last year.

H.A. Offutt, treasurer for fourth-ranked Consolidated Natural Gas Co. in Pittsburgh said his firm is now pulling gas out of storage that normally wouldn't have been used until March.

"Sure, we're selling more gas now, and we're going to make profits on it, but unless we can find additional supplies for the last three quarters we're going to be losing then," he said.

These developments have not

been lost on investors. Prices for natural gas stocks began a steady rise when it became apparent the unusually cold winter would mean increased gas sales and profits.

For example, while Standard and Poor's index, which measures the activity of 500 stocks, changed little from Dec. 1 to Jan. 26, the index for natural gas distributors' stocks jumped from 77.26 to 87.13.

But Corwith said utility stocks may have peaked because investors are already looking ahead to what will probably be a more normal winter next year. "This is a one-time spurt. It's not the type

of growth that can be sustained," he said.

Not only are utilities selling more gas, they're selling more of it now to their most profitable customers — residential users.

According to Standard and Poor's, the average rate for residential users over the 12-month period ending September 1976 was \$1.91 per million British thermal units. For industrial customers, the rate was \$1.22 per million BTUs.

Because of the freeze that has hit the eastern half of the country, gas deliveries to thousands of industrial users have been curtailed to provide enough gas for home use.

2/5/77

Round 1 ends in gas battle

By PAUL NUSSEBAUM
Our Juneau Bureau Chief

JUNEAU — The first round in the battle of the gas contracts is over. The second starts Monday.

House and Senate special committees listened for five days to testimony — much of it conflicting — about three proposed contracts to sell Alaska's one-eighth share of the Prudhoe Bay natural gas to gas companies, in exchange for support for an all-Alaska gas pipeline from the North Slope.

NOW THE SPECIAL committees will conduct whatever further examination they wish to make of the contracts before the proposals are turned over to the Senate Resources, the Senate Finance and the House Finance committees for further study.

After the committees are through with the contracts, the proposals will come before the full membership of both houses for a vote.

The objects of all this scrutiny are three contracts by Gov. Jay S. Hammond to sell the state's royalty gas to Tuxeco Alaska Inc., Southern Natural Gas Co. and El Paso Natural Gas Co. In turn, the companies have agreed to do all they can to support a trans-Alaska gas pipeline.

Most legislators still predict the contract will win eventual approval, although not as quickly as had been anticipated before the week-long hearings.

"They have turned out to be much more controversial than I thought they would be," a weary Senate

President John Rader said Friday evening. He had predicted before the hearings began that the contracts might win approval as early as the end of February.

By Friday, he said he didn't expect approval to come that quickly.

Rader chairs the Senate's special committee investigating the contracts. The committee will meet Monday to hear testimony from state officials, who are anxious to refute what they consider damaging presentations offered by some witnesses during the week.

By week's end, bleary-eyed legislators who had listened to the testimony were less certain that the contracts would have any effect on the eventual selection of the gas pipeline route.

"Do you really think it's going to make any difference?" Sen. Clem Tillion, R-Halibut Cove, said Friday. "I think a cold winter in Pennsylvania is going to have more effect than any contracts in Alaska."

Testimony at mid-week by University of Alaska economist Dr. Arlon Tussing reinforced doubts that many legislators had about the weight the contracts may carry. Tussing flatly told the committee hearings there was nothing anyone in the state could do that would have any effect on the gas line route decision.

But some, like Tillion, said they would vote to approve the contracts even though they suspect the contracts will prove meaningless. In a state where popular opinion is solidly behind a trans-Alaska route, to veto the contracts would be politically foolish, they say.

Gas share may slip from state

By PAUL NUSSBAUM
Daily News Staff Writer

JUNEAU — Unusually cold weather in the Lower 48 and resultant natural gas shortages may make it harder for Alaska to do as it wishes with its one-eighth share of the Prudhoe Bay natural gas, legislators were told Thursday.

"When a man in Cleveland, Ohio, is sitting in his house where it's 62 degrees because the gas company can't provide enough gas, and he hears Alaska wants to withhold natural gas to make plastics or for other use, it's a hard case to make," Natural Resources Commissioner Guy Martin told a special House Royalty Gas Committee Thursday evening.

"TO MAKE a terrible pun, the climate for what the state wants to do is very bad," Martin said.

The Hammond administration is seeking legislative approval of contracts to sell Alaska's royalty gas to three petroleum companies in exchange of their support of an all-Alaska natural gas pipeline.

Full-scale hearings on the proposed contracts will begin Monday.

IN PREPARATION for those hearings, legislators questioned Martin Thursday and expressed concern that unprecedented congressional permission for Alaska

to withdraw its gas for use as it wishes might be repealed.

Martin acknowledged that several congressmen, including Rep. John Dingell, D-Mich., have said they will seek repeal of the amendment which would allow Alaska to withdraw its gas for intrastate use.

"Aren't we telling them that we're going to take back 100 per cent of the gas if we want to — because they passed the amendment?" committee chairman, Rep. Clark Gruening, D-Dist. 7, asked.

IF THE AMENDMENT is repealed, legislators are worried that any contracts signed with gas companies for Alaska royalty gas might be invalid.

Martin urged legislators to grant speedy approval of the proposed contract to add weight to the state's push for a trans-Alaska gas route. The Federal Power Commission is to make its recommendation for a pipeline gas route to President Carter by May 1, and the FPC will get a recommendation for an administrative law judge by Feb. 1, state officials anticipate.

"We don't mean to pressure the legislature ... but the train is leaving the station and the timing of the federal decision is being made now," Martin told the committee.

Litt Decision Upsets Alaskans

ANCHORAGE (AP) — The endorsement by a Federal Power Commission hearings judge of the Arctic Gas project for movement of Prudhoe Bay natural gas brought swift responses from Alaskan officials.

Administrative Law Judge Nahan Litt said Tuesday the proposal, which would cross the Arctic National Wildlife Refuge and then swing through Canada to market, is "superior in almost every significant aspect when compared to El Paso."

The state supports the route proposed by El Paso-Alaska, which would parallel the trans-Alaska oil pipeline to Gracina Point. The gas would then be liquified and carried south by tanker.

A third proposal from North-

west Pipeline Corp. is considered by many Alaskans to be a good second choice. That route would parallel the oil pipeline to a point south of Fairbanks, and then swing east along the Alaska Highway.

Gov. Jay Hammond said Tuesday the decision is a bad one for Alaska, adding the state will appeal Litt's decision to the full commission.

"It selects the route which nearly all Alaskans have concluded is the worst environmentally and economically," he said.

Hammond also noted Litt's decision ignores many problems which could arise if a route through Canada is selected.

"The Canadian political picture is at best cloudy and the land claims issue very real," he said.

Litt's decision assumes Canadian officials will not let the unresolved Native land claims stand in the way of the pipeline, saying "it is unlikely Native claims will significantly modify the Canadian government's energy decisions."

El Paso Vice President John Bennett, contacted in Washington, D.C., said, "I would not even characterize it (the Litt decision) as a major setback."

In the first place, Bennett said, "Our construction time is five years from the date of approval. The judge says Arctic Gas will require six years to bring it down, which is a year longer than ours without even considering such delays as the settlement of Native claims and other realities in Canada."

He called Litt's endorsement "the first of a series of decisions and probably the least important of the series."

THANKS FOR REMINDING.

Gas Line Study

By The Associated Press

The state commissioned a \$34,020 study Thursday to assess three competing gas pipeline routes for potential in-state use of Alaska's royalty natural gas.

The study of the commercial, residential and industrial opportunities presented by the El Paso, Alcan and Arctic gas company proposals will be conducted by Battelle Pacific Northwest Laboratories of Richland, Wash., Commerce Commissioner Tony Motley announced.

UNC Suit

Boucher Testimony On Gas Sale Decries Lack Of Industrial Plans

By The Associated Press
And Empire Staff

Hasty legislative approval of contracts for the sale of Alaska's royalty natural gas would violate laws aimed at insuring "when we export our oil and gas we do not export jobs and the future of this state as well," former Lt. Gov. H. A. "Red" Boucher will testify in a text prepared for delivery this afternoon to the state's gas hearings.

Boucher, the owner of an Anchorage-based consulting firm, said the administration-negotiated contracts are "not in accord with the mandates that the legislature has previously laid down" on royalty gas sales.

State law, he said, specifically requires that prior to the sale of any of Alaska's royalty gas detailed studies be made not only as to the immediate needs of our state but as to its "present and projected intrastate domestic and industrial needs."

"What we should be talking about, and what the administration has chosen to avoid discussing," Boucher said, "is the future of a petro-chemical and related industrial base for Alaska."

"We have not yet given any appropriate analysis, much less the detailed analysis required by the law, of what Alaska's long range related industrial needs may be."

Boucher said the state may not need its royalty gas now, but claimed that no effort was made to "solicit those industries that could utilize our resources for development in Alaska."

Boucher acknowledged the contracts include provisions which

would allow Alaska to reclaim its gas if an Alaska industrial demand arises, but said "it would be a dubious proposition to advance that we could build a petro-chemical industry when we have already mortgaged the building blocks."

He added the state might be making a sale to advance political support for the all-Alaska El Paso route with companies that cannot materially help Alaska, a point made in hearings Wednesday by economist Arlon Tussing of the University of Alaska.

"Unless our proposed allies can guarantee that they can control the decisions of our president and our national officials we have gained nothing and sacrificed much and frankly I'm not sure the state should be allied with those who could make such a guarantee," Boucher said.

He argued the state need not commit its royalty gas yet, even if the assumptions supporting the contract are correct. He said such a sale could be delayed until the full Federal Power Commission has had time to make a decision on line selection later this spring, possibly giving Alaska an indication of what Canadian decisions will develop.

Boucher basically proposed the contract be renegotiated to guarantee access to all gas liquids and to attempt to further plans for in-state industrial development.

Boucher is just one of several witnesses expected to oppose the ratification of the pact who will be testifying this afternoon as the Joint House-Senate Gasline Review Hearings enter their fourth and possibly final day. Supporters of the pact, notably the Organization for Management of Alaska's Resources, also are set to speak today.

Economist Says Gas Sale Won't Affect Route Choice

By CHUCK KLEESCHULTE
Empire Staff Reporter

The decision on which route will be selected to transport Alaska gas to the lower-48 states is almost solely dependent on Canadian wishes, one of the state's leading economists said Wednesday.

Dr. Arlon R. Tussing, a professor of Economics at the University of Alaska at Fairbanks, late Wednesday shocked lawmakers when he argued the state's sale of its one-eighth share of Prudhoe Bay reserves will not affect the outcome of which line will eventually be built.

Tussing also argued the proposed royalty sale contracts could hurt the state by locking it into provisions of a contract made before any decision on gas deregulation is reached.

Tussing based his predictions, made before the third day of joint House-Senate hearings into the proposed sale, on the fact that Arctic's proposal is vastly more logical and already the clear favorite of American decision makers.

"There is just no amount of lobbying that will make it possible for El Paso to be selected over a buried trans-Canadian route. It's just inconceivable Congress will vote down a Canadian system that makes that much sense," Tussing said.

"The advantages of a trans-Canadian line are overwhelming as compared to an LNG system, but that doesn't mean Arctic will win," said Tussing, who felt the Arctic proposal will be derailed by Canadian objections as a result of native land claims.

Tussing said he felt a beefed-up, redesigned Northwest pipeline, Alcan route will eventually be selected in negotiations between American and Canadian officials, if Canada does allow any line to run across its territory.

Tussing then described the sole reason for the sale of the state's gas as being for solely "internal political interests."

"I don't see what the state could possibly gain by selling its gas now," Tussing said.

The expert in gas matters, an advisor to three Canadian provinces and a former member of the state's Oil and Gas Royalty Board, then bluntly instructed legislators on the reasons for the proposed sale.

Tussing added the contracts, while generally "worthless" might contain technical flaws and do contain two policy problems. He argued the state shouldn't have sold all of its royalty gas, but should have kept at least 25 per cent of it to sell to Northwest, if the Alcan line wins approval.

Also he said by keeping the gas the state would be hedging its bets by having some gas to sell at higher prices if unforeseen higher prices are allowed for gas.

"Another danger is that you might get stuck with this contract if somehow El Paso does win," Tussing testified.

Tussing's testimony was in direct conflict with that of Michael C. Holland, manager of El Paso Alaska Gas, delivered earlier on

Wednesday. Holland argued that quick ratification of the proposal would "represent one of the most significant actions by any parties in the lengthy process of disposing of North Slope gas."

The discrepancy in views angered some of the lawmakers present.

"I resent the implication that all of us are simply playing a great game. Doesn't the wishes of our fellow Alaskans, or our Congressional delegation or the parallels to the oil line mean anything?" asked Sen Mike Collella, R-Anchorage, Senate Floor Leader.

Tussing denied that the present case represents a parallel to the oil line debate which was decided in 1973 by a shy one-vote margin. He said in 1973 no viable corporate alternative existed to the trans-Alaska oil line, while in 1977 several viable gas routes exist.

After Tussing testified, Sen. Chancy Croft, D-Anchorage, while still predicting final House-Senate approval for the pact, said he was certain Tussing's presentation would have a strong effect on the joint committees.

"He brought together a host of concerns which had been welling up in the minds of many of us," Croft said.

Rep. Clark Gruening, D-Anchorage, head of the special House review panel, agreed with part of the political arguments made by Tussing. He refused, however, to characterize the pact as a "political ploy by the governor. "The

pact might well have the results Tussing implied, but that doesn't mean the governor's arguments for the contract are necessarily unsound," Gruening said.

Politics Of Sale

"Suppose you were the governor being attacked on all sides by the Anchorage Times, Anchorage business concerns and OMAR (Organization for Management of Alaskan Resources), all yelling you haven't been supporting development strongly enough. And suppose you are convinced El Paso has little chance for approval.

"You might be concerned that when Arctic wins they will all blame you because you didn't support El Paso. It then makes good sense to conclude the contracts which can't hurt you much and call their bluffs," economist Arlon Tussing, said.

"Now the governor can come back to the legislators and say he followed your mandate. You look at the contracts and decide you're giving up too much and don't approve them. Where is the finger going to point when El Paso loses, at you, But the governor in either case will get points by saying he did the best he could, or for his leadership in getting you to approve his contracts.

"That's the fundamental significance of the contracts," Tussing said.

Consultants Satisfied With Gas Contracts 2/71

By CHUCK KLEESCHULTE
Empire Staff Reporter

The prospects of relatively quick legislative approval for the sale of the state's share of North Slope royalty gas brightened considerably late Friday as three outside consultants hired by lawmakers gave the administration-negotiated pacts a nearly clean bill of health.

"Overall you have very good contracts before you. They protect you under both a regulated and deregulated market—they will stand you in good stead," said Dr. Carl Swanson, vice president of the Boston-based energy consulting firm of Jensen Associates, Inc.

Rush Moody Jr., a former commissioner of the Federal Power Commission (FPC), now a Washington lawyer and energy consultant, told lawmakers the state had negotiated a

"unique" contract and had struck an "excellent bargain" in several respects with the three firms proposing to buy the state's one-eighth share of Prudhoe Bay reserves.

"In some ways you have struck too good of a bargain for the state. I can't tell you whether to accept or reject the pact, but if you wait until a route decision is reached, I can tell you the companies will have little reason to give you the same terms again.

Moody quit the FPC in 1975 in a dispute over the future of the nation's energy regulation.

Moody shocked officials by telling them the state may need to soften the pact in the future in order to help secure financing for the El Paso line, if it is accepted by Congress.

He said he felt financial firms would be reluctant to fund the El Paso line as long as the state take-back clause remains.

(Cont. From P.1)

That circumstance would occur only if the FPC used the date when contracts were signed as the measure of who would be allowed to raise prices after deregulation occurred.

Swanson, under intense questioning by Sen. John Huber, D-Fairbanks, and other members of the panel, estimated the chance of that occurring at "less than 50 per cent" probably close to 10 per cent. Moody said such a practice would require the FPC to return to a policy abandoned in 1969—an event Moody termed "highly improbable" since the policy would hurt chances for new gas exploration.

Both disputed the contention voiced Thursday by Morris Thompson, the vice president of the rival Alcan gas pipeline company, that the state could lose up to \$800 million by approving the contracts since the wellhead price of gas, Thompson claimed, would be dependent on transportation costs for the gas.

"I heard both sides of the debate and I admit there's truth on both sides," said Moody who added, however, that since the FPC will continue to regulate gas transmission practices, he felt no single relationship between transportation and wellhead price would exist.

Moody and Swanson urged lawmakers to correct some ambiguous language in the contracts prior to approval, either by signing a letter of intent with the transmission firms to iron out the meanings involved or by amending the contracts. Moody further

"I don't want to borrow trouble, but if I their approval. represented the banks that clause would clearly be a red flag which I would want cleared up, removed," Moody said.

Michael Holland, representative for El Paso Alaska, dismissed the fear saying the financial institutions know of the proposed clause and still intend to back the project, since it is based on the transporting of only seventh-eighths of the gas rather than full deliveries.

Senate President John Rader, D-Anchorage, chairman of the Joint House-Senate Gasline Review Committee, said after the fifth day of testimony he felt the chances for contract approval were good.

"I think there'll be some opposition. Reasonable men can differ over the contracts—they've proven far more controversial than I suspected—but I think the overwhelming weight of evidence calls for

warned lawmakers that the pact highlighted a problem with the state's severance tax law—noting a loophole he said needed to be corrected before gas starts to flow from the North Slope.

He told lawmakers that under present statutes transmission firms are not required to pay severance taxes on the state's one-eighth share of the gas once it is taken in-kind and not exported. Moody said the law should be changed to require an in lieu of tax payment to prevent state revenues from dropping in the case of state use of the gas.

Lawmakers Friday also were told the contract would help the chances for approval of the El Paso route in Washington.

Representatives of the Organization for Management of Alaska Resources (OMAR) plus Moody and Dr. Richard Kilgore, director of research for W.J. Levy Consultants, legislative advisors since 1969, all said the state could be materially helping the chances for Presidential and Congressional acceptance of the El Paso line.

Following the Friday hearing, the committees are breaking up and dividing further consideration of the pacts. In the Senate the Natural Resources Committee, headed by Sen. Kay Poland, D-Kodiak, will hold hearings on the contracts, while in the House the Finance Committee, chaired by Rep. Steve Cowper, D-Fairbanks, will take over consideration of the pacts.

Members of the two committees met again this morning to gather rebuttal testimony from the state's Commissioner of Natural Resources Guy Martin and from assistant state attorney general Fred Boness, the key negotiator of the pacts with the Tennessee Gas Transmission Co., a subsidiary of Teneco Inc., Southern Natural Gas and El Paso.

Moody said the state has gained much by getting the transmission firms to give the state the opportunity to take its gas in-kind without having to pay for the privilege and made a good deal by not selling all of its potential North Slope gas. The contract calls for the state to sell 2.6 trillion cubic feet over the 20-year life of the pact, less than the 3.2 tcf of state royalty gas estimated on the slope.

Other favorable provisions include the right of the state to take back its gas for in-state

uses on a one or two-year notice schedule, the potential for the state to remove all the gas liquids from the stream, the 15 per cent of the gas capable of fueling a petro-chemical industry, Moody said. The state also has solid termination clauses built into the contract, Moody said.

Swanson and Moody both admitted the state could lose some future in-state revenue under the pricing provisions of the contracts, but both men said the probability of that occurring is extremely low.

Moody and Swanson said the state was well protected by the contracts as long as the FPC regulates the price of gas. But in the case of deregulation, both men said the state could be locked into receiving a lower price for its gas than the other working interests on the North Slope.

(Cont. On P.3)

State Reaffirms El Paso Decision

By CHUCK KLEESCHULTE
Empire Staff Reporter

Members of the Hammond Administration late last week repeated their contention that selection of the all-Alaskan El Paso natural gas line will produce the most benefits for the state and thus is the route the state should back.

State Commissioner of Natural Resources Guy Martin reiterated the state's support for the El Paso line prior to the start this afternoon of three days of joint House and Senate hearings on whether the state's one-eighth share of North Slope natural gas should be sold to three firms. The firms have pledged to support the El Paso route.

Martin made the statement in dismissing the importance of an appendix to the state's economic study of the three proposed gas lines. The study, compiled by the state's Department of Revenue, was released in early December after Gov. Jay Hammond Nov. 12 announced conclusion of a proposed sale of the state royalty gas to three firms: Tennessee Gas Co., a subsidiary of Tenneco Inc., Southern Natural Gas Co. and El Paso.

The appendix, given assumptions most favorable to the Alcan trans-Canada route, indicated that the Alcan line could deliver gas to the lower-48 states at a price cheaper than the Arctic or El Paso routes, especially at low levels of North Slope gas production.

But Martin last week said the Hammond Administration hasn't seen any data to shake it from its support for the pipeline route roughly paralleling the 809-mile oil pipeline.

"We just haven't seen anything to materially change our analysis that the El Paso route is by far the best for the state," Martin said.

He added that the state position is based on the assumptions that some added expense to lower-48 residents is acceptable provided the pipeline will benefit the state greatly, that construction of the liquified natural gas facilities in Alaska will make an important contribution to the state's taxbase and that having access to the gas at tidewater increases the state's opportunity to develop industry.

"Our conclusion is based on the weighting we assign to different variables. Right now we

think our priorities are right and our support for the El Paso route is strong," Martin said.

Martin Friday also issued an appeal to legislators to take quick action on the royalty gas sale, a sale which will net the state added lobbying support in selling the El Paso line to both the President and later Congress.

"We don't mean to pressure the legislature, but the train is leaving the station and the timing of the federal decisions is being made now," Martin told a preliminary session of gasline hearings being held by a House committee. The full hearings open today starting at 2 p.m. at the Hilton Hotel.

Martin added that one reason for legislative speed is that the recent spell of frigid weather in the East and Midwest has renewed moves to repeal Alaska's special permission to withdraw its royalty gas from interstate commerce for use in domestic industrial development.

"When a man in Cleveland is sitting in his house where it's 62 degrees because the gas company can't provide enough gas, and he hears Alaska wants to withhold natural gas to make plastics or for other uses, it makes for a tougher case to argue," Martin said according to an Associated Press dispatch.

Federal Power Commission (FPC) Administrative Law Judge Nathum Litt is expected to announce his tentative decision on which line the FPC should support Tuesday morning. Following Litt's decision the full five-member commission must make its decision prior to May 1.

New Gas Power Wielded By Feds

WASHINGTON (AP) — Federal authorities are wielding their new emergency natural gas powers in an effort to keep gas flowing to homes and hospitals throughout the East.

The Federal Power Commission's first emergency allocation order Thursday diverted surplus West Coast gas to the Transcontinental Gas Line Corp. of Houston for distribution along the gas-starved Eastern seaboard from North Carolina to New York.

FPC Chairman Richard Dunham said the gas — about 150,000 cubic feet per day — was intended for the states of Washington and Oregon, but utilities and industries there can replace it with other fuels or gas in storage.

The FPC's Bureau of Natural Gas reported Thursday that some pipelines were down to a two-day

supply of gas for their top priority customers, including homes, health facilities and small businesses.

The allocation powers that President Carter sought and received from Congress on Wednesday allow natural gas to be rationed only from low-priority users such as industries to high-priority customers.

The FPC also acted Thursday to allow interstate pipelines to purchase gas from the more expensive, unregulated intrastate pipelines in Texas and elsewhere. Intrastate pipelines deal in gas that is produced and consumed in the same state. That gas is not regulated by the federal government or under federal price controls.

Dunham said it was too soon to tell how much gas would be made available or what effect it would have on consumer prices.

The FPC emergency rules allow interstate pipelines to buy gas at prices up to \$2.25 per thou-

sand cubic feet without prior approval, or at even higher prices if they reflect all the seller's added costs for switching to other fuels.

Some of the gas switched from Oregon and Washington was costing up to \$2.75 per thousand cubic feet. But the amount involved in the allocation was only a fraction of the nearly 100 billion cubic feet of gas burned daily in the United States this winter.

The FPC's regular price ceiling on interstate gas is \$1.44. Prior to the emergency, some intrastate gas was selling within production states for as much as \$2.25.

Dunham said that although natural gas moves through pipelines at only 20 miles per hour, the emergency gas deliveries will be expedited by trading shipments of gas along the pipeline. The East will receive the West Coast surplus without waiting for that gas to physically travel across country, he said.

AP Wirephoto

Emergency bill to move natural gas

WASHINGTON (AP) — President Carter, signing his first legislation since his inauguration, approved the emergency natural gas bill Wednesday night and said its first use will be to transfer billions of cubic feet of the fuel from California to eastern states hard-hit by the bitter winter.

"I'm very proud to have a chance to sign this first law into being because of its importance to our people," the President said.

"I would like to declare that a natural gas emergency does exist."

In the Oval Office signing ceremony, Carter also put his signature on orders officially declaring the emergency and directing the Federal Power Commission and other agencies to begin sending natural gas to the states that need it most.

The ceremony, in which Carter used four pens and distributed them to congressional leaders in attendance, took place only hours after Congress put the finishing touches on the bill. The House approved the measure 336-62 and the Senate passed it earlier by voice vote.

Although the bill was a compromise between versions passed in each chamber earlier in the week it provides Carter with nearly everything he had sought.

Carter said he was informed by Gov. Edmund G. Brown Jr., of California that because of strict conser-

vation measures, 10 billion cubic feet of natural gas are available to eastern states experiencing an unusually fierce winter.

"Without this legislation, transfer would have been completely impossible," Carter said.

The President also said he was told by Mexican President Jose Lopez Portillo that Mexico would try to send quantities of oil and gas to the United States to help alleviate the emergency.

Carter did not specify the amounts.

The legislation gives Carter the power to declare national or regional natural gas emergencies and to order gas moved from state to state to keep homes and hospitals warm.

Designed to spread out the shortage more evenly, the bill would not provide immediate aid to areas where gas supplies are running dangerously low. Energy officials indicated that any emergency gas transfers probably will involve shifting gas from states west of the Mississippi River to those in the frigid East. And gas only moves about 15 miles per hour in pipelines.

The bill also will do nothing for factories closed by the gas shortages. It gives Carter authority to move gas to protect life and property but not to reopen schools and factories.

State may switch gas line support

By PAUL NUSSBAUM
Daily News Staff Writer

JUNEAU — Administration officials, quizzed Monday during full-scale legislative hearings on proposed royalty gas sale contracts, stressed that they are leaving a back door open to switch support from an all-Alaska natural gas pipeline if it becomes apparent the trans-Alaska line will not be approved.

State officials also agreed that potential inducements to bring petrochemical industry to the state might be lessened by provisions of the contracts which forbid the sale of the state's surplus royalty gas to any but three companies.

THE HAMMOND administration is seeking legislative approval of three contracts to sell the state's one-eighth share of Prudhoe Bay natural gas to three gas transmission companies in exchange for their support of a trans-Alaska gas pipeline.

Today, officials of the three companies — Tenneco Alaska, Southern Natural Gas and El Paso Natural Gas — will testify before the joint House and Senate Special Committee hearings.

State Atty. Gen. Avrum Gross and Natural Resources Commissioner Guy Martin were grilled for three hours by the legislators about terms of the proposed contracts.

BOTH SAID they expect a Federal Power Commission law judge to

recommend today that the gas line be built by Arctic Natural Gas through northern Canada and then south the U.S. Midwest.

"But the issue will not be foretold by a decision by the FPC law judge — even if it is an adverse one," Gross said.

The Arctic Gas route is the one least favored by the state, as it runs through the Arctic Wildlife Refuge and — state officials say — could be delayed for years by Canadian Native land claim disputes. The trans-Alaska route is being advocated by El Paso Natural Gas, and a third route is being pushed by Northwest Pipeline Co.

THE THIRD route, which would

go south to Fairbanks and then follow the Alaska Highway to the Lower 48, would get the state's approval if the administration pulls its support from the El Paso route.

Martin said that would happen under two conditions: if future "emergence of facts" would change the administration's evaluation of the routes, or if "we find El Paso simply cannot prevail."

Rep. Clark Gruening, D-Dist. 7, who chairs the House Special Committee on Royalty Gas, pointed out that the contracts represent "the largest sale since Prudhoe Bay," and he urged legislators to "hold no sacred cows in examination" of the contracts.

GAS LOBBY EFFORTS PROBED

By CHUCK KLEESCHULTE
Empire Staff Reporter

Lawmakers Tuesday continued their search to quantify exactly what benefits the state will net from sale of Alaska's North Slope royalty gas. For at least several members of the special House-Senate Joint Gas Review Committee disappointment was one of the main results.

"We keep asking what we're going to get and they just keep saying in effect, go ahead and approve the contracts and then we'll show you," said Sen. Kay Poland, D-Kodiak, head of the Senate's Natural Resources Committee.

Frustration was shown by several members as the heads of Tennessee Gas Transmission Co., Senior Vice President Robert Thomas, and of Southern Natural Gas, President Peter Smith, were grilled by lawmakers for five hours during the second day of three-scheduled days of hearings into the proposed sale of Alaska's one-eighth share of Prudhoe Bay reserves.

The bulk of questions Tuesday attempted to pin down how much money and effort the companies plan to commit to lobbying efforts in behalf of the all-Alaska, El Paso gas route the state supports.

"The whole issue appears to boil down that if we commit our gas now we are taking a chance of losing some benefits in potentially higher prices if we wait and sell later on. We are balancing that against the influence we'll gain from the companies by going with them now."

"So," said Rep. Clark Gruening, D-Anchorage, head of the House review committee, "We need to get a firm idea what we're going to get in return. Right now no one is really sure."

Thomas, speaking for Tennessee, a subsidiary of Tenneco Inc. which will gain 50 per cent of the state's gas, up to 1.3 trillion cubic feet, said his firm has yet to produce even a working budget on how much it will spend to convince President Jimmy Carter and later Congress to select the El Paso land-water route over the two trans-Canadian routes: Arctic's and Northwest's Alcan routes.

The Arctic proposal Monday cleared the first hurdle in the selection process by being tapped as the best line by Federal Power Commission Administrative Law Judge Nahum Litt.

Thomas during his testimony said his firm would "commit all the resources necessary" to fight for the selection of El Paso's route. But he said while Tenneco has yet to commit a sizable workforce to the lobbying effort pending ratification of the royalty pact, Tenneco will not attempt ever to buy "political influence" simply by spending money.

"No amount of so-called political clout or pressure is going to determine the federal decision on this matter. We are convinced that the decision will be made on the merits of the issues. It is essential that all the issues be thoroughly discussed...and that's what we'll be doing," Thomas said.

Smith, likewise, said his firm has yet to commit sizable numbers of its staff to the project awaiting the ratification of the pact. Smith made an estimate, however, that Southern who will receive 650 billion cubic feet of gas under the contract might spend an additional \$100,000 in outside lobbying expenses besides committing its whole public relations staff to backing the El Paso plan.

Smith said his firm would spend most of its time, an effort already underway in part, to convince gas-starved Southeast residents to support the El Paso route. He said the benefits of the project have already been explained to most Southern governors, all members of Southern Congressional delegations and to all the utilities which buy gas from the transmission firm.

Sen. Chancy Croft, D-Anchorage, a critic of the proposed sale negotiated by the Hammond Administration, asked Tenneco to submit data on the amount of money it has spent to lobby the state's legislature to support the gas contract plus all money spent to influence outside parties—especially money spent since the Nov. 12 announcement of the proposed contract.

Questions Tuesday continued to surface over the need for an "escape" clause in the contract, a provision allowing the three firms to keep their gas supply if they support the state, if the state ever switches its support to another line such as the Alcan project.

State Sen. John Huber, D-Fairbanks, asked both firms whether they had asked that the clause be included in the pact and both said they had not—that the clause had been included at the state's request. On Monday Guy Martin, commissioner of the state's Depart-



GASLINE CONSIDERATION—Rep. Charles Parr, D-Fairbanks, (left) glances at his notes, while Rep. Clark Gruening, D-Anchorage, and Senate President John Rader, D-Anchorage, listen to testimony presented Tuesday during the second day of hearings into the proposed state sale of North Slope natural gas. Gruening and Rader are both chairman of respective House and Senate committees looking into terms of the sale of the state's one-eighth share of Prudhoe Bay reserves. The hearings are continuing today and probably will extend into Thursday.

ment of Natural Resources, had said the state wanted the clause to protect its future "flexibility" to the greatest extent possible.

Smith after the hearing, however, said his firm now would object to removal of the clause if proposed by the legislature. Thomas said his firm is opposed to making any adjustment in the proposed contract.

"If we are sent back to renegotiate the contract it would take too long and the state would lose the benefits it could receive. Also, any of the companies might be tempted to raise a number of issues on other points in the contracts," Thomas warned.

The clause has caused some fear among lawmakers that it might limit the incentive of the firms to push totally for the El Paso line. Both companies representatives tried hard, however, to dispel such fears saying their support for the El Paso line is strong.

Tenneco, in fact, questioned whether it

would switch to support any other line even if the state did. The company said such a switch might harm its credibility in Congress, important to the conglomerate's other business dealings.

Earlier in the day, representatives of Tenneco had been questioned closely about their lobbying techniques in other gas deals. Thomas in response promised his firm would engage only in practices which are completely legal under all state and federal laws.

Joint committee chairman Sen. John Rader, D-Anchorage, expressed support for the contract and gas purchasers after the session.

"I believe these fellows desperately need the gas and I think they'll do whatever it takes to get it. They have a clear incentive to work hard for us," Rader said, "and after the FPC decision we need all the troops we can get."

The hearings, with 19 witnesses scheduled for today, are being conducted at the Hilton hotel.

Lawmakers Question Sale Of Royalty Gas

By CHUCK KLEESCHULTE
Empire Staff Reporter

Alaska lawmakers this week have been busy gathering a host of questions and beginning Monday they'll attempt to ferret out some answers concerning the terms of Gov. Jay Hammond's proposed sale of Alaska's one-eighth share of Prudhoe Bay natural gas.

"I have a lot of questions about the sale, concerns I'd guess you would call them. I'm just not sure how I feel about the sale right now. I'll have to wait to see how I'll vote until after the governor explains his side," said Rep. Charles Parr, D-Fairbanks, a member of the special five-member House panel reviewing the sale.

Juneau's state Sen. Bill Ray echoes a similar response, typical of the feelings of many of the state's senior lawmakers. "I have some reservations. Some of them may be because I don't fully understand the contract, others may be because I question the basic premise of the sale. In any case, it will be next week before I even start to make up my mind."

In the absence of formal opposition to the pact, individual lawmakers with an assist from former state Lt. Gov. H.A. "Red" Boucher have been generating their own questions. The biggest one centers over the general practice of the state selling a natural resource to generate political support for one of its economic objectives.

Sen. Chancy Croft, D-Anchorage, is in the forefront of legislators who have questioned the morality of the state selling its gas predominately to gain lobbying support in Congress for an all-Alaska El Paso gasline instead of the two overland gas routes which will run through Canada.

Gov. Jay Hammond in announcing the sale Nov. 12 said the main objective of the state in entering into the pact with Tennessee Gas Transmission Co., a subsidiary of Tenneco Inc., El Paso and with Southern Gas Co. was to gar-

ner political support for the El Paso line.

"The major question is whether it's good public policy of the state to sell its resources for political influence," Croft said Tuesday.

Ray went one step further this week questioning whether it's ethical for the state to favor a line, El Paso, which might well deliver gas to Americans in the lower-48 states at the highest cost of the three proposed lines.

"It's a natural resource of Alaska and of all the country. As Americans it seems we're almost committed to try to bring gas to the south at the cheapest possible price," Ray said.

Under studies by the state's Department of Revenue, the El Paso line likely will deliver gas south at a gate-city price of \$2.07 per million BTU's (British Thermal Units), 7 cents higher than for Alcan and possibly as high as 17 cents higher than could be delivered by the Arctic Gas system.

For the chairman of the House Gasline Review Committee, Rep. Clark Gruening, D-Anchorage, the main problem with the pact, besides the question of its ethics, is simply its length—whether the state should enter into any agreement which ties up the state's gas supply for 20 years or until 2.6 trillion cubic feet of state gas is removed from the slope.

"The pact tries to protect the state against the events which could occur during its life, but 20 years is a long time given changing conditions," Gruening said. The pact as it now stands contains two clauses where the state, for in-state use, could take back a percentage of the gas sold on one year's notice and take back all the gas, nullifying the contract, on two year's notice.

Two clauses of the contract have raised the most concern among lawmakers, the main clause being one which allows the three gas firms to keep their gas supplies if the state ever finds it necessary to support a different line, if the companies shift their support to the

new line the state favors.

"How likely are those companies going to be to go all out for an El Paso line if the companies think they'll get the gas if either El Paso or Alcan win final approval. They get the best of both worlds," said Boucher, the leading critic of the royalty gas pact.

The Teamsters Union Local 959 last week confirmed that while they are a strong supporter of the concept of an all-Alaska line and of the royalty sale since it in general supports the El Paso plan, they are still opposed to the inclusion of the "escape clause" in the royalty contract.

"Our objection to the proposed contract deals only with that one clause, it just doesn't give the firms the incentive to lobby for it as hard as they should," Jeff Barry Sr., business representative for Local 959 in Anchorage and director of the Teamster political action arm ALIVE, said.

Juneau Rep. Jim Duncan agreed that the clause might represent a problem with the contract. "I think that it is a flaw in the pact, but I really don't know if it is serious enough to threaten adoption of the whole contract," Duncan said.

Other lawmakers had similar problems with the contract. Rep. Parr feared that the clause would produce real credibility problems for the state if it ever was invoked. "Here we'll be going all out for the El Paso line and the three firms hopefully will be to. Then if we ever change our minds everyone is going to be forced to go to Congress and try to explain why the line we said was best no longer is best.

"It might make us look like fools," Parr said.

Rep. Bill Miles, D-Anchorage, had a slightly different complaint.

Miles said that the contract, at present, gives the governor the sole power to switch state support to a different line, a provision he feels is dangerous without some provision for legislative review and acceptance.

State Commissioner of Natural Resources Guy Martin Thursday noted both of the concerns saying the administration placed the clause in the contract simply to give it an added measure of flexibility. He said, however, that the odds were so extremely high that the clause would never be used as to make the possibility almost totally remote.

"I think we would switch only if there was a clear public feeling from the legislature, the governor and the Washington Congressional delegation that our choice (El Paso) had no chance of winning and I don't think we'll ever be in that kind of a situation," Martin said.

FPC Judge Gives Nod To Arctic Gas

By MARK PANITCH
Washington Correspondent

WASHINGTON—Proposals by the El Paso Natural Gas Company and the Alcan Pipeline Company to move North Slope natural gas across all or much of Alaska were ranked as second and third choices today by a Federal Power Commission administrative law judge who called the Arctic Gas plan to build a pipeline east of Prudhoe Bay into the Canadian Mackenzie Delta area "superior in almost every significant respect."

The decision in favor of Arctic Gas, Judge Nahum Litt said, was based on environmental, technical and financial grounds. Arctic, Litt said, could deliver the most gas at the lowest price in the shortest time with the least damage to the environment.

The El Paso proposal to build a Trans-Alaska gas line connected to a gas liquifaction system on Prince William Sound was called "a viable plan which technically can be built in an environmentally sound manner."

The Alcan pipeline plan to build a line to Fairbanks, then east along the Alaska Highway was dismissed by Litt.

"No finding from this record supports even the possibility" that Alcan could be certified, Litt said.

Both of Alaska's U.S. Senators, conservation organizations and El Paso immediately criticized Litt's position, saying he failed to listen to much of the testimony that was critical of Arctic Gas.

Senator Mike Gravel called the decision "the wrong choice," and cited El Paso claims for quicker construction at a lower cost to support his position.

Sen. Ted Stevens, R-Ak., said Litt had "ignored many factors."

Stevens said the biggest problem to be faced is the Canadian question, "there are two governments here making two separate decisions."

A spokesman for the conservation organizations which have generally supported the Alcan proposal said Litt's decision adopts a "short-sighted view."

He said the decision could promote a "national debate over the future of the Arctic National Wildlife Range. "There are viable alternatives to Arctic Gas."

John Bennett, head of the El Paso Alaska Company, said "I don't see how he can say that their six-year plan will bring gas faster than our five-year plan."

Gary Frink, lobbyist for the Organization to Manage Alaska's Resources, said the decision "ignores the facts." The Alyeska project, he said, "proved winter construction in the Arctic is impossible."

Litt repeatedly said the state's arguments were self-serving, based more on the desire for economic development than the national interest.

He based his decision on two major factors. First, that there will be extensive future oil and gas development in the wildlife range which will require a pipeline through that area.

Second, he said the Canadian Mackenzie Delta reserves are adequate to support construction of a pipeline through that area. At least two Canadian inquiries are now studying that question.

Arctic, he says, is superior to El Paso because it goes to the Mackenzie area. It is superior to Alcan, he says, because it won't have to be expanded to handle Mackenzie gas and goes directly through that region.

Litt's opinion assumes that Alcan will have to build a second line through the Mackenzie area and will have to enlarge to handle future North Slope gas reserves.

Both these assumptions were contested by El Paso and Alcan during the hearings when they were advanced by Arctic.

The members of the Federal Power Commission will make an official FPC recommendation to President Jimmy Carter around Mar. 1.

Under legislation passed last year by Congress, Carter has until next fall to send a route recommendation to Congress which Congress can either approve or disapprove.

Solons Probe Gas Sale Pact

By The Associated Press
And Empire Staff

State lawmakers say they want the answer to one simple question during hearings on administration-negotiated contracts for the sale of Alaska's royalty share of Prudhoe Bay natural gas—"what are we giving up and what are we getting in return."

Rep. Clark Gruening, D-Anchorage and chairman of a House special committee, coined the phrase Monday as his panel joined a similar Senate committee in the first of a planned three-day round of hearings on the gas contracts.

But other lawmakers quickly picked up on the theme in subjecting administration officials to some of the toughest questioning they have yet had to face on the issue.

The administration of Gov. Jay Hammond is seeking legislative approval for contracts to sell the state's royalty gas to three major natural gas transmission companies in return for their support of a so-called all-Alaska gas pipeline route.

The hearings were to continue today with testimony from the three firms—Tenneco Alaska, Inc., Southern Natural Gas Co. and El Paso Natural Gas Co.

"This is the single largest sale of Alaska's natural resources since the Prudhoe Bay lease sale," said Gruening. "But the principle reason for the contracts is to effect a political decision in Washington and not to generate revenue.

"So, we want to know what we are giving up and what we are getting in return."

Under questioning premised on the Gruening theme, high-ranking administration officials made two disclosures which placed qualifications on the widely-held suppositions that the contracts would give the state the highest price possible for its gas.

In a sharp exchange with Sen. Chancy Croft, D-Anchorage, Guy Martin, commissioner of the state's Department of Natural Resources, admitted the state at present theoretically may be able to gain a higher price for its gas by selling directly to intrastate gas utilities—companies which do not sell gas across state lines and thus aren't regulated by the Federal Power Commission.

But Martin said such an action would cause the state to turn its back on the main purpose for making the sale now, gaining political support in Washington for an all-Alaska gas line.

Martin this morning added the state has considered attempting to negotiate such a pact, possibly with California-based utilities, but that such an agreement he felt was impos-

sible to negotiate as a practical matter at the present time.

Martin during the exchange with Croft said that if the price of natural gas was deregulated by Congress then it was clear the state could gain a higher price for its gas than it will net from the proposed pact by demanding a "front end" premium payment from purchasers. Under FPC control, however, such payments are illegal Martin said.

"Then we could have gotten a higher price than in these contracts?" Croft asked.

"We've never denied that," Martin replied, "but not for the objectives we have of gaining support for the all-Alaska route."

"But is it true that the sale does involve the sale of our gas at a lower price?" Croft demanded.

"That's a gross overstatement," Martin said, who then explained that the administration felt it could not base its policies on an assumption that deregulation will come. "It just may or may not happen soon enough," Martin said.

In response to questioning by state Sen. Kay Poland, D-Kodiak, Martin said the "takeback" provisions in the contract, clauses which allow the state the right to regain control of its gas, gives the state the right to use the gas in everyway except one. The state under the contracts may not take gas from the purchasers and then turn around and sell the gas to private industry which would then liquify the gas and export it to other markets.

The state will be able to withdraw all the gas needed to support petrochemical development in the state except for liquification purposes.

Martin and Atty. Gen. Avrum Gross also were questioned heavily on how much impact the support of the Tenneco, El Paso and Southern could have on the pipeline route decision, but could give the panel no hard assurances on results.

Royalty gas buyers undecided on lobbying

By PAUL NUSSBAUM
Daily News Staff Writer

JUNEAU — After two days of testimony, state legislators say they still don't know what prospective buyers of Alaska's royalty natural gas plan to do to support an all-Alaska gas pipeline route.

Senate and House special committees, meeting jointly in the Hilton Hotel here, questioned officials of two of the three prospective buyers for more than four hours Tuesday. The hearings will continue today.

THE HAMMOND administration has signed contracts with three natural gas distribution companies to sell them the state's one-eighth share of Prudhoe Bay natural gas, in exchange for support of a trans-Alaska gas pipeline. The contracts are not valid unless approved by the legislature.

Officials of Tenneco Alaska Inc. and Southern Natural Gas Co. said they could not tell the legislators how much they would spend lobbying for an all-Alaska route or specifically whom they would seek to persuade. Officials for the third company, El Paso Natural Gas Co., will be quizzed when the hearings continue today.

"To date, nobody has told us what they will do in terms of lobbying or building influence," Rep. Clark Gruening, D-Dist. 7, chairman of the House Special Committee, said. "We don't know what effect they may have . . . or if they're just going to ride it out."

OFFICIALS of both companies Tuesday told the legislative committees they would be able to give the lawmakers more specifics once the contracts were approved. Both said they would commit all the time and money they thought necessary to win approval of a trans-Alaska route.

Peter Smith, president of Southern Natural Gas, said he expected his company to spend in excess of \$100,000 . . . "but we don't have a specific budget saying we'll spend a certain amount."

Rep. Larry Carpenter, R-Fair-

banks, countered, "To tell us you're just going to go out and spend what it takes is not a realistic response." Carpenter is a public relations representative for Alyeska Service Co., and he said campaigns designed to influence people usually have established price tags before they're started.

REP. RUSS MEEKINS, D-Dist. 7, pressed Tenneco senior vice president Robert C. Thomas to tell the committees "what we are gaining now that we can't get in the future."

Thomas said the state's overriding benefit is the effort to secure a trans-Alaska gas pipeline: "Are you going to have a trans-Alaska route in the future if you don't act now?"

Officials of both companies said they have a vested interest in getting the El Paso trans-Alaska gas route approved, as they would then be able to pass on the costs of lobbying for the route to their customers.

SOUTHERN and Tenneco urged the committees to act quickly on the contracts so the companies can begin working on a full-scale effort to convince Washington D.C. that the El Paso route is the best one.

"If President Carter doesn't receive comments from this state and others, he will continue to be bombarded with information that says the midwest won't get gas unless a trans-Canada route is approved," Tenneco's Jared G. Carter said.

"What are you going to do?" Gruening asked.

"It depends on when the contracts are approved," Thomas replied.

Smith said Southern has influence with "distribution companies, Kiwanis Clubs, Chambers of Commerce, state legislators, public utility commissions, governors and . . . the strong and effective congressional delegations from the southeastern United States."

Study Details Arctic Benefits

Alaska could earn substantially more from its royalty share of Prudhoe Bay natural gas under the Arctic Gas pipeline proposal if Congress deregulates the industry, a new legislatively financed study claimed today.

With deregulation, the study estimated the "netback value" to the state of its royalty gas delivered in Los Angeles at \$1.66 per million BTUs under the Arctic Gas route as compared to \$1.22 per million BTUs under the all-Alaska El Paso route favored by the state.

Sold in Chicago, the study said the "netback value" to the state would be even higher under the Arctic Gas proposal, \$1.66 per million BTUs for Arctic-delivered gas as compared to 94 cents for gas delivered by El Paso.

The projection was included in an economic analysis of administration-negotiated contracts for the sale of the state's share of North Slope gas, currently the subject of hearings by special legislative committees.

But the estimate contained in the study conducted by Jensen Associates, Inc. of Boston deals only with the price of gas under deregulation and does not take into account the in-state economic impact of the routes which would be much higher for El Paso than Arctic.

The "netback value" comparison also not mention the Alcan route proposed by Northwest Gas Co.

The projection was based on a formula using the price of alternate fuels minus the cost of transporting the gas to market.

"The theory is that the price of natural gas at the market (e.g. Los Angeles) would tend toward a level related to the price of alternate fuels, and that the field price resulting would be the market price less the cost of transmission," the Jensen study said.

And because the transportation costs of Arctic Gas allegedly are less than those of El Paso, the study said, the state could charge more for its royalty gas in the field under deregulation.

State officials, however, have challenged Arctic's estimates of transportation costs, claiming that the project will experience high cost overruns.

2—Anchorage Daily News, Saturday, January 29, 1977

U.S., Canada sign pipeline treaty

WASHINGTON (AP) — The United States and Canada signed an agreement Friday designed to ensure that any pipelines carrying oil or natural gas destined for one country across territory of the other not be taxed in a discriminatory manner.

"This removes a technical obstacle to a final decision as to a gas pipeline" to carry natural gas from Alaska's Prudhoe Bay across Canada to the United States, a State Department official said.

The Federal Power Commission is considering proposals to build a natural gas pipeline either through Canada's Mackenzie Valley or along the same route as the Alaska oil pipeline, or a third route, using the Alcan Highway through Canada.

The agreement would require that any taxes or royalties levied on another country's pipeline by the country through which it runs be comparable to those assessed against one of its own pipelines.

The agreement will not go into effect until it is ratified by both countries.

State gas rights in jeopardy if FPC decision followed

By ROSEMARY SHINOHARA
Daily News Staff Writer

Alaska's motives in supporting a trans-Alaska gas pipeline, and its powers to control its royalty gas, were called to question Tuesday by a Federal Power Commission law judge who opted for Arctic Gas Co. from among three competitors to build a North Slope natural gas transportation system.

Judge Nahum Litt issued a 430-page report in Washington, saying he found the Arctic Gas consortium's trans-Canada pipeline proposal to be "superior in almost every significant aspect" in comparison to the trans-Alaska pipeline and tanker system proposed by El Paso Natural Gas Co.

THE JUDGE said the third competitor, Northwest Pipeline Corp., didn't even have an application worth considering.

And Litt slipped into the report an assertion which, if upheld, would be of great concern to Alaska: he contends the FPC, not the state, has full jurisdiction over the state's royalty gas.

"He said the FPC could reach deep into the state's intrastate power. If the FPC carried out what he said is the law, the state intrastate power would be jeopardized," Guy Martin, state commissioner of natural resources, said in a telephone interview.

THE STATE disagrees with that assertion, and would almost certainly go to court if it were carried out, Martin said.

Ironically, while Alaska's governor has frequently been called a "no-growth advocate," Judge Litt concluded that the state administration supports the El Paso proposal because it wants to encourage industrial development, and not for environmental considerations.

Judge Litt believes the state's position on environmental matters "clearly has been influenced by economic considerations," an FPC statement said.

MARTIN said while it appeared obvious that Litt would choose Arctic, he found three elements of the decision unexpected:

- That the judge supported Arctic as strongly as he did, "and went to the lengths he did to defend it." In the process, the commissioner believes Judge Litt treated too lightly problems in crossing the Arctic Wildlife Refuge in the northeast corner of Alaska, and in using a snow road for construction.

- That he presented "such an extraordinary condemnation" of the Northwest Pipeline proposal for a pipeline along the Alaska Highway.

- That he made sweeping judgments in the arena of public policy, such as advocating repeal of the provision passed last fall by Congress to stipulate that Alaska has control of its royalty gas, and saying that a treaty with Canada is not important if the line goes through Canada.

"I WOULDN'T be surprised to see the opponents, particularly Northwest Pipeline, raise charges of bias," Martin said.

Northwest Pipeline's chairman, John G. McMillian, did just that in a statement about the decision. The judge was forced to consider Northwest's Alcan Pipeline proposals — which entered the competition last summer, several months into the hearings — "but it was apparent . . . during the hearing that he refused to give Alcan an objective review," McMillian said.

McMillian called Litt insensitive to environmental concerns, and said the judge went beyond his purview in making judgments about what is taking place in Canada, which must also approve the Arctic project if it is to be built.

(Continued on Page 2)

• State gas rights

(Continued from Page 1)

"LITT ALSO appears to have concluded that desecration of the Arctic National Wildlife Refuge was a plus for the Arctic Gas Project, in spite of the fact that the National Environmental Protection Act clearly states that every effort must be taken to insure the preservation of wilderness areas for future generations," McMillian said.

A spokesman for El Paso, the third competitor, said the Litt report meant death for the Alcan proposal. "He put Alcan to sleep," El Paso's Mike Holland said. "We predicted several months ago Alcan would not survive. Alcan may still be an irritant, but we now consider that Arctic is the main competition."

Holland, in Juneau for legislative hearings, said El Paso still thinks it has "a hell of a good chance. In the end, we'll pull it

out."

ROBERT W. WARD, president of Arctic, said the company believes it significant that the only alternative to Arctic being considered in Canada — the Alcan proposal — has been found unworthy of consideration by Litt.

Ward said Arctic is pleased and honored by the Litt decision. "Judge Litt is far and away the single person most capable of an informed, impartial judgment in this matter."

Litt made his recommendation based on 1½ years of hearings, which produced 253 volumes of transcripts and about 1,000 exhibits.

Parties concerned have about two weeks to send the judge their replies to his recommendation, and then he makes his final decision. The full Federal Power Commission has until May 1 to act on the recommendation, and President Carter has until Sept. 1 to rule, unless he requests an extension. Congress must then approve or disapprove Carter's ruling.

'Catch' in gas line ruling

Hammond, delegation blast support of Canadian pipeline

Alaska Gov. Jay S. Hammond and the state's three members in Congress universally decried a Federal Power Commission judge's decision to support the Arctic Gas Co.'s project for North Slope gas, and geared for a strong lobbying effort to come.

"The decision is a bad one for the state of Alaska," said Hammond.



Hammond

Rep. Don Young, R-Alaska, called the Federal Power Commission outdated, and said, "there's no way on this green earth" that Congress and the President will allow the gas pipeline to go through Canada. The FPC "can only visualize a pipeline within the continental U.S., they've never dealt with a foreign country," Young said.

"I'm sure the wisdom of our good friend Jimmy Carter and his new spirit will change the picture,"

THE GOVERNOR said it is "more crucial than ever" that the legislature approve royalty gas contracts before it. The gas contracts, to go to three companies who pledge to lobby for Alaska's stance in favor of a trans-Alaska gas pipeline, are the state's administration answer to the need to get other states on the bandwagon.

"There is no time to lose if we're going to turn this around," Hammond said.

Young said.

Sen. Ted Stevens, R-Alaska, called it a blow, and said the judge ignored or discounted some of the more important concerns. But he said, "I was pleased that Judge (Nabum) Litt agreed that the El Paso line is viable and could be certificated."

A trans-Canadian route would result in the loss of several billion dollars in taxes to the country, Sen. Mike Gravel, D-Alaska, said. "Fewer Americans will be hired than is the case for the Alaska route, and the largest share of pipeline taxes would go to Canada rather than the U.S."

The nation's current shortage of natural gas dictates that another route be chosen, since Canada must also approve the Arctic route, and that could lead to delays, the Congressional representatives said.

State legislators, many of whom spent most of the day in hearings on proposed sale of royalty gas to gain further support for the El Paso route (Story — Page 8), said an all-Alaska route is still a contender but that the state is not likely now to switch its support to the Northwest proposal.

"It looks like we're committed to El Paso to the bitter end," Rep. Joe McKinnon, D-Dist. 9, said during a break in the royalty gas hearings.

Rep. Clark Gruening, D-Dist. 7, who chairs the House special Committee on the sale of state royalty gas, said there was "nothing unexpected" in Litt's decision. But Gruening said the law judge underestimated the effect of Canadian internal problems on the Arctic route.

"If they can't get it together in Canada, El Paso is



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the only choice."

Hammond also criticized Litt for ignoring the problems of building a gas line through Canada.

"The Canadian political picture is at best cloudy, and the land claims issue very real," the governor said.

All-Alaska gas line has risks, lawmaker says

JUNEAU (AP) — The disclosure of a major dispute between the state and oil industry over natural gas production rates at Prudhoe Bay demonstrates the need for greater public awareness of the potential risks of an Alaska gas pipeline, says oilman-lawmaker C.V. "Chat" Chatterton.

Chatterton, an Anchorage Republican, says legislative debate on the sale of state royalty gas in support of an all-Alaska pipeline route has failed to adequately address serious conflicts between early gas production and the ultimate maximum recovery of North Slope oil reserves.

And despite some political risks, Chatterton is using his 30 years of experience in the petroleum

business, including four years of work for a drilling contractor at Prudhoe Bay, to point out those risks and conflicts.

It was Chatterton's questioning as a member of a House special committee on the contracts which led to the disclosure of a state computer study which concluded that oil industry proposals for the early delivery of two billion cubic feet a day of Prudhoe Bay natural gas to the lower 48 could result in the loss of up to a 1.6 billion barrels of oil.

In response to Chatterton's probing, Natural Resources Commissioner Guy Martin reiterated his pledge to use the state's conservation statute to the maximum extent to guard against any unacceptable loss of oil

recovery because of gas production.

But Chatterton says he still has fears about "what would happen if we had a gas pipeline today and President Carter ordered all-out production because of the shortage in the lower 48."

"Would our conservation statute hold up under that kind of pressure?" Chatterton says he wonders. "I just want to put my concerns on the record so people will know the facts."

"The polls show that 80 per cent of the people in the state want the all-Alaska gas pipeline and as a red-blooded Alaskan so do I, but I want to make people aware that if we have an early gasline we may be jeopardizing ultimate recovery of oil."

Chatterton says the state's refusal to approve the Prudhoe Bay operators' plan for the delivery of two billion cubic feet of gas as soon as a pipeline is built also raises questions about the motivation of the producers and the ability of private industry to fund the project without a government subsidy of some form.

In oil industry talk, Chatterton said, "sacrificing ultimate recovery for maximum early profits is called 'gutting the field.'"

He also said the state's demand for a commitment from the producers for a massive water injection project as a prerequisite to insuring a two billion cubic feet a day offtake rate may make it difficult to finance a gas line from traditional sources.

All-Alaska gas line gets boost

ADN
2/11

WASHINGTON (AP) — A Transportation Department report released last month in the waning days of the Ford administration favors an "all-Alaska" pipeline as the best way to bring arctic natural gas to the lower 48 states.

Under the plan, proposed by El Paso Alaska Co., a natural gas pipeline would be built parallel to the Alaska oil pipeline from Alaska's North Slope to a seaport at Gravina Point. The gas then would be liquefied and shipped by refrigerated tanker to California.

The opinion differs from one expressed last week by a Federal Power Commission judge who recommended a 4,000-mile pipeline across Canada to transport the gas from North Slope reserves.

The Transportation Department recommendation was in a report Jan. 12, "National Transportation — Trends and Choices for the year 2000."

Outgoing Transportation Secretary William T. Coleman said at the time that much of the report might be changed by the administration of President Carter. The new transportation secretary, Brock Adams, has not indicated a preference for any of the three proposals that have been made for transmitting the North Slope natural gas.

The Jan. 12 report said the "all-Alaska" plan proposed by El Paso appeared to be the most viable for these reasons:

—It could be put into operation sooner because it does not require Canadian approval, and it can be constructed faster because it would parallel the trans-Alaska oil pipeline and would be smaller in diameter than the Alaska-Canadian pipeline.

—The delivered price of gas by LNG tanker would be comparable to the pipeline price, considering likely Canadian taxes and the cost of moving the natural gas from the U.S. border to consuming areas.

—The U.S. would collect more money in taxes and would not be affected adversely in its balance of payments.

—The trans-Alaska line would bring Fairbanks gas and Alaska industry.

—Because the cross-Canada pipeline would require regulatory approval of two governments and negotiation of the equity share of each company, delays might be substantially longer than for the all-Alaska system.

The report concluded that "either system may find it difficult to meet the 1981 timetable projected earlier."

Regulatory procedures and a long construction timetable are expected to prevent any gas from flowing from the Arctic until the mid-1980s.

FPC Administrative Law Judge Nahum Litt last week recommended a proposal by the Arctic Gas Study Group.

Stevens raps FPC gas stand

WASHINGTON (AP) — Sen. Ted Stevens said Thursday that the Federal Power Commission had "its head in the ground" in issuing a preliminary recommendation that natural gas from Alaska should be transported across Canada instead of through Alaska.

Canada does not want such a pipeline to cross its heartland and efforts to build it could delay the Alaska gas from reaching the lower 48 states for 15 years or longer, the Alaska Republican asserted.



Stevens

AT A NEWS conference, Stevens said President Carter should reject the Canadian route and select an all-Alaskan one instead.

Or, at the minimum, the President should seek assurances when he meets with Canadian Prime Minister Elliot Trudeau later this month that the Canadian government will try to expedite the project if a trans-Canada route is ultimately adopted, Stevens said.

Stevens criticized last week's recommendation by FPC Administrative Judge Nahum Litt that gas from Alaska's Prudhoe Bay fields should be transported in a 4,175-mile pipeline through Canada that branches into western and upper midwestern states.

THE RECOMMENDATION rejects two alternate routes, including one favored by Stevens that would carry the gas across Alaska in a pipeline paralleling the trans-Alaska oil pipeline and then transport it by ship to California. The other route also crossed Canada.

"I'm trying to suggest that the FPC has its head in the ground as far as the act we passed last year," Stevens told reporters.

The 1976 law, which sets a timetable for decisions on selection of a pipeline route, was designed to speed the Alaska gas to gas-scarce areas in the lower states, not to delay the process further, Stevens said.

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State At Odds With Oilmen

By G. MICHAEL HARMON
Associated Press Writer

Oil industry proposals for the earliest possible delivery of massive amounts of Prudhoe Bay natural gas to the lower 48 states have been quietly but firmly squashed by the State of Alaska.

The dispute, which may place Alaska interests in direct conflict with national energy demands, centers on major differences between state and oil industry officials over how best to manage the North Slope reservoir's 19.5 billion barrels of oil and 26.5 trillion cubic feet of natural gas.

Oil industry officials say their plan "provides for expeditious and economic development of the total energy resources at Prudhoe Bay consistent with good oil and gas conservation practices."

In challenging the proposal, however, state officials say the operators' plan may be motivated more by a "disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

At the center of the intense but unpublicized debate are two conflicting documents obtained by The Associated Press—the industry's "operating plan" for exploiting Prudhoe Bay reserves and a sophisticated state-financed computer "prediction of reservoir fluid recovery" from the field.

In its proposed operating plan, the industry has asked the state to guarantee the delivery of at least two billion cubic feet a day of gas by mid-1982, about five years after this summer's planned start-up of the trans-Alaska oil pipeline and the earliest possible date projected by the oilmen for completion of a natural gas pipeline and conditioning plant.

But state officials, who have been involved in confidential negotiations with the Prudhoe Bay producers over the operating plan for more than three months, have steadfastly rejected the industry management scheme on the premise that it violates Alaska's tough conservation statute for the maximum production of both oil and gas.

In its computer projection, the state contends that the delivery of two billion of cubic feet a day of natural gas under the industry plan could cause the loss of as much as 1.6 billion barrels of oil, a significant figure in light of the acknowledgement by both sides that under the best of circumstances ultimate oil recovery from the field will total a maximum of only 40 per cent of the oil in place.

In an effort at compromise, the state says it could allow the gas delivery rate proposed by the oilmen if they will commit themselves to a massive water injection plan at the North Slope field.

While acknowledging the injection of water from the Arctic Ocean could help offset the loss of field pressure from early, large-volume production of gas, industry officials say they cannot and will not commit themselves to the \$1 billion-plus cost of a

source water injection project without several years of field history.

In contrast, the industry plan says field history is not needed for the state to guarantee early, massive gas offtake rates, an inconsistency noted by the state in rejecting the operating proposal.

The operating plan submitted by majority owners of North Slope reserves, British Petroleum, Atlantic Richfield, Exxon and Sohio, repeatedly emphasizes that "state approval of the gas offtake plan is needed now to insure that FPC (Federal Power Commission) certification, final design, financing and construction of the pipeline can proceed on schedule."

It defends the proposed offtake rates on the grounds that they would "immediately increase current energy to the consumers and current income to the owners."

State Natural Resources Commissioner Guy Martin says that considering the massive investment the oil industry has in Prudhoe Bay, including \$7 billion in trans-Alaska oil pipeline costs alone, he was not surprised that the industry has balked at financing the massive water injection project or may be willing to sacrifice long term oil production for early gas profits.

"They would love it if the state would give them a guarantee, but we won't," Martin says. "It may be they have a disincentive to produce oil because they have a surplus on the West Coast and an incentive to produce gas because it's very dear right now."

"But I think they know that in order to get the levels of gas production they are talking about under our conservation statute, it is going to be necessary for them to have to have a water injection plan."

Without a commitment for massive water injection, Martin says the state probably will not set an initial gas offtake rate of more than about 1.6 billion cubic feet a day, a figure that is below the threshold of feasibility for two of three competing gas pipeline projects.

And even with water injection, Martin says the state won't give the industry any absolute guarantees in advance for the estimated 20-year life of the field. Long-range production levels, he said, will not be set without the supporting evidence anywhere between two and six years of field history.

Martin concedes that the state position may not be popular with gas pipeline developers who say they need such a guarantee to solicit financing for a project that may cost from \$6.6 to \$8.5 billion. But he believes the Alaska conservation decisions will hold up even under expected intense pressure from the oil industry, gas pipe developers and the political muscle of lower 48 consumers.

"Our position is that the state will take whatever action is necessary under our conservation statute to see that there's no unacceptable waste of oil recovery," Martin said. "There's just no question about our authority to cut off gas production if that recovery is threatened."

State at odds with gas plans

By G. MICHAEL HARMON
Associated Press Writer

JUNEAU — Oil industry proposals for the earliest possible delivery of massive amounts of Prudhoe Bay natural gas to the lower 48 states have been quietly but firmly squashed by the State of Alaska.

The dispute, which may place Alaska interests in direct conflict with national energy demands, centers on major differences between state and oil industry officials over how best to manage the North Slope reservoir's 19.5 billion barrels of oil and 26.5 trillion cubic feet of natural gas.

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All-Alaska gas line risks

Page 2

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And even with water injection, Martin says the state won't give the industry any absolute guarantees in advance for the estimated 20-year life of the field.

Senate panel okays gas sale

JUNEAU (AP)—A special Senate committee Friday announced its approval of contracts to sell Alaska's share of Prudhoe Bay natural gas without conducting a public meeting to vote on the administration-negotiated deal.

The committee decision was revealed on the Senate floor after Sen. Mike Colletta, R-Anchorage and floor leader of the ruling Republican coalition, "bicycled" a favorable report around the halls to panel members for their signatures.

Missing from the report was the signature of Sen. Chancy Croft,

D-Anchorage, who expressed anger at the lack of a hearing to debate the panel's recommendation.

"When you're talking about a contract to sell all of Alaska's royalty gas, it should have at least been handled in a formal meeting, an announced meeting," said Sen. Chancy Croft, D-Anchorage.

Normal procedure calls for House and Senate committees to debate and take action on legislation in public.

But Senate President John Rader, who served as chairman of the special committee, said he saw no reason for a public vote, and claimed

that no one expressed objections to not holding a formal meeting.

"I didn't think a further meeting was necessary, nor did anyone request one," Rader said. "We've had meetings ad nauseum."

The committee took six days of public testimony on the contracts, but Rader specifically prohibited members from expressing their opinions during the hearings.

The lack of an open debate and vote allowed committee members to escape having to explain the logic of their decision.

Despite Rader's denial, Croft said he told the Senate president that he did not approve of the way the committee report was handled.

The committee report showed that Sens. Rader, Colletta and Clem Tillion, R-Halibut Cove voted to approve the contracts while Sen. John Huber, D-Fairbanks, said he had no recommendation. Croft refused to sign the report.

Huber said he objected to committing all of the state's share of Prudhoe Bay royalty gas.

"I wonder if it's necessary to dedicate all of the gas," Huber said. "If we should go in business with El Paso do we need to give them that 25 percent?"

Huber favors the state financing part of the all-Alaska route, and he is having legislation drafted now.

Huber said he generally opposes "bicycling" legislation, but said he did not object this time because he will get a second chance to debate the contracts in the Senate Resources Committee.

Floor battle looms on royalty gas bill

ADN 2/23/77

By G. MICHAEL HARMON
The Associated Press

JUNEAU — A Senate floor fight loomed Wednesday over a last-minute maneuver to attach a potentially deadly amendment to contracts for the sale of Alaska's royalty share of Prudhoe Bay natural gas.

The stage for the Senate's first substantive battle of the session was set in the Finance Committee on Tuesday when Republican Chairman John Sackett of Galena joined three loyalist Democrats to attach a qualifying amendment to the contracts to sell the state's estimated 2.6 trillion cubic feet of gas to three transmission companies in exchange for political support for an All-Alaska gas pipeline.

The amendment pushed by Sen. Chancy Croft, D-Anchorage, would automatically terminate the contracts if Congress repeals section 13-B of the Alaska Natural Gas Transportation Act of 1976 before the Federal Power Commission acts on the pacts.

Section 13-B of the act, which establishes the procedure and timetable for federal approval of competing Prudhoe Bay gas pipeline routes, gave Alaska the unprecedented right to take its gas off the interstate pipeline for intrastate use without FPC approval.

Croft said the amendment was needed "to protect the state's interests" despite a specific provision in the contracts to allow Alaska to take



Tillion



Croft

back its gas from the purchasers when in-state needs arise.

But Sen. Clem Tillion, R-Halibut Cove, countered that the amendment was a "brilliantly conceived effort to kill the contracts" without specifically voting to reject them.

Tillion based his contention on a tentative opinion from Atty. Gen. Avrum Gross that the legislature has no authority to qualify the contracts, but can only vote them up or down.

Gross said the administration of Gov. Jay S. Hammond will consider a Senate vote to amend the

pacts the same as a rejection.

Tillion claimed that the administration has the votes in the Senate to defeat the amendment but acknowledged that the ballot will be close.

Croft said the amendment was offered to counter fears about the impact of a repeal of 13-B on the ability of the state to reclaim its royalty gas once it enters an interstate pipeline.

"If Congress repeals 13-B before the FPC approves the contracts, then the state loses control of its gas," Croft said.

Gross, however, categorically disputed the Croft claim, contending the contracts have "no impact on 13-B and vice versa."

Gross acknowledged that the repeal of 13-B would cause the state "real problems," but said those problems would exist whether or not the contracts are approved.

"Let's assume that Congress does repeal 13-B before the FPC approves the contracts," Gross said. "How does this amendment protect us?"

"Whether we've got the gas because we never sold it in the first place or whether we've got it under the recall provisions of the contract—in either case we've got to get FPC approval to take it off an interstate pipeline for in-state use if 13-B is repealed."

(Continued on Page 2)

Senate Passes Gas Pacts (Again) ^{4ENE}_{2/25/77}

By The Associated Press

In an instant-replay vote, the Senate today granted lopsided approval to contracts for the sale of Alaska's royalty share of Prudhoe Bay natural gas.

The Senate stamped its endorsement to contracts with three gas transmission companies on identical 14-5 votes.

Passage came after the Senate beat back yet another effort by Sen. John Huber, D-Fairbanks, to amend the pacts.

Huber's amendment was aimed at the recent disclosure that obscure federal regulations could prohibit the state from taking back its royalty gas for in-state use once the contracts are signed.

But Senate President John Rader, D-Anchorage, carried the day with the argument that the federal government had the power to take and keep Alaska's gas "contracts or no contracts."

Huber, however, charged that his argument

didn't sway any votes because the ruling Republican coalition in the Senate was "locked in by a bound caucus" ordered by Gov. Jay Hammond.

The repeat Senate vote was forced Thursday on a parliamentary maneuver by Huber.

Huber delayed final passage when he moved to reconsider Wednesday's 15-5 Senate vote to approve the contracts with three gas transmission companies. And then when he failed again Thursday to amend the pacts he issued a

"call of the house," a motion that requires all members not officially excused to be present to vote.

However, Sen. Pete Meland, D-Sitka, had left for a weekend at home and a vote could not be taken. Meland won't be on hand today either but he has an official excuse which will satisfy requirements for a call of the house.

Meanwhile in the House, the Finance Committee conducted a lengthy hearing on the contracts Thursday.

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Senate OK's Gas Contract Pact, Attention Switches To House

Arguing ratification of contracts calling for the sale of Alaska's royalty gas will have no "substantive political impact," House Speaker Hugh Malone, D-Kenai, Wednesday said he probably will vote against the pacts unless they are substantially amended before reaching the House floor.

Malone, however, assured proponents of the three pacts, which mark the sale of Alaska's one-eighth share of North Slope reserves, that he will make no effort to bind fellow Democrats to his decision. He said all lawmakers are free to follow their own dictates when the final floor vote does come.

Malone's statement comes as attention shifts to the House following the Senate's vote Wednesday to approve the pacts with Tennessee Gas Transmission Co., a subsidiary of Tenneco, Inc., Southern Natural Gas and El Paso Alaska.

The Senate voted to approve the pacts following four hours of floor debate by a lopsided 15 to 5 margin.

Sen. John Huber asked for reconsideration but ratification is expected to stand.

Malone's statement comes as the House Finance Committee, chaired by Rep. Steve Cowper, D-Fairbanks, takes up consideration of the pacts late this afternoon. House leaders said a vote, depending on Finance Committee action, could come as soon as Friday and likely before next Tuesday.

"Since the Congress and President are bound to make a decision on the basis of the national interest, in fact they will be derelict in their duties if they don't, I don't know how we'll be able to gain meaningful political support by approving these contracts," Malone has said.

He noted the contracts don't specify a minimum amount of support the companies must supply to the state, and leave too many loopholes in the pacts where the state, in Malone's view, could be harmed by granting approval now.

"I just don't think we are going to be

harmed by not signing the pacts. They are premature, they're not in the best interest of the state, and while I could change my mind, right now I don't think I'll vote for them," the House Speaker said.

Juneau's Rep. Mike Miller, House majority leader, recently said he still hasn't made up his mind on how he will vote on the pacts. Miller added Democratic leaders have no idea how party members will vote as the leadership has made no effort to "count noses," specifically trying not to turn the issue into a partisan political battle.

Supporters of the El Paso all-Alaska project, the principal beneficiary of contract approval, Wednesday expressed uneasiness that the issue just might be turning into a partisan battle between Democrats and the Hammond administration over the pacts negotiated by the governor.

"I just hope that the fact that the House committee voted along party lines does not mean the issue is going to become a political

potato. That would be the worse possible event for everyone," said Mike Holland, a senior Alaska representative of El Paso.

Holland's fear was prompted by the release Monday of a report by the special House Gasline Review Committee, headed by Rep. Clark Gruening, D-Anchorage. The committee, on a 4 to 3 vote, along party lines released a report critical of the contracts.

But Guy Martin, commissioner of the state's Department of Natural Resources, before the Senate vote, expressed confidence the pacts would be approved.

Strongest debate in the Senate Wednesday concentrated on an amendment which would have terminated the pacts if a key section of federal law was repealed by Congress before the Federal Power Commission had approved the pacts. The amendment finally was defeated on a 14-6 vote.

The contracts then were approved with Republican Sen. John Sackett, Galena, joining Democratic Sens. Chaney Croft and Pat

Policy profiles

On selecting the oil route

ADN
2/23/77



By JOHN HAVELOCK
(Second in a series of columns
on pipeline routing policy)

During the battle over the routing of the pipeline system to move Prudhoe Bay oil, the need for a gas line was well-known, but not much mentioned.

For one thing, the decision did not seem to be an imminent necessity. For another, the opponents of the trans-Alaska pipeline system (TAPS), a core of whom were opposed to hydrocarbon development, were ready to exploit any diversionary opportunity to the fullest. TAPS proponents in the state and nationally were forced into single-minded concentration on those factors which related to TAPS authorization.

THE SINGLE GREAT policy casualty of this polarization was that the principle environmental impacts of TAPS, those that were a part of or flowed from socio-economic consequence, were inadequately addressed. The environmentalists concentrated on the very small risk and modest consequences of some oil leaking out of the system on the fragile tundra. Those who could foresee the real problems were not about to feed ammunition to "the enemy."

The analysis of state benefit in the TAPS route was not complicated. The state's technocrats looked primarily to the benefit in well-head based revenue, benefits flowing to the state treasury, thence presumably to be distributed in tax reductions (or deferred tax increases) and increased services reaching a broad range of Alaskans. From this perspective the TAPS route was the only route because it gave promise of a flexible delivery system — the oil would be delivered anywhere and not just to a pipeline outlet and market in the mid-west, a market power, which could end up controlling the wellhead price.

TAPS also was the only proposal that showed any promise of being completable within a reasonable period of time. The transcontinental line was totally speculative. There was every reason to suppose that if the TAPS route was defeated on the proposition (or ruse) that a trans-Canadian routing was preferable, we could expect an attack to be mounted against that route too in due course.

NO DOUBT the trans-Canada route would have satisfied some opponents of TAPS, but not those who were against oil production in general or Arctic production in particular. TAPS was clearly the better system from the perspective of state management.

For the state managers, the fact that the TAPS system involved a major construction project in the state rather than outside it was a cost rather than a benefit. The construction phase would result in major increases in demand and cost of services of state and local government and create a massive influx of new people. Excess inflation was a high risk. The quality of life for existing residents, not tied into the construction industry at the management level, was going to decline until the program was over.

The finished project was to be highly automated. A couple of hundred permanent jobs when it was all over just didn't make it worthwhile.

TRUE, MORE PROPERTY would be in the state to tax but this revenue would be distributed unevenly in human terms, enriching localities that happened to find themselves next to a pipeline that called for no services, the usual counterpart of taxation. These revenues would reduce the tax potential at the well-head on production and income almost to the same extent as the revenue increase from the tax on property.

Of course, the state management perspective is a minority position in the politics of the state. The alliance of those who see their self-interest in an enhanced public sector role in distributing benefits is not inconsiderable, but it is not the dominant political-economic power.

The Alaska equivalent to the "military-industrial complex" is the construction complex — powerful construction companies, powerful construction trade and transport unions, supported by a host of beneficiaries with a profit stake in wholesale and retail supply and transportation. Not every member of a construction union or employee of a wholesale or retail supplier or transportation company has a stake in the complex. Normal state economic activity is sufficient to keep most of such people happily employed. Those who have a stake are those unemployed who have good prospects for employment in the extra activity, most of whom are outside the state, and those who will share (disproportionately) in the growth through managerial promotions or profits.

In the case of the oil pipeline route, the coincidence of construction interest and state treasury interest made for a happy marriage with the TAPS route. But was this bliss to continue in the policy and planning of gas transportation marketing? Not necessarily so.

Mr. Haveleck served as chairman of the state pipeline coordinating committee in 1972-3.

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2/25/77

Trudeau— No Gas Promises

OTTAWA, Canada (AP) — Prime Minister Pierre Elliott Trudeau said Thursday he has not promised President Carter his government will approve the building of an Alaska gas pipeline through western Canada.

Under questioning in the House of Commons, Trudeau said that in his meetings with Carter this week he pledged only that the Canadian government would try to reach a decision on the controversial pipeline by September.

This would be done to coordinate with the U.S. decisionmaking timetable, Trudeau said.

Commons member Tommy Douglas, an opposition New Democrat, said news reports indicated the Liberal prime minister's assurances to Carter amounted to a "tacit understanding that Canada will proceed with a pipeline."

Trudeau replied, "Anyone who played the stock market on the basis of these rumors would run the risk of financial embarrassment."

The New Democrats say they oppose the building of a pipeline because of potential economic and environmental dislocations.

Carter is required by law to make a decision by Sept. 1 on competing proposals to ship Alaska gas to U.S. markets. A U.S. Federal Power Commission hearing judge has recommended in favor of a route through the Mackenzie River Valley.

Canada "won't stand in the way of pipelines as long as issues affecting Indian land claims and environmental and economic problems are settled," Trudeau said.

He noted that a Canadian court report on the effects of a pipeline on Indian and other native groups in the region is expected this spring, and a Canadian National Energy Board report reviewing the pipeline applications will be ready this summer.

Trudeau refused to guarantee Parliament would vote on the pipeline, saying it would be brought before Parliament only if time allows. He said the matter could be discussed by a Commons committee.



NO PROMISES—Canadian Prime Minister Elliot Trudeau denied yesterday that he and President Carter reached any agreement on routing of a pipeline for Alaska gas through Canada. (AP wirephoto)

Arctic Line Fight

By MARK PANITCH

Washington Correspondent

WASHINGTON—A Canadian Eskimo leader Thursday told a House subcommittee that no gas pipeline would be built across his people's Mackenzie Delta territory until a Native claims settlement is completed.

The leader, Sam Raddi, head of the Committee for Original People's Entitlement, based in Inuvik, Northwest Territories, appeared along with ranking Alaska state officials, conservationists and spokesmen for three gas pipeline companies before the House Interior Public Lands subcommittee.

The subcommittee is investigating three competing proposals to move an estimated 26 trillion cubic feet of natural gas from Alaska's North Slope to market in the contiguous

states. Raddi said, "There will be no pipeline in the western arctic until the government of Canada settles the land claims with the Inuvialuit (Eskimos)."

"This pipeline is a private interest that will be trespassing on our lands if our rights and land claims are not settled by that time," he said.

The question of Canadian Native claims has become a major issue in the debate here over which of three proposed routes to move Alaska gas should be approved. However, this appears to be the first time that any Canadian Native leader has appeared to state the Native position firsthand.

Raddi's statement was unequivocal and apparently contradicted previous statements by Arctic Gas officials and by a Federal Power

Commission administrator that Canadian Native claims posed no major and easily resolved issues.

He stated a philosophical opposition to lawsuits to defend Native rights in answer to a question from a member of the House. Don Young's, D-Alaska, staff stated that Eskimos would take to the courts if their approaches failed.

He also said FPC Administrative Law Judge Nahum Litt had "prejudged the process of negotiating land rights between the government of Canada and the Inuvialuit."

Two weeks ago, Litt issued a preliminary FPC decision supporting the Arctic Gas plan.

Raddi's implied threat was partially backed up by Alaska Attorney General Avrum Gross who reminded the subcommittee that "in 1969

few people in Alaska thought that a disorganized group of people who lived on the land could grind the world's largest project to a halt. A lot of people went bankrupt on that assumption. I don't think we should make the same mistake twice. I think they have learned from the Alaska experience and will be even more effective."

Gross and Lt. Governor Lowell Thomas Jr. both testified that state support was strongly behind the El Paso plan to build a trans-Alaska pipeline connected to a liquefied natural gas system on Prince William Sound.

Both Gross and Thomas agreed the Alcan pipeline plan to build along the Alyeska corridor to Delta Junction, then east along the Alaska Highway was "a good second choice."

They agreed also that the state could not

support the proposed Arctic Gas project across the North Slope of Canada and then south along the Mackenzie Valley, because it offered no opportunity for the state to get access to its royalty gas.

Representative John Seiberling, D-Ohio, told Thomas the state "couldn't have it both ways" on the Arctic National Wildlife Range. There has to be a real desire to protect the range for its own sake, not for political expediency, Seiberling said.

In response, Thomas said he could "support making the Arctic National Wildlife Range a wilderness. To go out on a limb, I think the governor would too."

Seiberling chairs a subcommittee which will soon start working on legislation to end the land freeze imposed after the Alaska Native

Claims Settlement Act, and to decide which of 2 lands should be included in National Parks and other conservation systems.

A panel of conservationists argued that their main concern was protection of the wildlife range, which they called the "jewel" of the federal wildlife system.

Brock Evans, director of the Sierra Club's Washington office, said Arctic Gas claims that its pipeline would be a "thin silver" across the range fails to meet the real problems.

"To best understand what is at stake," he said, "visualize a famous painting, such as the Mona Lisa. Then visualize a slash all the way across the upper middle part. It's only a small slash, those who want to make the slash say, 'see the picture is still there and you can enjoy the rest of it.'"

Stevens View—

Carter Favors Arctic Gas

SEAE
2/24/77

ANCHORAGE (AP) — Sen. Ted Stevens says he believes President Jimmy Carter favors the Arctic Gas project for transporting Prudhoe Bay natural gas to markets in the lower 48 states.

The Anchorage Times Washington Bureau interviewed Stevens, the Senate's minority whip, after a meeting Wednesday of the joint congressional leadership with Carter.

"I have the definite impression the President leans toward the Arctic Gas line," the Alaska Republican said. "I told him my problems with that. I mentioned the law we passed last year, setting up a time frame for the decision and the possibilities for delay"

with a trans-Canada line.

Stevens said he got the impression that Carter supports the Arctic Gas project "from the comments he made about how the all-American route would cost more if we did it alone.

"I think he is misinformed. He left me with the impression that he thinks there is extra gas in the MacKenzie Valley that can be brought into the United States."

Stevens said Carter also told congressional leaders about his recent meetings with Canadian Prime Minister Pierre Trudeau.

"The President left me with the impression that Trudeau had been somewhat frank about

his problems with the environment and Native claims," Stevens said. "The President said he knows there are three routes proposed and he is keeping his options open."

"We must articulate our case to the government agencies and to people like Interior Secretary Cecil Andrus," Stevens said, advocating a strategy concentrating on government agencies which will make recommendations to Carter before July 1. Many Alaskans support the so-called all-Alaska route.

The Arctic Gas project would cross the Arctic National Wildlife Range and then head south through Canada en route to midwest

markets.

A proposal from El Paso Natural Gas Co. would route a pipeline south through Alaska to Gravina Point on Prince William Sound, paralleling the corridor of the trans-Alaska oil pipeline. The fuel then would be liquified for tanker transport south to the West Coast.

A third proposal from Northwest Pipeline Corp. would follow the oil pipeline south to a point below Fairbanks. That route, considered by many state supporters of the El Paso route to be a compromise proposal, would then follow the Alaska Highway south through Canada to markets in western and Midwest states.

the board of regents of the University of Alaska pass the Senate?—CBB 46, sponsored by Croft: Ray, yes; Meland, yes; Ziegler, yes (Y 20, N 0).

Feb. 22: Question: Should a bill relating to employment on the Alaska Marine Highway system, one which already has passed the House, be approved in the Senate?—HB 45: Ray, yes; Meland, yes; Ziegler, yes (Y 19, N 1).

Feb. 22: Question: Should a House resolution proclaiming Alaska Telecommunications Day be approved?—HJR 23: Ray, yes; Meland, yes; Ziegler, yes (Y 20, N 0).

Feb. 23: A whole series of votes were cast on whether the Senate should approve three resolutions calling for the sale of the state's share of North Slope natural gas to three transmission firms. The first vote was on an amendment to SCR 3, the amendment calling

for the sale of the state's share of North Slope natural gas to three transmission firms. The first vote was on an amendment to SCR 3, the amendment calling

buildings and facilities be approved?—SB 122, sponsored by Ferguson: Ray, yes; Meland, yes; Ziegler, yes (Y 20, N 0).

Feb. 24: The issue of amendments to the proposed royalty gas contracts being considered on reconsideration came up for a vote. The amendment by Huber called for a \$1 billion damage payment to be added to the contracts. Ray, no; Meland, absent; Ziegler, no (Y 1, N 17, A 2).

Feb. 25: Question: Should a bill relating to radiation protection be approved?—SB 45, sponsored by the Governor: Ray, yes; Meland, excused; Ziegler, yes (Y 16, N 3, E 1).

Feb. 5: The royalty gas contracts were then again before the body on reconsideration. After an attempt at an amendment failed all the contracts were approved on a 14 to 5 vote with Meland excused.

On SCR 4, the sale of state royalty gas to El Paso, amendments were offered, but not accepted. The final vote totals were: Ray, yes; Meland, yes; Ziegler, no (Y 6 N 14).

An amendment 2, relating to removal of a clause in the contracts regarding the "switching" provision, then was considered: Ray, no; Meland, no; Ziegler, no (Y 4, N 14).

An amendment 4 relating to a reduction of the percentage of state gas sold to the Tenneco firm, reduction from 50 per cent to 40 per cent, then was voted on: Ray, no; Meland, no; Ziegler, no (Y 1, N 19).

A fifth amendment then failed by a similar 19 to 1 vote, while a sixth went down to defeat 16 to 4. A final vote on the resolution then was taken. Ray, yes; Meland, yes; Ziegler, yes (Y 15, N 5).

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Voice O

Thank You

(Editor's note: the fo
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other correspondents wer
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and Jeff Mathews.)

Dear Editor:
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Representing Mrs. Snc
3rd Gra

Dear Editor:
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Representing Mrs. Snow
3rd Grade

Dear Editor:
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Sin
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Mrs. Snow
3rd Grade

Thoughts

Dear Editor:
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AN INDEPENDENT NEWSPAPER
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Juneau, Alaska 99801.

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Mike Miller tal Moving

about—but the capital is going to move Fri-
en a nicer way.
Juneau time (five minutes after noon in
the House Commerce Committee is going
71—the "Alaska Bottle Bill"—and not only
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nes, and Skagway would be prime exam-
a could benefit under the bill. So would
historic old Girdwood (near Anchorage),
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ill, with local municipal authorities. This
e bills where "big brother" dictates the
ea such as South Franklin Street could
partly as a result of this bill. Best of all,
the state involved. We're investing our

general fund monies anyway. Why not make the loans available to
Alaskans who will use the money to make our communities more at-
tractive and interesting?

From Sen. Bill Ray Gas Pact Decision

One of the most difficult a: terminations for a legislator to make is
to correctly identify the (1) cause, (2) effect, and (3) accurate in-
terpretation of a decision that has already been made for him. My
reference point is the administration's contractual agreement for the
sale of the state's royalty gas.

The legislature requested the governor to enter into agreements
with prospective purchasers. At the same time they formed select
committees to study and analyze the impact, or resultant conse-
quences, such a sale would have on the people of our state.

After months of investigation and countless hours of recorded
testimony, during which time the administration was secretly
reaching their own agreement with buyers, no accord (only discord)
resulted within the committees.

The administration came forward with their proposals, as re-
quested, and asked for prompt ratification. Our congressional delega-
tion, unified for once, added their clamor to the urgent need for
rapid legislative approval of the contractual arrangements. Predic-
tions of reprisal by Congress for the ultimate routing of the gas
pipeline were inferred.

Finally, actual debate on the measures reached the Senate floor.
Clear and concise arguments were presented on both sides of the
question. There were the usual "fluff", "cheap-shots" and "show-
boating" that generally accompanies a proposal of this magnitude.

A latitude of convenience is given and understood by the body
when incisive play and counter-play takes place on an issue which has
not been pre-determined through caucus disposition.

Uncommitted, I listened intently to the arguments from both
sides. Actually I found myself nodding in agreement when particular
points were made, both pro and con.

When the debate was over and it was time to vote, my affirmative
decision was reached on:

1. The federal government through congressional action can in-
validate, in the matter of a national resource (which our gas is), any
contractual agreement affirmed by a state;
2. The state could not "reservoir" its royalty gas in view of the
national energy crisis;
3. Plans for feeder-line draw-off for state use are actually nebulous
with no firm commitment for the same.

On the opposite side of the coin, I resent the secrecy which
resulted in what appears to be ineptness in the administration's
handling of the contractual agreements.

This assumption is supported by what many believe is national
political favoritism sought by a member, or members, of the Ham-
mond administration. This is not a personal indictment of the gover-
nor himself, other than that if he doesn't know what has happened—
perhaps he soon will.

However, if this supposition does become fact, and he was a will-
ing party to it, then he stands self-indicted.

SENE 3/2/77

Trudeau Favors Route Planned By Alcan Gas Pipeline Company?

By MARK PANITCH
Washington Correspondent

WASHINGTON—State visits by foreign leaders add a touch of glamor and color to Washington, even under President Jimmy Carter's new "informal" ground rules. But such visits rarely accomplish anything substantial. They are usually just fancy courtesy calls, the stratospheric equivalent of a friend who was "in the neighborhood and decided to drop by."

Canada and the United States are so closely linked on so many economic fronts, though, that it would have been almost impossible for visiting Prime Minister Pierre Elliot Trudeau and President Carter to talk about anything without touching a topic of economic or political concern. The single biggest issue, however, is probably the question of whether Alaska North Slope gas will go through Canada on its way to markets in the rest of the U.S.

So Alaskans, and others concerned with how the 28 trillion cubic feet of Prudhoe Bay gas will get to market hoped the Trudeau visit here would shed some light on official Canadian thinking. They were right. But for those supporting the proposal to build a trans-Alaska gas pipeline, the news was not encouraging.

Despite his obvious preoccupation with possibility that Quebec Province might break away from Canada, Trudeau demonstrated that he was up to speed on the gas issue as well. He showed a clear grasp of the U.S. decision-making timetable. He assured Carter

privately and reporters publicly that Canada would make a decision in time to coordinate with the year-end deadline that Congress has imposed on the President.

"We realize that we have to give a final answer by the end of the year. We realize that no answer really is an answer. No pipeline through Canada then means the El Paso route. It's a more costly route and it has certain disadvantages for Canada. But I'm sure there will be an answer—and that it will be advantageous to both countries," Trudeau said.

At the same time, Trudeau repeatedly mentioned that the gas belonged to the United

States. Since the Arctic Gas plan envisions constructing a pipeline east from Prudhoe Bay to the Mackenzie Delta and then south along the Mackenzie Valley carrying both U.S. and Canadian gas, Trudeau's reference to "American gas" may have been a signal that that plan is in trouble too.

Of the three competing proposals, Alcan was the only one mentioned in a favorable or neutral light. El Paso was disparaged and Arctic was never mentioned by name either by Trudeau or the senior officials traveling with him who briefed reporters.

"We looked at all the various alternatives including the Alcan route," he said. "There is great interest on the part of the President in the pipeline."

Another event, seen as a symbolic endorsement by Alcan supporters and downplayed by opponents, was the appearance at the White House state dinner of John McMillian, head of the Alcan company. McMillian is a well-connected Democrat, a member of the Democratic National Finance Committee and a friend of former Democratic National Chairman Robert Strauss.

There is some indication that McMillian's invitation to the White House was simply a political reward for service during the campaign. But it is difficult to avoid the fact that he has an overwhelming interest in Canada. He was seated at a high prestige table with Vice-President Walter Mondale and Canadian Minister of External Affairs Donald Jamison. As one Canadian remarked, "the other companies were conspicuous by their absence."

With billions of dollars at stake, no one will be sure of the final decisions until they are announced. Lobbying for each of the three projects will continue either until the final moment or until one of them drops out of the competition.

But the signs during this visit by Trudeau were clear enough for one strong El Paso supporter to say privately that "nothing hopeful" emerged from the meetings between the two leaders.

A News Analysis

States and was destined for American consumers. "Canadians want to be as helpful as possible to get American gas to American consumers," he said.

While symbolic interpretation can be a dangerous pastime, a good case can be made from these statements that Trudeau is leaning toward the Alcan proposal to build a pipeline south to Delta Junction then east through Canada along the Alcan highway.

El Paso's plan, he noted, has "certain disadvantages for Canada," a reference to Canadian uncertainty about the environmental impact of increased oil traffic along its Pacific shores and a desire to minimize further tanker traffic.

Most Students Comply With Immunization Law

Nearly all Juneau elementary school students have been shot, but older students seem reluctant to follow suit.

The shooting is part of a state-ordered immunization program for Alaska students. No students may attend school today if they have not been immunized.

The state immunization deadline expired yesterday. Students who turn up at school today and have not been immunized are being sent home.

Approximately 50 high school students had yet to be immunized as of this morning. Coordinator of Pupil Personnel Services John Symons said he believes "some are sick and some are on vacation," but he did not know how many.

High School principal Bob Weiss said his teachers have a list of the students who have not received their shots. Those students are being sent by teachers to the nurse's office, Weiss said.

Weiss said students who are unimmunized are being informed that they will receive F's for each day they spend at home. Symons has warned that students out for more than 15 days because of a failure to be immunized will be charged with truancy.

A trickle of high school students were being sent home today. At Floyd Dryden Junior High School "four were turned away, and there are eight students at Marie Drake (Junior High) who are not complying," Symons said.

Symons said he did not know how many students from the Alternative School were out because of immunization problems.

In contrast to the high school and junior high schools, the program was proceeding nearly flawlessly at the elementary school level.

"We are concerned about three (elementary students)," Symons said. All other elementary school children, if "not sick or not on vacation," have been immunized, he said.

Symons added that the problem with the three who have yet to be immunized may be solved by this afternoon. He said all three are "afternoon kindergarten kids." It is possible they were immunized yesterday and the school has yet to receive the records.

With approximately 5,450 students in the school system and only a small minority still in need of immunization, Symons said "we are in very good shape."

Weather

Mixed rain and snow tonight with a few periods of mixed rain and snow on Thursday. Southeast winds to 30 mph this afternoon diminishing on Thursday. Outlook for Friday: Showers.

Low tonight, mid 30's, 2 C.; high tomorrow, near 40, 4 C. Sunset tonight, 6:30 p.m., sunrise tomorrow, 7:49 a.m. High yesterday, 38, 3 C.; low last night, 35, 2 C. 24-hour precipitation as of 11 a.m., trace.

Tides

THURSDAY'S TIDES

High	0:39 a.m.	14.6 ft.
Low	6:25 a.m.	2.7 ft.
High	12:32 p.m.	16.3 ft.
Low	6:50 p.m.	-1.0 ft.

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Alcan Unveils New Proposal

By CHUCK KLEESCHULTE
Empire Staff Reporter

Dissatisfied with the outcome of a hand, officials of the Alcan Pipeline Co. Tuesday moved to reshuffle the deck in their competition to win permission to build a gas pipeline from Alaska to the lower-48 states.

John G. McMillian, chairman of Northwest Pipeline Corporation, parent of the Alcan project, said in Juneau Wednesday his firm has submitted alternative construction plans to the Federal Power Commission (FPC) designed to overcome objections to his firm's project.

The new plans call for construction of a 48-inch diameter pipeline instead of the 42-inch line first proposed. While the revised plans call for the pressure of the line to remain the same at 1,260 pounds per square inch (psi), the larger diameter line will increase substantially the capacity of the line and increase the line's efficiency as well, McMillian said.

"One criticism of our line was the feeling that it wouldn't have enough capacity to carry all the gas found in northern Alaska. We disagree with that, but we're willing to give them anything they are willing to pay for.

"The optional system will give us greater flexibility than our initial project and it ought to satisfy those who feel the larger system is more appropriate," McMillian said.

The new plan requires Alcan to construct 300 miles of new pipeline along a new, straighter pipeline corridor through southern British Columbia and central Alberta in Canada. The line is required since use of segments of the existing Westcoast Transmission Co. and the Alberta Gas Trunk lines is ruled out under the revised design.

The new plan, submitted last month to the National Energy Board of Canada for its consideration, will up the price of the project by \$1 billion bringing the Alcan cost estimate to \$7.3 billion. The line is still considered the

cheapest of the three competing gasline projects.

McMillian said the revision will allow the Alcan project to carry a maximum of 3.4 billion cubic feet (bcf) of gas daily, roughly the same as will be carried by El Paso's "all-Alaska" land-sea pipeline system. The figure represents an increase of 1 bcf daily over the capacity of the initial Alcan design and represents a speed up in the timetable for that gas production.

Under the initial plan, Alcan would have begun operations moving only 1.2 bcf of gas daily, carrying higher volumes of gas over a three-year period. McMillian Wednesday said the new system will be able initially to carry 2 bcf daily, the present estimate for gas production from the Prudhoe Bay fields, and could be hiked to maximum capacity within one year.

"Actually we're willing to build maximum capacity from the word go, but we still can't find any reason to do so," McMillian said. The Texan added that his line can be completed and in service in just over three years. He predicted an Oct. 1, 1981 completion date if final approval for the line in the U.S. and Canada is given by the end of this year.

McMillian explained the new line is an "express" line moving gas at a uniform pressure rather than having to reduce pressures when the gas flowed through pipelines belonging to Alcan's three Canadian partners. That change plus one financial change in allocations of the cost of the line, McMillian said, should help reverse some of the criticisms leveled at the project last month by FPC Administrative Law Judge Nahum Litt.

Judge Litt in a preliminary recommendation to the full five-member FPC selected the other buried pipeline route, the Arctic Gas project, as the best project, with El Paso's project second and the Alcan project a distant third.

McMillian called Litt's criticism of several segments of the Alcan plan "unfounded and unfair." He said it was based on Litt ignoring parts of the nearly 45,000-page FPC hearing record and forming his own conclusions not grounded on fact.

McMillian said he was encouraged by the statements of Canadian Prime Minister Pierre Elliot Trudeau during his recent visit to Washington. He argued that Trudeau's statements to President Jimmy Carter implied that Canada would be permitting construction of some type of overland pipeline route. He said that route would be the Alcan route, one which follows the trans-Alaska oil line to Delta Junction in Alaska and then follows the Alaska Highway corridor south into British Columbia.

He made that statement because of the problems he foresees Arctic having with native land claims in the Yukon and the

Mackenzie Delta and because of stiff resistance to the El Paso project in California—the site for the firm's gas regasification plant.

"We just don't think of El Paso as competition. The race is between Arctic and us and nothing that is being done locally can affect the outcome. Alaska can do anything it wants. It just will be feeding hay to a dead horse," McMillian said referring to the recent approval of the sale of Alaska royalty gas to three firms including El Paso Natural Gas.

McMillian warned the state that if it intends to have impact on the pipeline decision it had best be prepared to switch its support from the El Paso project to the Alcan project immediately after release this spring of the Berger Commission report, the Canadian investigation committee looking at native land claim issues.

Poland Urges Veto Of Royalty Gas Contracts

By The Associated Press

Sen. Kay Poland, D-Kodiak, Thursday demanded the Legislature request that the governor not sign contracts approved by lawmakers last week for sale of Alaska's Prudhoe Bay royalty gas.

Poland, who voted for the contracts, said she was appalled at the recent disclosure by Tenneco Inc., the firm slated to receive 50 percent of Alaska's one-eighth share of royalty gas, that it improperly transferred large amounts of gas from interstate customers to more profitable intrastate markets in Texas.

The revelations appeared in documents filed with the Securities and Exchange Commission and were first reported in Tuesday's edition of the New York Times.

"It's a mystery to me to see how we can expect a company with such a tarnished reputation to have political clout," Poland said in a speech from the Senate floor today.

Under terms of the contracts narrowly approved by the Legislature, Tenneco, El Paso and Southern Natural Gas would receive Alaska's royalty gas in exchange for their lobbying efforts for an all-Alaska gasline route.

"I didn't like them (Tenneco) anyway," Poland said. "Their attitude (during hearings on the contracts) was 'give us the gas and then we'll see what we can do.'"

Poland said she would bring the issue before the Senate Resources Committee, which she chairs.

Policy profiles

Political economics and the pipeline route

ADN
3/2



By JOHN HAVELOCK
(The third column on pipeline routing
policy)

The state government's choice of a trans-Alaska route for delivery of Prudhoe Bay oil made perfect sense from the perspective of both the institutional interests of the state and the state's politically potent construction industry.

There was a rustle of interest in a Canadian route among Alaskan environmentalists. They would become more of a factor in the politics of Alaska pipeline routing after the election of 1974. But the environmentalists were no match for the economic lineup supporting the trans-Alaska pipeline system (TAPS) route in the early 1970s.

WHEN APPLICATIONS for gas pipelines, one across Canada, the other tracking TAPS, were filed in 1973, there was a moment of uncertainty among the state's top political leadership. There was some suggestion that members of the state's congressional delegation might have conversationally conceded the gas to the Midwest in the heat of the TAPS promotional effort. In one form or another, the delegation pronounced its judgment reserved.

Whatever casual promises or assumptions may have been stated by Alaskans, it was obvious that Midwestern and Eastern congressmen saw their regions as having an established proprietary interest in the gas. The regional muscle came through very clearly later in the Alaska National Gas Transmission Act of 1976.

Section 5(b) of that act requires that any approved system include provision assuring "direct pipeline delivery of Alaska natural gas . . . both East and West of the Rocky Mountains." Section 5(c) requires that in the routing decision, consideration be given to the volumes of Alaska gas available, alternative fuel sources, prices and costs to each region of the United States. There is no doubt that the power exists to subordinate all Alaskan interests to congressional perceptions of the national interest in any head-to-head contest.

THE ALL-OUT EFFORT on TAPS authorization left the state poorly prepared to respond to gasline routing questions. No serious preparatory work

had been undertaken by the state with regard to the analysis of economic costs and benefits of gas marketing and delivery systems. The extent of the state's institutional and proprietary interests was unknown. Even the most preliminary data on the cost of each system and its effect on the wellhead value of the oil, the key determinate of the Alaskan interest, was unavailable.

In order to avoid taking on too many taxpaying powers at once, the gas industry was left out of the reordering of oil and pipeline taxes which occurred in 1973. In Alaska the gas industry enjoys perhaps the lowest tax structure among the major producing states of the United States. With the tax contribution of the gas industry unknown, another key ingredient was missing.

Whatever the perspective from the state's institutional interests, there was no room for two ways of thinking from the perspective of the state's construction industry.

THE CLEAR DISTINCTION of the El Paso, trans-Alaska route was that it would carry with its authorization an economic super-boom roughly comparable to the TAPS venture in its impact on Alaska. The Arctic Gas, trans-Canada route would certainly have a big impact on Alaska. Supply systems through Alaska would bear the burdens and gather the profits from supporting much of the construction in northern Canada. A billion dollars would likely be spent on gathering systems and pipeline in Alaska itself.

But the internal logic of the construction industry does not support boom over super-boom. As the huge cost overruns on the TAPS project indicate, the bigger the play, the greater the profits. The state's construction industry wanted the

El Paso route.

Super-boom conditions highly favorable to one set of economic interests are not necessarily good for all. During the TAPS construction period, other sectors of the economy and individuals relating to them felt the overstrain of the transportation and supply system. New regional inflation reversed the long term trend which had been bringing the Alaska cost of living closer each year to the national pattern. Governmental costs soared at state and local levels, stimulating ideologically based demands for cutbacks in state service. The public didn't see the connection between 600 per cent overruns on TAPS and cost overruns in government.

The circumstances that required the state to throw its weight behind TAPS were not present in the case of gas pipeline routing. But the strength of the construction industry in the domestic politics of Alaska did not require the industry to wait upon the identification and balancing of competing interests, domestic or national.

JUNEAU IS QUICKER to catch on to the tunes of local politics than Washington. The state administration gave the all-Alaska and sea route for gas an unequivocal endorsement. The congressional delegation bent to the pressure. Within a few months, pretenses of examining the issue "objectively" collapsed under the gathering weight of home-front political reality.

Alaska moved solidly behind the El Paso proposal. Domestic political considerations had precluded the development of a pipeline routing policy based on a rational appraisal of long-term costs and benefits for all Alaskans and the accommodation of Alaska and national interest.

the small society

by Brickman



Tenneco 'tarnished'

ADN

3/11

Fight brews on gas pact

JUNEAU (AP) — Sen. Kay Poland, D-Kodiak, Thursday demanded the Legislature request that the governor not sign contracts approved by lawmakers last week for sale of Alaska's Prudhoe Bay royalty gas.

Poland, who voted for the contracts, said she was appalled at the recent disclosure by Tenneco Inc., the firm slated to receive 50 per cent

of Alaska's one-eighth share of royalty gas, that it improperly transferred large amounts of gas from interstate customers to more profitable intrastate markets in Texas.

The revelations appeared in documents filed with the Securities and Exchange Commission and were first reported in Tuesday's edition of the New York Times.

"It's a mystery to me to see how we can expect a company with such a tarnished reputation to have political clout," Poland said in a speech from the Senate floor.

Doyon backs Alcan gas line

Doyon, Ltd., of Fairbanks, third largest of the 12 Native regional corporations, Thursday announced it is endorsing the Alcan natural gas pipeline project proposed by Northwest Pipeline Corp.

Doyon became the first Native regional corporation to shift from the "all-American" project proposed by El Paso Natural Gas Co. The Alaska Federation of Natives, representing all 12 corporations, endorsed El Paso's project more than a year ago.

Tim Wallis, president of Doyon, said during a news conference that the Alcan route would give Doyon two possibilities for transporting any natural gas found in the Kandik Basin lands owned by Doyon.

The Kandik Basin of Interior Alaska is one of the most promising onshore structures in the state for exploration of oil and gas. Doyon could hook into Northwest's pipeline either to the west or to the south. It could join El Paso's pipeline to the west.

Under terms of the contracts narrowly approved by the Legislature, Tenneco, El Paso and Southern Natural Gas would receive Alaska's royalty gas in exchange for their lobbying efforts for an all-Alaska gas line route.

"I didn't like them (Tenneco) anyway," Poland said. "Their attitude (during hearings on the contracts) was 'give us the gas and then we'll see what we can do'."

Poland said she would bring the issue before the Senate Resources Committee, which she chairs, to determine what method should be used to request that Gov. Jay S. Hammond not sign the contracts.

Tenneco Admits Gas Transfers

3/8/77 GENE

By MARK PANITCH
Washington Correspondent

WASHINGTON—Tenneco Inc., one of three large pipeline companies slated to share Alaska's Prudhoe Bay royalty gas, has admitted in documents filed with the Securities and Exchange Commission that it improperly transferred large amounts of gas from interstate customers to more lucrative intrastate markets in Texas.

Alaska Sen. Mike Gravel said he would have no comment while spokesmen for the other members of the state's congressional delegation, Sen. Ted Stevens, R. and Rep. Don Young, R., said they were unavailable.

The revelations appeared in documents filed with the SEC as part of Tenneco's proposal to take over the Monroe Auto Equipment Company. According to the documents, Tenneco's pipeline division diverted the gas to the company's Channel Industries Gas Company subsidiary in Texas.

The diversion may have gone on since 1958, according to the filing. But the document said that the "Tenneco's records concerning (these diversion) may be incomplete."

The New York Times reported in today's editions that the amounts of gas involved in the possibly illegal diversions may be as much as 350 billion cubic feet.

In the documents, Tenneco said "certain volumes of gas purchased by Channel have been produced from anchorage or reservoirs at one time dedicated to interstate commerce under contracts between various

producers and the company's inter-pipeline divisions.

"It appears that such gas was released under a variety of procedures, some of which involve transactions which may have failed to meet all the regulatory requirements under the Natural Gas Act."

On Feb. 28 Tenneco asked the Federal Power Commission to legitimize the diversions when it filed a petition asking if "additional regulatory authority" was needed for them. The FPC has not yet responded.

The diversions came to light when the Standard Oil Company of Illinois, AMOCO, sued Tenneco for failing to provide gas promised in a contract. During the course of the court action the diversions either were discovered or were about to be discovered and Tenneco admitted them.

In another section of the filing, Tenneco provided an illustration of the profits that may have been made by the diversion when it compared the 1975-76 average interstate gas price of 30-46 cents per thousand cubic feet with the intrastate price of 48-71 cents.

Recently the FPC has raised the interstate price of gas found since Jan. 1, 1975 to \$1.44 per thousand cubic feet. The intrastate price has gone as high as \$2.25.

Last week the Alaska State Legislature approved contracts for Tenneco, Southern Natural Gas and El Paso Natural Gas to sell the three companies the state's one-eighth share of Prudhoe Bay Natural Gas. Tenneco is to receive 50 per cent of the royalty gas.

SOUTHEAST ALASKA EMPIRE

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Production Manager

Gas Pains

From the beginning the sale of Alaska's royalty gas was clouded by charges and counter-charges. The state legislature fumbled with the issue for weeks before approving the sale of our royalty gas to three firms in exchange for a rather nebulous commitment on the part of the buyers to support the El Paso all-Alaska route in Washington, D.C.

The grand finale came in the house where one of the contracts was approved, on reconsideration, by one vote. That one vote came from Rep. Fred Brown, a Democrat from Fairbanks, who lamely explained that between votes he finally got around to reading the contracts and decided they weren't so bad after all. The sale contracts emerged from the legislature after Mr. Brown switched from 'no' to 'yes.'

Cynics have suggested that Mr. Brown, the lowest vote-getter in the Fairbanks delegation, was persuaded less by the merits of the contracts than by the politics of the contracts. Whatever Mr. Brown's reasons, and we have our suspicions, the end result was that it tied the state into a lobbying partnership with one firm whose credibility slipped dramatically this week.

In a story from the Empire's Washington correspondent, we reported Tuesday that Tenneco, the firm which bought 50 per cent of our royalty gas, has admitted in documents filed before the Securities and Exchange Commission that they improperly transferred gas from market to market to hike profits. Their admission is not likely going to win friends and influence Congress in the wake of the natural gas emergencies in the East and Midwest. In fact, Alaska's gas partner, Tenneco, looks more like a villain than a credible lobbyist.

The Tenneco disclosure shocked state Sen. Kay Poland so much she demanded from the floor of the senate that the legislature ask Gov. Jay Hammond not to sign the contracts. "It's a mystery to me to see how we can expect a company with such a tarnished reputation to have political clout," she said. Political clout was what the legislators thought they were buying when they sold billions of dollars worth of the state's gas.

Instead of buying political clout with the Tenneco contract it now appears legislators bought a political liability. Gov. Hammond lobbied long and hard for the contracts his administration drafted but hopefully he will not be blinded by the politics of the issue, as Mr. Brown so obviously was, and sign them over the protests of legislators like Sen. Poland.

The best course for the governor would be to turn the contracts back to the legislature for a vote of reaffirmation. If he doesn't, Tenneco could become an albatross around the state's neck, not a benefactor, in the fight for the state's choice in the pipeline route battle.

The \$4 billion bet

State officials prepare to commit Alaska's royalty natural gas to an intra-state pipeline, despite belief Canadians have upper hand.

by John Greehy

A state cabinet officer was sitting around his dinner table with a group of friends recently when the subject of the North Slope natural gas pipeline came up. "I'll bet you a hundred bucks," the commissioner said, "that the line goes through Canada."

There were no takers because that was the prevailing attitude here as Alaska prepared to place its biggest bet yet—\$4 billion worth of state-owned Prudhoe Bay gas wagered that the pipeline will traverse Alaska instead.

Gov. Jay Hammond made the wager in November, when he completed negotiations with three national pipeline companies to buy the royalty gas in exchange for their support of a trans-Alaska pipeline route, the favorite of Hammond and many Alaskans.

Hammond's announcement of the proposed contracts came on Nov. 12, the final day for interested parties to make a pitch to the Federal Power Commission (FPC) on behalf of their favorite pipeline route.

In a statewide radio address, the governor told the people "studies should not go on forever," and, if Alaska ever hoped to have any say in the national and international debate engulfing competing plans to ship North Slope gas, now was the time to act.

Nearly nine months earlier, on Feb. 24, 1976, Sen. John Rader, D-Anchorage, started pressuring Hammond to sell at least a portion of the royalty gas to generate political support for the route.

"If Alaska hopes for any chance for a trans-Alaska gas pipeline, it's time to act now," Rader declared as he encouraged his colleagues to fork over \$50,000 for Hammond to launch negotiations with gas buyers.

Now, it's Feb. 24, a year later. Rader is Senate president and pushing with vigor for ratification in his chamber of the gas deal Hammond worked up.

There are all kinds of interested parties cheering him on—Tennessee Gas Transmission Co., which gets 50 per cent of the royalty gas; Southern Natural Gas Co., which gets 25 per cent; El Paso Natural Gas Co., which gets the other 25 per cent to put through the pipeline it hopes to build from Prudhoe Bay to the Gulf of Alaska; the Anchorage Chamber of Commerce, which is looking to extend the economic boom started by the oil pipeline; and the state's entire congressional delegation, which is lobbying virtually alone in Washington for the trans-Alaska route.

But there are some legislators and other interested parties who still are wondering if now is the time to act, even though Hammond appears to have cut a pretty good deal he was pressured into making.

The deal goes like this:

—Tenneco, Southern and El Paso attempt to build what their spokesmen call a "national constituency" for the Alaska route to influence the president—who must recommend a pipeline corridor to Congress by Sept. 1—and influence Congress, which must render final decision 60 days later;

—In turn, the firms receive all the "surplus" royalty gas at Prudhoe Bay, estimated to be about 2.6 trillion cubic feet, or 10 per cent of the total reserve;

—The price paid to the state for this gas is to be the highest going rate at the time of production;

—The state may take back all of the gas with two years' notice for use within Alaska;

—If that happens, the buyers have a first option to buy surplus gas that's avail-

able later, up to 150 per cent of the volumes which they lost from any take-back;

—All bets are off if Congress does not approve a trans-Alaska line, or if no pipeline route is selected by the end of 1978, or if the Federal Power Commission decides the state can't take its royalty gas out of interstate commerce;

—However, if Hammond decides to switch his support to another pipeline—such as the Alaska highway proposal, his second choice—the gas buyers can keep their royalty shares by joining him.

The potential pitfalls in the deal are many and varied, depending on your point of view. They include:

—A general fear that the state is buying the proverbial pig in a poke because during lengthy hearings in early February the companies could offer no concrete illustration of how they intend to build a "na-

tional constituency" and made them subject to approval of both houses.

The practical impact of the law adopted by a then-Republican legislature was to keep a then-Democratic governor from making a dramatic move just before he stood for re-election.

Now, here is John Bennett, president of El Paso's Alaska subsidiary, joined by the firm's legion of lobbyists, the Organization for Management of Alaska's Resources (OMAR), telling legislators to hurry up—there's no time for amendments to the contract.

Even former Secretary of State Bob Ward, now president of Arctic Gas Co., the powerful consortium which claims to have spent \$100 million so far in advancing its route through Arctic Canada to the mid-west states—was conceding the gas contracts would have "some impact" on the na-

kind, rather than in value, without including protections in the contracts.

Tussing, a noted economist and petroleum expert, labeled the entire sale issue a meaningless political exercise because the state can do nothing to help a trans-Alaska route in the midst of international hardball politics.

"There is no chance for a trans-Alaska pipeline," Tussing told legislators, "so long as there is a chance of a trans-Canada pipeline and there is nothing that Alaska or El Paso or any of the purchasers can do to influence the decision from the United States in that respect."

The decision rests "at the highest levels of the Canadian government," Tussing said, and President Carter and Congress "are going to wait for this."

And then there was the decision of Litt, the FPC's administrative law judge, who concluded after 18 months of examination that the Arctic gas route application was vastly superior in all respects to El Paso's or Alcan's.

If that were not bad enough for El Paso supporters, Litt took repeated swipes at the authority of the state to withdraw royalty gas for its own use. He also said "little weight" could be given to the endorsement by Tenneco and Southern of El Paso's application.

"As is conceded in the briefs," Litt said, "these companies have signed agreements with Alaska to purchase royalty gas, and thus were contractually bound by Alaska to support El Paso."

So, Litt wasn't impressed by the lobbying power bought with promises of royalty gas.

Of course, he's not supposed to be a politician, but his weighty recommendations may be examined closely by the politicians who will make the final decision.

Amid all these doubts, Rader was marshaling his forces for expected approval of the contracts this week in the Senate. An affirmative vote would put added pressure on the House, where the most outspoken critic of the contracts, Rep. Clark Gruening of Anchorage, was raising hell.

Early this week, Gruening's special committee on the gas sale voted along party lines to reject the El Paso contract, saying it was not needed to bolster support for the Alaska line. The Democrat also vowed to fight all three contracts on the floor.

However, Gruening's battle appeared to be a losing one.

Too many resolutions have been adopted in past years supporting the El Paso line. Too many interested parties are backing the gas sale. Too few legislators want to bear the onus—justified or not—for aborting a motherhood issue like an All-Alaska Gas Line.

Thus, the contracts likely were headed to their ultimate fate at the hands of the FPC.

But before that body considers them, it will have to clear its agenda of another item, the pipeline routing.

The commission may even want to delay a vote on the royalty contracts until owners of the rest of the Prudhoe Bay gas come forth with purchase agreements of their own.

Those owners—Exxon, ARCO, Sohio and others—are hedging their bets until the political and economic picture is much more clear.



Rep. Clark Gruening



Sen. John Rader

Official warns of gas sale

ADN 2/16/77

JUNEAU (AP)—A high-ranking California official has urged the Alaska Legislature to disapprove contracts for the sale of state royalty gas, hinting that his state may be able to pay a premium price for the precious commodity.

Richard L. Maullin, chairman of the California Energy Resources Conservation Commission, called for rejection of the contracts in a Jan. 31 letter to Senate President John Rader of Anchorage, chairman of joint legislative hearings on the pacts negotiated by the administration of Gov. Jay S. Hammond.

The contracts would sell the state's one-eighth royalty share of Prudhoe Bay natural gas to Ten-

nessee Gas Transmission Co., Southern Natural Gas Co. and El Paso Natural Gas Co. in return for the firms' pledge to generate political support for El Paso's proposed all-Alaska gas pipeline route.

But even though California is El Paso's biggest customer, Maullin said the state was opposed to the El Paso project because it would make the state 90 per cent dependent on liquefied natural gas (LNG).

El Paso wants to transport North Slope natural gas through a pipeline from Prudhoe Bay to Gravina Point on the Gulf of Alaska coast, transform the gas into a liquid and then ship it by tanker to California.

A bigger line for Northwest?

2/10/77

Northwest Pipeline Corp., sponsor of an Alaska Highway route to ship North Slope gas to market, says it is recalculating the size of its proposed 42-inch pipeline in response to requests from Canada's National Energy Board. Morris Thompson, the firm's Alaska representative, said Monday.

Northwest came in a distant third in the analysis of a Federal Power Commission administration law judge on which of three proposed projects should be chosen to transport North Slope gas.

NOTING THAT the law judge criticized Northwest's planned pipeline as being "undersized," Morris Thompson, the firm's representative here, told the Anchorage Chamber of Commerce Monday that the company believes it is adequately addressing questions of size in presentations before the National Energy Board.

Northwest was a latecomer in Federal Power Commission proceedings on a gas pipeline route, having submitted its application in July of 1976. "We feel Judge (Nahun) Litt didn't thoroughly review our presentation," Thompson said.

Northwest and Arctic Gas Co., which proposed a pipeline down from the North Slope through Canada's MacKenzie River Valley, must obtain approval of the Canadian government as well as the U.S. government before they can move forward.

Thompson said he believes an overland route will be chosen — and



Morris Thompson

that means either the Northwest or the Arctic project. The third competitor, El Paso Natural Gas Co., wants to build a combination pipeline and tanker system.

An overland route will win because it would mean direct deliveries to the heavily populated Midwestern and Eastern states. Congressmen viewing the projected oil glut on the West Coast will not put gas on the same coastline, Thompson predicts.

Indications of various state governments, and the FPC law judge and staff decisions also point to selection of an overland route, he said.

APN 2/24/77

Senate okays gas contracts

By PAUL NUSSBAUM

Our Juneau Bureau Chief

JUNEAU — Contracts to sell Alaska's royalty natural gas face one final hurdle before they come to a vote in the state house. The contracts were given a major boost Wednesday when they won approval in the Senate by a 3-1 margin.

The contracts to sell the state's one-eighth share of natural gas to three transmission companies face stiffer opposition in the House, where they are expected to come to a vote either Friday or Monday. The last committee to examine the contracts, the House Finance Committee, will consider the three proposals today. The committee chairman said he expects the committee will be "pretty well divided."

THE SENATE action Wednesday came after protracted debate, during which Senate President John Rader relinquished

Time's running out—OMAR Page 2

his chair to urge passage of the contracts on the floor of the Senate.

Over opposition led by Sen. Chancy Croft, D-Anchorage, each of the three contracts was approved by the Senate, 15-5. Croft championed an amendment which would have repealed the contracts if Congress took away provisions that give Alaska the unprecedented right to take its gas off an interstate pipeline for intrastate use without federal approval.

Joining Croft in support of the amendment were Sens. Frank Ferguson, D-Kotzebue; John Huber, D-Fairbanks; Pat Rodey, D-Anchorage; John Sackett, R-Galena, and

Ray Poland, D-Kodiak. Poland however voted to approve the contracts after the Croft amendment was defeated, 14-6.

SUPPORTERS of the contracts said the amendment and four others introduced by Huber, were merely moves to delay or kill the contracts.

Under the contracts, negotiated by Gov. Jay S. Hammond's administration, Alaska would sell the state's estimated 2.5 trillion cubic feet of Prudhoe Bay natural gas to three gas transmission companies: Tenneco Alaska Inc., Southern Natural Gas Co., and El Paso Natural Gas Co. In exchange for the gas, the three companies are to throw their lobbying efforts behind selection of an all-Alaska natural gas pipeline proposed by El Paso.

House opponents of the contracts contend that passage of the measures won't carry much weight with Congress or the Federal

Power Commission and that the state surrenders flexibility to use its gas by committing it now. Supporters of the contracts say the pacts could make the difference between selection of a trans-Alaska route or selection of some other gas line route.

CROFT SAID afterwards he thinks the Senate opposition may "strengthen the resolve" of those in the House who oppose the contracts.

"I think it would have been a lot closer if there had been a secret vote," Croft said. "A lot of people voted for it because they thought a vote against the contracts would be seen as a vote against the El Paso line. It's not."

In speaking against Croft's amendment and for the contracts, Rader called it a "bad argument well made."

"WE'RE LIKE a frightened animal, a rabbit, standing in front of a hawk,

immobilized by fear," the Senate president said after relinquishing the presidency temporarily to floor leader Mike Colletta, R-Anchorage, in order to enter the debate. "The worst thing we could do is sit here quivering and let the hawk pick us up and carry us off. Perhaps no hawk will carry us off; perhaps good fortune will protect the fools and idiots in the Alaska Legislature."

The three contracts will be reviewed today by the House finance committee, and chairman Steve Cowper predicted Wednesday that the vote in that committee "will be pretty well divided."

REP. CLARK Gruening, D-Anchorage, is a member of the committee and as chairman of the special committee which reviewed the contracts in the House, is expected to carry some weight with the Finance Committee. Gruening opposes

(Continued on Page 2)



UA Regents tap interim president

FAIRBANKS (AP) — The University of Alaska Board of Regents Wednesday named Dr. Charles O. Ferguson, chancellor of the UA's Southeast branch, as interim president of the financially troubled school.

Ferguson, whose appointment

Commissioner Bill Allen of the state Department of Administration, who was among the university's critics when the cash flow problem was disclosed, was present for the Board of Regents meeting.

Allen is now engaged in what he has

consideration.

He said Ferguson had indicated that he would take the post, depending on what conditions were attached by the regents.

Fate added: "He is not a candidate (for the presidency). He has

House puts off gas contract vote

By PAUL NUSSBAUM
Our Juneau Bureau Chief

JUNEAU — The state House won't vote on three contracts to sell Alaska's royalty natural gas until early next week. The chairman of the House Finance Committee — where the contracts are now being examined — said he wants the weekend to study the contracts further.

The Senate will vote a second time on the gas contracts today after Sen. John Huber, D-Fairbanks, asked for reconsideration. Huber argued Thursday that the contracts not be adopted without an amendment, and when that amendment failed, he forced the Senate to postpone a vote until today with a parliamentary maneuver.

THE SENATE PASSED the contracts, 15-5, on Wednesday, and even the opponents of the contracts say the Friday vote won't be much different.

Huber issued a call of the House Thursday after his amendment failed for the second day in a row, requiring all members not officially excused to be present to vote on the contracts. Sen. H. D. "Pete" Meland, D-Sitka, had already left for home.

Meland, though, has been officially excused from Friday's session, and the contracts are expected to breeze through the Senate for the second and final time.

NATURAL RESOURCES Commissioner Guy Martin urged the House Finance Committee Thursday to give its approval to the contracts and move them on to the full body for a vote.

Martin attacked a report prepared by the House special committee on the gas contracts, and he said the "report was really a long list of problems, though it purported to be a balanced analysis."

Finance Committee Chairman Steve Cowper, D-Fairbanks, said no

vote would be taken on the contracts until next week, "because the chairman needs the time to look these things over."

THE HAMMOND administration and members of the state's congressional delegation continue to urge quick passage of the contracts to boost political support for a trans-Alaska gas pipeline from the North Slope.

If the contracts are approved, the state's one-eighth share of the Prudhoe Bay natural gas would be sold to three transmission companies in exchange for their support of an all-Alaska route.

Rep. Clark Gruening, D-Anchorage, who chaired the House special committee on the contracts, leads the fight against the contracts in the House. Opponents of the contracts in the House are expected to concentrate their efforts on the con-

tract which would sell 25 per cent of the state's gas to El Paso Natural Gas Co. El Paso is the company seeking approval from the federal government to build a pipeline through Alaska.

HOUSE OPPONENTS reason that the El Paso contract should be rejected because it will garner no more support from El Paso than the company is already giving its own line and that the state will have more flexibility to do what it wants with the uncommitted gas.

Martin called such reasoning "slightly preposterous."

"If the state makes the sale to Southern (Natural Gas Co.) and to Tenneco (Alaska Inc.) and not to El Paso, it would basically be a vote of no confidence," the natural resources commissioner said. "It would be entirely unwise not to sell to El Paso."

Gas route impasse predicted

Canada's Prime Minister Pierre Trudeau and his Liberal Party are in such "terrible political trouble" that a decision in favor of the Arctic Gas pipeline proposal would be risky, economist Arlon Tussing told the Bartlett Democratic Club Thursday.

At the same time, Tussing is confident that the U.S. government, from the Federal Power Commission to Congress and the President, will choose the Arctic Gas route.

TO OVERCOME the impasse, a working group of Canadians and Americans will probably be able to agree on an overland pipeline route — and that could very well be an Alcan Highway route, Tussing believes.

A University of Alaska professor, he served as chief economist for the U.S. Senate's national fuels and energy policy study, and is a consultant to the U.S. Senate Interior Committee.

Earlier this month, Tussing startled the state legislature in testimony that said it was futile for Alaska to try to influence the North Slope gas pipeline route decision by selling its royalty gas to companies that agree to lobby for the state's



Arlon Tussing

choice of routes.

WHILE HE BELIEVES the U.S. will overwhelmingly choose Arctic Gas, the Native land claims issue and the fact that Canadians won't need to develop their Mackenzie River Valley gas reserves for

another decade, make it unlikely that Canada's government will jump in to support Arctic Gas, Tussing said.

Arctic Gas proposes to tap the Mackenzie reserves as well as North Slope gas in its trans-Canada pipeline from Alaska to the Lower 48 states.

Prime Minister Trudeau must hold national elections by 1978, and since his Liberal Party is in deep trouble, it would be a risk to make a decision that would alienate a sizeable segment of the population Tussing said.

THE TWO-YEAR INQUIRY into social and environmental impacts of a gas pipeline in the Mackenzie River Valley by Justice Thomas Berger in Canada is about to conclude with a recommendation by Berger.

Should that recommendation be for a delay in Mackenzie Valley development until land Native claims are taken care of, the Canadian government would be hard put to "run roughshod over it," the economist said.

"It's a matter of political reaction from the bleeding heart vote in the urban areas."

ON ANOTHER Canada pipeline issue, Tussing said the premiers of both British Columbia and Alberta said in his presence that if Americans were worried about the provinces interfering in a U.S. pipeline, each would be willing to sign the treaty between Canada and U.S. national governments guaranteeing non-interference.

Tussing said in meetings during December and January, the premiers indicated they recognize the sovereign powers of the national government concerning interprovincial and international pipelines, and the premiers said they have no intention of imposing discriminatory taxes on U.S. pipelines.

El Paso Natural Gas Co., in promoting its "all-American" pipeline, has raised the possibility of interference from Canada's provincial governments in the projects proposed by Arctic Gas and Northwest Pipeline Corp.