

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

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

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

expression was very limited compared to everybody else's, it looks pretty large. The additional expectations created by the State's limited expression of interest in the El Paso Project would be very hard to overcome if the State declines participation in this project.

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

When the wellhead prices of the gas is set, which I am hopeful will happen in the Congress in the next few

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

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

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

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

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

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

SENATOR ^{SUNNICK}~~TILLION~~: You're here, underscoring the importance of Alaska to participate in regard to the delay. Were those considered at the time the recommendation that was made to the President?

ADGER: Yes.

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

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

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

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

SENATOR ^{SUMNER}~~TILLION~~: Are you aware that presently process is to move only the gaseous component of the products that are

available at Prudhoe and the solid or the liquids are going to have to be transported in the existing pipeline? Was that considered in part of your evaluation?

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

SENATOR ^{54 M N C 12} ~~REEDMAN~~: Would it be appropriate to discuss with you at this time any rate information as it relates to takeoffs on the line anywhere?

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

with in these matters is the _____ in the lower 48.

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

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

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

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

ADGER: For El Paso.

SUMNER
SENATOR ~~TILLION~~: And so you translated that expression of

interest or investigation to be a possibility of commitment even on other gas lines. Is that correct?

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

_____: Question indiscernible.

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

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

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

ADGER: In a word, yes.

^{SENATOR}
SENATOR ~~FILLION~~: Thank you.

CHAIRMAN MILES: Representative Chatterton?

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

ADGER: Yes.

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

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

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

ADGER: Yes, it would be different.

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

ESSLEY: Could you be more specific?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAIRMAN MILES: While we are talking about numbers and this sheet you handed out, you indicated that the Federal Corporate Income Tax seems to be \$90 million. *Is there any other income for the Fed Gov't?*

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

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

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

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

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

CHAIRMAN MILES: Are you in current or constant dollars?

ADGER: This is constant. Constant 1975.

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

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

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

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

CHAIRMAN MILES: Is there an excise tax?

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

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

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

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

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

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

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

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

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

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

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

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

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

SENATOR HUBER: Would you make a copy of that.

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

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

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

HUBER: Question Indiscernible

SENATOR RADAR: The expectation that the Vice President advise the financial community that Alaska will participate in financing, no matter how it was developed, it apparently exists. We need to consider, I think, the ability of Alaska to respond to that expectation and be more precise in detail as to the nature of that expectation. For example when we were talking yesterday with the Alcan people, they were talking in terms of the State participating by pledging its royalty in some manner or another on a revenue bond which the state would sell and then reinvest

those funds in either equity or debt position along with all other investors that would like to invest in the pipeline. At the same time we have had people tell us that our general obligation rating, our bond rating, will deteriorate pretty badly if we go above \$270 million a year. At least this is the advice the Administration has received. The Governor, in his State of the State message to us, the budget statement, stated that, and last year, as a matter of fact, vetoed a large number of items that would have called for bonding, in excess of what he considered to be prudent, what \$240, \$250-\$270 million, I guess my question breaks down into, does the Federal Government expect us to, if there is an expectation here and by the financial community and by other investors, do they expect us merely to try to take royalties and pledge those to revenue bond issues if that revenue bond issue is unacceptable in the market place, then Alaska would be relieved of its expectation that it would participate or is that expectation that we participate go so far as to expect Alaska to tie up its general obligation bonds in debts. I think clearly, under anybody's analysis, it would mean that we had no bond capacity for any other purchases for schools, highways, roads, ferry systems, airports, whatever the cup of tea is. Or that we take it directly out of our general fund. Does the expectation address itself to those kind of problems or not?

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

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

ADGER: I don't think so at this point. I think that, in fact, listening to Senator Stevens yesterday, that his support for the concept of state participation really is based on the fact that that participation would be supported

by this project. And that seems to me a principle which if acceptable to the lenders, the project and its financial advisors, if its acceptable to them then it seems to me that it is a sound principle for the State to use.

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

ADGER: Let me answer that with two kinds of thoughts. One

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

And the second thing that I would say about this is that I think that this is the point for negotiations between the State and the project sponsors. I think that this is the kind of thing that could be made part of an agreement with the project sponsors. I think that their

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

HENGERER: Its a possibility.

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

Summary: One comment that I might make to this question. I certainly, at least in my _____, would not want to create the impression or leave the impression in any circumstances whatsoever, that I'm laboring under any implied obligation of the State to participate in this loan, but am at absolute freedom to attempt to negotiate, on a mutual basis, benefits that might inure to the Northwest pipeline people, and benefits for such a loan or such

financing that might inure to the State of Alaska in terms of employment opportunities and job sharing within the State of Alaska and for the people of Alaska. I see that as maybe the making of such a union. But I certainly am going to question or quiz every time there is that implied obligation. I don't see it, I don't share it, I don't believe it. From your standpoint, so that at least however you compute these into future decisions or recommendations, you can at least be advised, at least from one person.

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

Summary: I am concerned about the reaction of what the public might take if they are led to believe or they conclude that somebody has obligated the State either morally or in some other manner to finance this. There is some emotional issues out there that have not been settled

yet and I would hate for a bias to arise that would impede down the road of negotiations, that might in the long run bring some positive benefits to the State and to the people. That's the point that I would like really underscored.

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

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

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

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

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

ADGER: Reduce them?

7. Sumner: Reduce them yes.

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

(BREAK)

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

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

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

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

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

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

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

ADGER: I think the Congress is going to set that though. I

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

SENATOR RADAR: If I was the President and I felt that the producers have an obligation to participate in the financing, and the producers did not rise to that obligation, did not meet that obligation, then I think, if I were the President, and I felt confident in my position, I would look for a way to where they fulfilled that obligation in another way, through a regulatory _____ of some sort, or through Congress, by recommendation of Congress, or something else. And say, you have failed, producers, to meet the obligation that I have printed out here, that I have sent out to you. I have sent my people to Alaska and have talked to Alaskans and have talked to other producers and they haven't responded. Now there is another way to get them to contribute to this and that is to set the wellhead price. That way they contribute to the financing of it because they make it more feasible. The less you have to pay Alaska and the other producers for the gas at the wellhead, the bigger the spread between the market in the southern 48 and the producers in Alaska. Why wouldn't you do that? It seems to me that if you were certain of

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what you are doing that you would automatically do that. I would. If you refused to share the responsibility that I genuinely thought that you had, voluntarily, I think I would go ahead and say to the Public Service Commission, look, you have a decision here in setting this rate, or wellhead or something else, and those fellows haven't responded. It seems to me like we get their cooperation or assistance in another way.

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

SENATOR RADAR: (Question Indiscernible)

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

SENATOR RADAR: Let's not talk about punishing the state, let's

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

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

SENATOR RADAR: Thank you Mr. Chairman.

SENATOR SUMNER: I wanted to talk to one instance; going back to some discussion earlier, that we do look forward to having a petrochemical industry or at least we want to maximize the opportunity of having one in Alaska... (indiscernible) I think that is going to have to be _____ 'n quantitative terms or estimates, or ballpark figures, before there will be a lot of willingness to

commit to funding and and other commitments that are necessary. I think we need to address that and that's the area that you are primarily involved in. Will you respond to what is likely to happen in the future, as to consideration given in terms of tariffs, rates for the _____?

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

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

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

SENATOR SUMNER: (Question indiscernible)

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

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

SENATOR SUMNER: (Question indiscernible)

ADGER: I think a distinction I want to draw here is that if

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

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

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

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

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

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

Sumner: Explain that.

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

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

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

Sumner: (Question Indiscernible)

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

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

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

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

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

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

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

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

ADGER: Well, you're privately financible.

Sumner: (Question Indiscernible)

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

those needs to the capital market in general and reviewing the list of beneficiaries and examining the roles each might be expected to play in the financing. Then we go into a discussion of those items.

Sumner: (Indiscernible)

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

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

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

Sumner: Trying to bring this thing back because I get a little confused. I think you told me just a few minutes ago that it was difficult, even with the State financing, and you would assume even more difficult, if not improbable, if the State does not participate. Now you are saying that it is only difficult if there is private financing involved. So I am trying to determine whether the definition of

private financing includes the State since you said it was difficult for private financing. I'm trying to determine your conclusion. Have you always anticipated that Alaska would have no option but to finance this line. Was that any part of your active conclusion in the Senate?

ADGER: No.

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

ADGER: Yes. There are degrees of difficulty.

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

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

that we'll get to the producers down the road somewhere and we build on an atmosphere of confidence...

 : ^{If Alaska financing was} part of the game plan all along, and I'm wondering why ^{were not} ~~doesn't~~ we told before?

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

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

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

Sumner: Inclusive or exclusive of the State of Alaska?

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

 : (Indiscernible)

Adger: Part of this may be the egocentric view of the federal government. Anything that is not the federal government is private. That is sort of the way the term

was used. And it is quite fairly explicit in the President's decision. Tradition and equity suggests that the parties who tend to benefit directly from a transportation system participate in the financing and share the burden of these risks. The direct beneficiaries include the equity investors, the producers of the gas, and the State of Alaska.

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

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

_____: (Indiscernible)

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

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

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

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

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

Miles: (Question indiscernible)

ADGER: I think I would refer you to the ultimate answer to your own financial advisors and the project. But from my own perspective, I don't think that that is the only consideration. If the only thing that happens is that Alaska does

or does not participate, that is not going to make or break the project. If Alaska does participate, a whole bunch of other things are going to have to fall into place as well.

SENATOR HUBER: *Did you consider Alaska's problem of the constitutional*
(Question indiscernible)

of dedicating resource revenues, except Permanent Fund money, that it would be competing with

ADGER: We did not exclusively consider that because we did not *other Alaska projects*

get into, except to take note of, take note of Commissioner Gallagher's estimate of what the order of magnitude of the State's participation might be. We just pointed out that the State of Alaska, as a beneficiary, it would be nice if they would participate.

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

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

SENATOR HUBER: (Question indiscernible)

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

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

? Adger: Well, I think this is the thing that you have got to take up with the project sponsors. I just

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

SENATOR HUBER: (Indiscernible)

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

SENATOR HUBER: (Indiscernible)

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

SENATOR HUBER: (Indiscernible)

Rep.

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

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

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

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

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

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

_____: (Indiscernible)

ADGER: Well I just think that -- I'm afraid I know where you are leading me because I'm afraid I know that conclusion of

that sales contract for the State's royalty share can't finally be concluded until the next session of the legislature, isn't that right.

_____: (Indiscernible)

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

_____: (Indiscernible)

ADGER: You mean on the state's conservation?

_____: (Indiscernible)

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

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

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

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

Butrovich (Conversation Indiscernible)

7 Adger: It's on page 115, if you have access to a copy.

It is simply tradition and equities suggest that the parties who stand to benefit directly from a transportation system participate in the financing and share the burden of these risks. The direct beneficiaries include the equity investors, namely, a consortium of gas transmission companies, the producers of the gas and the State of Alaska with its royalty interests in the gas.

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

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

Buttrick
SENATOR ~~HUBER~~: (Indiscernible)

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

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

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

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

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

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

REPRESENTATIVE CHATTERTON: Thank you Mr. Chairman. Mr. Adger, I could not help but catch the Nixoneze you used quite a while ago. But I'd like to change a little bit there, the line of questions. Do I understand correctly that you are

in charge, you and your staff, in effect, is this right, -
to come up, sooner or later, with a (Indiscernible) I
gather that you are still in the fact gathering mode. Is
that right?

ADGER: That's right.

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

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

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

ADGER: Right.

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

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

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

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

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

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

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

ADGER: Ned, here again, my understanding is that we are shooting for final filings. We would like to try to get the final filings for the Certificate of Public Convenience and Necessity sometime during the first quarter of 1979, about

a year from now, or since the wellhead price _____
90 days, but once we have the final filing then we go to
hearings on the complete package. Now, between now and
then there may be issues that we turn up that we need to
get some resolution on in order to proceed to the next
step. And we might have to go to a formal proceeding and
some more narrowly defined issues, between now and the
first quarter of 1979 when a public on the record proceeding
would start on the whole package.

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

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

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

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

Public Convenience and Necessity.

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

ADGER: They are at risk.

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

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

? Sumner : (Question Indiscernible)

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

? Sumner : (Indiscernible)

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

? Sumner : In your information gathering, is there question

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

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

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

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

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

SENATOR POLAND: You have mentioned ^{What is the feasibility of taking out royalty} several ^{gas} somewhere else besides Prudhoe Bay? times today and many of us up here are... (Indiscernible)

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

1260 psi maximum operating pressure. And with the 1260 maximum operating pressure we cannot get all of the gas liquids through the line at that pressure without actually having liquids drop out which could actually destroy the turbines and the compressors. So, given the 1260 psi maximum operating system, we are limited to pretty well taking out the liquids at Prudhoe Bay, at least some of the liquids. We can get all the propane through and a little bit of the butane, but we can't get the rest of the liquids through. So, if we start with a limitation that we are going to go with the 1260 psi system, then we have no choice but to remove some of the liquids at Prudhoe Bay. The pentanes plus can go through the oil lines, and all the propanes can go through the gas lines. That leaves the problem of the butanes. Now, to address your specific question, could we take them out elsewhere. Yes. It is technically feasible to take the liquids out elsewhere. We have 12%, 13% CO_2 in this gas and CO_2 has no heating value. And we didn't, particularly the project sponsors, do not want to move a large volume of the CO_2 to the states because automatically that creates a fuel penalty, moving something all the way down to the states. But, theoretically, if we were to put a high enough pressure line in we could move all the gases, other than dehydrated them initially, we could move all the gases to

the states. And remove all the liquids and the CO_2 at that point. Or, alternatively, we could move all the gases, except for the dehydration facilities which were necessary on the slope, we could move all the gas to, say, the Fairbanks area and process it at that point, and remove the CO_2 and all the liquids at the Fairbanks area and then process the gas. So, specifically, your question, could we process it elsewhere, yes, we could. If we altered the design of the line and go to higher pressure system to the point of processing.

7, Miles : In order to get the CO_2 out, you've got to go ahead and take the liquids out.

Essley : So this is one of the problems we are looking at right now and several people have brought it up. To remove the CO_2 from the Slope, the process that the producers are looking at right now involve first removing the water. Secondly, removing the gas liquids. We are going to take them out as a whole, not try to separate them. And thirdly, then we would take out the CO_2 . Now, at that point, we either separate the liquids, the gas liquids, and move some of them through the pipeline and burn some of them on the Slope, and put some of them with the gas, or we can put them all back into the gas if we have a high enough pressure system. At that point we bring the process to Fairbanks. Now, at this point, if the State of Alaska wishes to extract some of the ethane

and set up a petrochemical plant, we would have to again extract the liquids. After we extract the liquids, we go through a further extraction where we take the heavier part out which leaves the ethane. We put the heavier liquids back in the line and then the propanes and butanes back in the line, which would then be transported to the United States, at which point we would again extract the liquids. We are talking about where do we take these liquids out and how would the most economical, where would the most economical point of extraction be? We are looking at the pressure of the system. If we go with the 1260 psi system, it puts very severe restrictions on where we can extract these liquids. We have to take some of them out of the North Slope with the 1260 psi system. Did I confuse you or help you?

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

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

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

Essley: Well, gasifying everything. You could.

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

SENATOR HUBER: I'm sorry, my physics is giving me some problems.

I have got some real problems with physics because the higher the pressure we put on a gas, the closer it is to turning into a liquid. For instance, the methane is something over 3,000 pounds per square inch, while the propane is about, at room temperature, or less than 200 pounds per square inch, before it turns to a liquid.

Now, can you explain that to my... What you are telling me is contrary to my physics and I'd like to know why.

Essley: Well you get into a phenomenon known as retro-grade condensation. And it is called retro-grade because it is contrary to what you learn in beginning physics. But what we are getting into is, at a high pressure we have a single phase, and if we drop the pressure and at a certain temperature we reach a point where we call the dew point and some of the liquids will condense and will form two phases then, both a gas and a liquid. Now, the

peculiar nature of any gas is that we can make laboratory experiments, or if we know the composition of the gas from previous laboratory experiments, we can determine very closely what the pressures and temperatures are in which we will have those two phases. And what it amounts to in this system, that with the operating temperatures that we are going to be bringing this gas down -- in other words, we are going to bring it down below 32 degrees to avoid melting the permafrost. So with these type of temperatures we have, for any given composition of gas, a certain envelope which we have to stay outside of. Basically, this means we have to stay at a fairly high pressure. I know this is contrary to your basic physics and this is why we call this particular phenomena retro-grade condensation.

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

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

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

SENATOR HUBER: Within a mixture of gases.

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

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

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

factors are going to be important in that?

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

NED HENGERER: I am not totally conversant with the specific applications of the rules, but I do know that they really do depend on the specific factors of the case at hand, depending on the location of the plant and the characteristics of the gas and the relative interests of the parties as

to the liquids and such matters as that. At this stage, I really couldn't give a definitive answer. I don't think anybody could.

ADGER: I think we have a closet expert.

Eskey: I wouldn't say I am an expert but we have a little different problem here than the commission is normally used to addressing. In most of the plants in the lower 48 states we are quite often dealing with multiple owners, and if any processing is... Generally when we have a processing plant, we quite often have quite a few owners, the processing plant will be built separately and process gases from different owners, and we quite often have quite different ownership in the processing plant than we do in the gas and the oil. And so these kind of conditioning costs will almost always be excluded from the consideration of the costs of the owner of the gas. And only those conditioning costs that are done before it leaves the lease, will be considered part of the conditioning. And the processing will be, normally, considered separately. Here we have a different situation. Previously, in all the rate cases before the Federal Power Commission, we were dealing with non-associated gas. Associated gas was always just handled to fall under the rules that they set for non-associated gas. And here, for the first time, the FPC, now the FERC will

be dealing with setting a rate, or setting a conditioning and processing for an associated field, gas, where the gas is a by-product of producing the oil. We are going to be getting into totally new grounds here and we are going to be closer to the precedent where in the state where the processing costs may have been associated with producing the gas, other than the conditioning cost where there was a separate plant with separate ownership. It's really undetermined yet how this is going to rule, but we're on new ground as I understand it. Is that correct?

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

Adger : That's right.

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

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

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

Adger : That's right.

Chmn. Miles : That is a substantially significant factor.

When might this decision be made? It will obviously be made by FERC.

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

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

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

Chmn. Miles : And a maximum?

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

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

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

ADGER: Would you care to guess on that one?

? Hengerer: On what?

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

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

Chairman Miles: (Indiscernible)

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

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

ADGER: Updating an estimate of the basic costs involved in a conditioning facility is going on now. And the producers have a study of that going on, sort of in parallel with this whole wellhead pricing thing. We would have to come up with our own process to satisfy ourselves that their estimates of the cost of gathering and conditioning were the right ones. But the timing of the variance, the ultimate resolution of the gathering and conditioning cost thing is probably related to the timing of that study. The wellhead pricing question, on the other hand,

is either related to the _____ of the Congress or the FERC proceeding and the problem there is the difficulty of the allocation issue. Allocation of expenses between oil production and gas production. If we had to set a cost base rate.

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

ADGER: I think that what we've said all afternoon is that you really are not in a position to decide unless the wellhead price is roughly settled. We wouldn't argue with that at all. And if the wellhead price is not settled by the Congress, I think we all recognize that all of us are on a different time frame. The project sponsors, I don't think would argue with that. They know that the FERC and the price setting under that then becomes a critical _____, and it's just a matter of how fast we can do that. But our stance is that when the wellhead price issue is settled, the State can come up with a fair estimate of what's in it for the State and have a fair idea of just how important it is to the State for the thing to go ahead now. I think that the kind of commitment

to the project that even the project sponsors would like to have within the next few months is not one where everything is finally said and done. I think that is more an expression of intent which is related to computations of a benefit that is available in the time frame of the commitment is made or expression of intent is given.

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

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

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

ADGER: The wellhead pricing thing could certainly cause delays.

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

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

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

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

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

SENATOR RADER: Mr. Chairman. I don't have a question but, aside from the grilling, I want you to know that we

appreciate you coming here. We are really merely fishing for information, but we understand that you are here really at our invitation, and we appreciate that.

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

CHAIRMAN MILES: Thank you very much.

(END OF MEETING)

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

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

* Alaska Revenue Total	\$0.37	\$ 320
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^{1/} \$1.04/MCF total transportation costs, President's Report to Congress

^{2/} .10 X .875 X \$1.58

^{3/} .125 X \$1.28



Alaskan Pipeline

ALASKA HIGHWAY PIPELINE PROJECT

Alaska Financial Participation

Fact Sheet

BENEFITS TO ALASKA

Economic Benefits*

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

25
years

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

Employment Benefits

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

Development Benefits

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

Indirect Benefits

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

NEED FOR FINANCIAL PARTICIPATION

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

HOW STATE CAN PARTICIPATE

- General Financing Plan Contemplates a Committed Pool of Capital Large Enough to Assure All Investors and Lenders that There Are Sufficient Funds to Complete the Project. Committed Pool of Capital Would Consist of Equity (Approximately 25%) and Remainder in Debt
- Project Encourages State's Financial Support in the Amount of \$1.2 - \$1.4 Billion Consistent With Support Previously Suggested by State for the El Paso Project, Adjusted for Inflation
- Commitment Would Include Purchases of Both Debt and Equity
- Project Also Plans to Offer Equity Participation to State's Citizens, Native Regional Corporations and Other State Organizations
- State Will Receive a Rate of Return on Its Investments Identical to All Other Lenders and Investors
- State's Commitment Will Not Be Binding Until All Capital Necessary to Assure Completion of the Project Has Been Committed
- Ultimate Backing for State's Participation Will Be Revenues Generated From the Project

STATEMENT OF JOHN G. MC MILLIAN
CHAIRMAN & CHIEF EXECUTIVE OFFICER, NORTHWEST ALASKAN PIPELINE COMPANY
BEFORE A JOINT MEETING OF THE HOUSE SPECIAL COMMITTEE
ON ROYALTY OIL AND GAS AND THE SENATE RESOURCES COMMITTEE
OF THE STATE OF ALASKA, JUNEAU, ALASKA
FEBRUARY 15, 1978

My name is John G. McMillian. I am Chairman and Chief Executive Officer of Northwest Alaskan Pipeline Company. As you know, our company, which was formerly Alcan Pipeline Company, has been selected by the President of the United States with the approval of Congress to design, construct and operate the Alaskan segment of the Alaska Highway Pipeline Project.

I'm very pleased to be here with you today and to have the opportunity to report on the status of our project and discuss ways in which we can work together to assure its success.

Since I was last in Alaska, several positive developments have taken place. Both the Canadian and the United States federal, state and provincial governments are continuing to demonstrate their commitments to the Project by organizing to expedite the Project's completion.

On December 16, 1977, the Federal Energy Regulatory Commission (FERC) issued Conditional Certificates of Public Convenience and Necessity to Northwest Alaskan Pipeline Company, Northern Border Pipeline Company and Pacific Gas Transmission Company, thereby clearing the way for us to move forward with our scheduled planning, design and engineering work. For example, our geotechnical exploration program, which will emphasize a great deal of field work in Alaska, is scheduled to begin about March 1, 1978. Plans are also underway for full-scale frost heave tests near Fairbanks and pipe burst tests in northwestern Alberta.

These two programs, which will begin late this year or early 1979, will be carried out in cooperation with U.S. and Canadian government agencies.

U.S. Federal agencies have commenced working together in order to develop the necessary plans that will allow for timely permitting and monitoring of construction. FERC has created a new Alaska Gas Project Office to facilitate the entire certification process and named John B. Adger, Jr. as Director. Mr. Adger's function is to assist in expediting the project by gathering necessary information required by the Commission to rule upon future applications for permanent certification. He will also represent the Department of Energy on the Executive Policy Board.

Also, over the last two months we have had a series of very positive meetings with Governor Jay Hammond and other officials of the State of Alaska. Our discussions have centered around such issues as Alaska local hire, use of the North Slope haul road and, of course, possibility of state participation in the financing of our project. We are pleased and encouraged by the cooperative spirit demonstrated by the State of Alaska and its officials.

On the Canadian front, legislation was introduced in the Canadian Parliament on February 3, 1978, to provide the approvals and centralization of authority necessary to permit the Project to go forward. Furthermore, Prime Minister Lougheed has indicated that the Province of Alberta is interested in participating in the financing of the Project.

Concurrent with the Government's efforts, our company is moving forward in

organizing the partnership group that will form the foundation for the equity financing of the Alaskan segment. In that regard, I am pleased to announce that final negotiations are currently underway with a number of the U.S. gas transmission companies, and we expect to announce the formation of this partnership within the next few weeks.

Now let me turn to the subject that brings all of us together - financing. I'd like to outline briefly why we want your support, the benefits to Alaska and her people that your support would produce, and the opportunity for investment by the State which would permit it to realize the same return that all other investors will receive.

The Need for Alaska's Participation

The capital for our Project will be raised on a project financing basis. That is, the Project will stand as an independent entity. The service for the Project's debt and the return to its equity investors will be provided by the cash flow generated by the Project.

This financing concept is different from that employed in connection with the Alyeska crude oil line. The financial strength of the U.S. gas transmission companies which will participate in the Project does not match that of the major oil companies involved with the crude line and therefore requires that funds be raised for the gas pipeline on a project financing basis. Successful utilization of this financing approach will be achieved by demonstrating the economic viability of the Project. We are confident this can be done.

Because the private capital markets must provide most of the financing, it

will be necessary to erase any doubts that may possibly exist and in turn generate a continuing interest in our Project. This can be accomplished best through education of the financial community and through your active and early commitment to participate in the Project.

The educational process already is under way. A team of the Project's managers and financial advisors is conducting a series of meetings with representatives of major financial institutions that focus on the many significant differences between our Project and the Alyeska line.

These include such vital factors as the existence of the huul road to the North Slope to provide access; the existence of the work pad which will be utilized wherever possible; the existence of camp facilities; and fewer major river crossings, including the now operating Yukon River bridge which can accommodate the gas pipeline. In other words, a basic infrastructure already exists. Major facilities now in place will simplify the preparation for construction of the gas pipeline.

The construction requirements will also be simplified. For example, the refrigerated buried gas pipeline will mean substantially fewer miles of insulation compared with the hot oil line. Also, most of the gas line will be buried as compared with about half of the oil pipeline. Consequently, the problems of providing structural support for the line and the frequency of going from above ground to below ground modes are avoided.

Construction experience is also an important factor. A number of pipeline contractors have benefited from the oil line experience are prepared to apply

that knowledge to our Project. This experience will materially improve efficiency and should reduce construction costs. These are but a few examples of the striking differences that will help us in planning and constructing the system.

The initial results of our educational efforts indicate that we are on the right track. However, we must now submit to the financial community tangible evidence of Alaska's conviction that our Project is economically sound and its construction fundamentally distinct from the Alyeska line.

Alaska's participation would demonstrate that you have recognized the differences between our Project and Alyeska's. Moreover, responsive and effective government involvement will help keep our Project on schedule and ensure its timely completion. Alaska's financial participation will not only serve to reassure the financial community, but it will also add an important element to the success of the Project.

Finally, given the very substantial financial benefits our Project would provide Alaska and the support that was suggested for the El Paso Project, a negative response from Alaska would seriously hinder our efforts to develop confidence in private capital markets.

Benefits to Alaska

Let's now briefly review some of the benefits to Alaska and her people that would derive from timely completion of our gas line. These benefits can be classified as direct economic and employment benefits, indirect economic and employment benefits and development benefits.

Accordingly to our estimates, Alaska will receive the following direct

economic benefits: Approximately \$10 billion in royalty income over 25 years;
approximately \$7 billion in severance taxes over 25 years; and approximately \$1
billion from other taxes, including ad valorem and income taxes. Total royalties
and taxes (including taxes in connection with the gas processing plant as well
as corporate income taxes related to the sale of gas) would substantially exceed
\$20 billion for this Project.

It should be noted that these are only minimum benefit estimates, based on
production of 2 billion cubic feet of gas per day at a wellhead price of \$1.45 *net*
per thousand cubic feet escalated at 6% per year.

Now let's look at direct employment benefits. During construction of the
Project from 1979-1982, the number of jobs created will range from 1,300 to
more than 10,000. The Project is committed to hiring qualified Alaskans; and
after its completion, the Project will employ a permanent staff in Alaska.

Indirect economic and employment benefits include the various other services
necessary to support the Project. These services will provide Alaska with addi-
tional employment and revenue stemming from housing, communications, transporta-
tion, etc. Also, all of the benefits directly and indirectly related to the Project
will be multiplied as they circulate through Alaska's economy.

With respect to development benefits, our Project will stimulate further
exploration and development of Alaska's natural gas, and it will allow for the
distribution of Prudhoe gas to Alaskan communities along the pipeline route, thus
providing an energy supply for future industrial development.

In summary, we believe our Project generates substantial and continuing

economic benefits for Alaska. By providing early financial support for the Project, Alaska would accelerate the realization of these benefits. If the Project is not built, none of the benefits will be realized by the State.

How Alaska Can Help

Before discussing how Alaska can support the Project, let me state that the position of the current administration in Washington, D.C. is that no major new energy project will be financed on the basis of Federal guarantees. This includes LNG projects, coal gasification projects, SNG projects and nuclear projects as well as our gas pipeline.

As mentioned previously, funds for the Project will be raised on a project financing basis. Our general financing plan contemplates a committed pool of capital sufficiently large to assure all investors and lenders that there are sufficient funds to complete the Project. This committed pool of capital would consist of equity (approximately 25%) and the remainder in debt.

Most of the equity component of this pool will be invested by gas transmission companies. However, we welcome equity participation by the State of Alaska as well as her citizens, native regional corporations and other organizations.

Most of the Project's debt financing will be provided by the private capital markets, principally banks and insurance companies. However, we expect that the Project's major beneficiaries also will participate in this segment of the financing.

Now let's get specific: The Project encourages Alaska's financial support in the amount of \$1.2 - \$1.4 billion. This commitment would include purchases of both debt and equity and is consistent with the support the State suggested for the

El Paso Project, adjusted for inflation.

Alaska's commitment will be limited to a fixed amount.

Alaska will receive a rate of interest on its debt purchase and a return on its equity investment identical to those received by any other investor.

Alaska's commitment will not be binding until all of the capital necessary to assure completion of the Project has been committed.

The ultimate backing for Alaska's financial participation will be revenues generated from the Project, including gas royalties and severance, ad valorem and income taxes. Interim backing could come from a number of different sources.

The Project's financial and legal advisors are examining the alternatives, and we hope to discuss these with you in subsequent meetings.

We hope that by appearing here today we have helped bring about a better understanding of the economics and employment benefits of our Project that will accrue to the State of Alaska and its people. We are looking forward to cooperating with you during this legislative session to achieve a form of participation in our Project that will be to our mutual benefit and assist its timely completion.

Finally, on behalf of all of us who are working on the Project I wish to thank you for this opportunity to meet with you today. At this time we'll be happy to try to answer your questions.

Thank you.



HOUSE CALENDAR

OFFICIAL BUSINESS OF THE HOUSE

FIFTY-THIRD DAY

Thursday

March 2, 1978
Convenes: 10:00 a.m.

Chaplain: Reverend Robert McNabb
United Methodist Church

SECOND READING OF HOUSE BILLS

- HB 642 "An Act making a special appropriation to the mortgage insurance fund of the Alaska Housing Finance Corporation; and providing for an effective date."
(State Affairs report w/CS (same title), p. 162, 1978 journal;
Finance report w/CS (Finance) (same title), p. 373, 1978 journal)
- HB 744 "An Act making a supplemental appropriation to the Department of Natural Resources for the Iditarod Trail Race; and providing for an effective date."
(State Affairs report, p. 416, 1978 journal;
Finance report, p. 435, 1978 journal)

ANNOUNCEMENTS

Republican Luncheon	Sally's Kitchen	Noon
Senator Tillion, Speaker		March 2
U of A Alumni Association		
Board of Directors		6-7:30 p.m.
Cocktail Party	Gold Room	March 2

Committee Announcements on back -- Subject to change



SENATE CALENDAR

OFFICIAL BUSINESS OF THE SENATE

THURSDAY

March 2, 1978
10:00 a.m.

Chaplain: Father John Larsen, Church of the Holy Trinity

FIFTY-THIRD LEGISLATIVE DAY

HB 613

Supplemental appropriations to Department
of Labor, workmen's compensation & local hire
(Labor & Man. report pg 222,
Finance offered SCS (new title) pg 327)

SPECIAL BUSINESS- For Friday Calendar - March 3, 1978

Legislative Citation (Senate) - Commending the Metlakatla Chiefs
by Senator Ziegler

Original sponsors: Meekins, Dankworth,
Gruening, et al

Offered: 2/22/78
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 642 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the mortgage
7 insurance fund of the Alaska Housing Finance Corpora-
8 tion; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. The sum of \$1,720,000 is appropriated from the general fund
11 to the mortgage insurance fund of the Alaska Housing Finance Corporation for
12 the period beginning with the effective date of this Act and ending December
13 30, 1978 to be paid to the mortgage insurance fund in the amounts requested
14 by the corporation as necessary in connection with the issuance of insured
15 mortgage program bonds of the corporation.

16 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
17 070(c).

Original sponsors: Meekins, Dankworth,
Gruening, et al

Offered: 1/27/78
Referred: Finance

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 642

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the mortgage
7 insurance fund of the Alaska Housing Finance Corpora-
8 tion; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. The legislature wishes to recall that the serious shortage
11 of residential housing available to persons of lower and moderate incomes in
12 remote, underdeveloped or blighted areas which motivated the creation of the
13 Alaska Housing Finance Corporation still exists. Accordingly, the legisla-
14 ture directs that all appropriations are to be used with strict regard to the
15 purposes expressed in AS 18.56.010.

16 * Sec. 2. The sum of \$1,720,000 is appropriated from the general fund to
17 the mortgage insurance fund of the Alaska Housing Finance Corporation for the
18 period beginning with the effective date of this Act and ending December 31,
19 1978 to be paid to the mortgage insurance fund in the amounts requested by
20 the corporation as necessary in connection with the issuance of insured
21 mortgage program bonds of the corporation.

22 * Sec. 3. The sum of \$2,880,000 is appropriated from the general fund to
23 the mortgage insurance fund of the Alaska Housing Finance Corporation for the
24 period beginning July 1, 1978 and ending December 31, 1979 to be paid to the
25 mortgage insurance fund in the amounts requested by the corporation as neces-
26 sary in connection with the issuance of insured mortgage program bonds of the
27 corporation.

28 * Sec. 4. Sections 1 and 2 of this Act take effect immediately in accor-
29 dance with AS 01.10.070(c). Section 3 of this Act takes effect July 1, 1978.

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