ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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B.C., to Stanfield, Ore.

From there, gas will flow to California through existing and new facilities of Northwest Pipeline Corp. and El Paso Natural Gas Co. in Idaho, Utah, and Arizona.

Expansion of the Northwest Pipeline system will involve 351 miles of looping and additional compressor horsepower on the company's system in Oregon and Idaho. Ownership of these facilities is shared, with Northwest Pipeline owning 70% and Pacific Interstate Transmission Co., purchaser of the Canadian gas, owning 30%.

However, FERC said additional capacity created by Northwest's looped line must be reversible so that gas from developing Rocky Mountain fields can be transported to the Pacific Northwest and northern California. Cost of the expansion will be about $160 million.

The commission changed its earlier order to allow Alaskan Northwest to import and sell to Pacific Interstate up to an average of 300 MMcfd of Canadian gas. In the original order, FERC approved only 240 MMcfd in such sales.

And FERC will allow Alaskan Northwest to pay Pan-Alberta Gas Ltd., the supplier, the new import price of $4.47/MMBTU, up from the $3.45/MMBTU agreed to earlier. The Canadians increased the price last March (OGJ, Mar. 31, p. 70).

FERC set a $256.9-million/year limit on buyers' take or pay obligations for the imported gas through the western leg during November 1980-October 1983. This would allow Alaskan Northwest to buy about 65% of the 300 MMcfd average authorized by FERC for import during those years.

During November 1983-October 1984 the limit will be increased to $321.1 million/year, during November 1984-October 1986 the limit will be $215.1 million/year, and during November 1986-October 1987 the limit will be $263.3 million/year, a FERC spokesman said.

In approving the eastern leg of the system in the Lower 48, FERC set an $856.3-million limit on buyer's take or pay obligations (OGJ, June 9, p. 27).

The FERC take or pay ceiling for the eastern leg means that at current prices that portion of the project may operate at only 70% of capacity instead of the planned 85%, says William Deyell, executive vice-president of Foothills Pipe Line (Yukon).

FERC set the rate of return on equity investment for the prebuild facilities at 13.5% for Pacific Gas and 13.75% for Pacific Interstate and Northwest Pipeline.

FERC also approved incremental tariff treatment for the cost of the prebuild facilities and allowed rolled-in pricing for the transportation charges and cost of the gas.

Canadian action. Construction bids were asked by Foothills Pipe Line (South B.C.) and Foothills Pipe Line (Alberta), operating subsidiaries of Foothills Pipe Lines (Yukon) Ltd.

Foothills (South B.C.), responsible for laying 53.1 miles of line in southern British Columbia, expects to award a construction contract in mid-July.

Foothills (Alberta) plans to lay a 74.4-mile section in Alberta. It expects to award construction contracts in early August. Construction schedule calls for an August start on the project with completion in mid-December.

In a related development, Canada's Northern Pipeline agency granted Foothills (Alberta) permission to use additional land for pipeline right-of-way in Alberta. Foothills had asked for an 89-ft right-of-way for looping in a number of areas to facilitate construction of the Alberta prebuild project.

Shell, AGTL to form petrochem firm

SHELL Canada Ltd. and Alberta Gas Trunk Line Ltd. plan to form a new company to produce and sell petrochemical derivatives in Canadian and international markets.

J. P. Sutherland, AGTL vice-president, said, "We aren't talking about a $100-million venture but of a major capital investment program in the $1-billion range."

The joint venture company, to be 60% owned by AGTL and 40% by Shell, would be located in Alberta.

AGTL, extensively involved in Alberta's petrochemical industry, said the objective of the joint venture with Shell will be to build worldscale petrochemical plants in Alberta throughout the 1980s.

First project will be a 600-million-lb/year styrene plant, already in an advanced stage of planning. Styrene will be manufactured from ethylene produced by Alberta Gas Ethylene Ltd., an AGTL subsidiary, and from benzene to be produced at a proposed Shell Canada-Husky Oil Ltd. joint venture refinery planned near Edmonton, Alta.

AGTL said other projects currently in various stages of planning will be disclosed later.

Robert L. Pierce, executive vice president of AGTL and head of its petrochemicals division, said the supply and security of petrochemical feedstocks in Alberta provide the basis for an Alberta-based and Canadian controlled company to compete on the world petrochemical market.

Pierce points out that an Alberta-based petrochemical industry using ethylene as feedstock and representing a $1.5 billion investment has been in operation since 1979.

"The joint venture with Shell will provide substantial and early impetus to future downstream development and diversification of the petrochemical industry in Alberta," he says.

U.S.S.R. expands plan for gas lines

THE Soviet Union has disclosed that it expects to build "no less" than seven parallel 56-in., 1,000-mile gas pipelines southwest from western Siberia's supergiant Urengoiskoye field on the Arctic Circle to Chelyabinsk on the eastern slope of the Ural Mountains.

Previously announced plans called for three Urengoiskoye-Chelyabinsk lines. Two of those have been completed.

Even at current rated throughput of about 30 billion cu m (1.06 trillion cu ft)/year for conventional Soviet 56-in. western Siberian gas pipelines, a seven-line Urengoiskoye-Chelyabinsk system could handle an apparent world record of 210 billion cu m (7.41 trillion cu ft)/year.

But capacity will be far higher if any of the five lines still to be built are of the "new generation" type recently described by B. Shcherbina, U.S.S.R. minister for construction of oil and gas industry enterprises. These lines could double or triple throughput by using new high-strength pipe permitting higher operating pressures, by reducing distance between compressor stations, and by chilling the gas to minus 30° C. (OGJ, June 9, p. 24).

Meanwhile, the Soviets have completed extension of the first Urengoiskoye-Shelyabinsk gas pipeline across the Ural Mountains and on southwest to Petrovsk, about 60 miles northwest of the Volga River port of Saratov. The final 350 miles of the 2,050-mile line from Urengoiskoye are being tested between Petrovsk and Novopskov in the Ukraine.

FERC Modifies Certain Conditions Attached to Authorization of Eastern Leg of Alaskan Gas Pipeline

On 6/20/80 the FERC modified certain aspects, but largely denied rehearing of a 4/28/80 order which granted various authorizations related to "prebuild" of the Eastern Leg portion of the Alaska Natural Gas Transportation System (ANGTS).1/

More specifically, the Commission's 4/28/80 order approved the import of 800,000 Mcf/d of Canadian gas by Northwest Alaska Pipeline Co. (CP78-123 et al.) at Monchy, Saskatchewan for resale to Northern Natural Gas Co., United Gas Pipeline Co. and Panhandle Eastern Pipeline Co.; construction by Northern Border Pipeline Co. (CP78-124) of 809 miles of 42-inch pipeline from Monchy to an interconnection with Northern's system near Ventura, Iowa (representing the "prebuild" portion of the Eastern Leg) in order to transport the imported volumes; and transportation/displacement and exchange arrangements by Northern, United and Panhandle. These authorizations were conditioned or otherwise limited by the Commission in several respects. On rehearing, the FERC revised certain conditions and reaffirmed others. (See REPORT NOS. 1259, pp1-3 and App. pp1-10; 1264, pp9-13.)

Among other conditions, the FERC's approval of Canadian gas imports (at the present border price of \$4.47/MMBtu) was subject to modification of the take-or-pay obligations in Northwest Alaska's gas supply contracts with Pan-Alberta Gas Ltd.2/ so as to provide for payment of minimum daily and annual <u>revenues</u> rather than payment for minimum daily and annual <u>volumes</u> of gas. The purpose of this condition was to free U.S. purchasers from an "open-ended" obligation to take high proportions of available gas regardless of future border price increases and competitive fuel price relationships in the U.S., while at the same time assuring Canadian producers of minimum revenues to support financing of required gathering and conditioning facilities. The Commission arrived at daily and annual revenue "caps" of \$1.38 million and \$856 million, respectively, based on application of a \$3.45/MMBtu border price to the required daily or annual volumetric takes (50% or 85%) assuming availability of 800,000 Mcf/d. The \$3.45/MMBtu price was selected by the Commission for this purpose because it was the level at which the proposed imports were shown by the record in this proceeding to be marketable.

1/ The previous week, on 6/13/80, the FERC approved construction of about 350 miles of pipeline looping which will complete the Western Leg prebuild segment of the ANGTS to transport up to 300,000 Mcf/d of Canadian gas to consumers in southern California. In an earlier order issued 1/11/80, the FERC approved construction of the first 160 miles of the Western Leg segment between Kingsgate, British Columbia and Stanfield, Oregon, just below the Washington-Oregon border, and deferred decision on the remainder of the Western Leg facilities. In the 6/13/80 order, the Commission denied rehearing of the 1/11/80 order and authorized construction of 350 miles of pipeline looping by Northwest Pipeline Corp., as well as additional compression, along its existing right-of-way in Oregon and Idaho. In so doing, the Commission rejected an alternative routing favored by the FERC Staff and the California PUC south of Stansfield, Oregon involving greater looping of the Pacific Gas Transmission and Pacific Gas & Electric systems. The Commission conditioned its authorization to require that the 350 miles of looping be reversible so that gas from developing Rocky Mountain fields can be transported to the Pacific Northwest and northern California. (See REPORT NO. 1266, pp2-8.)

2/ These contracts contained minimum daily and minimum annual take provisions requiring that the purchaser take not less than 50% of the contemplated daily quantity on any given day, and not less than 85% of the contemplated annual quantity during any contract year. These same features are carried forward in Northwest Alaskan's contracts for resale of the gas to the U.S. shippers.

On rehearing, the Commission denied a request by Foothills Pipelines Ltd. and Pan-Alberta to use the present border price of $4.47/MMBtu (and any new border prices subsequently approved by the Economic Regulatory Administration) rather than the "obsolete" $3.45 border level, but provided for adjustment of the $3.45 unit price multiplier for general inflation in the U.S. Escalations for inflation shall be in accordance with the methodology prescribed in Section 101(a) of the NGPA for monthly adjustment of first sale maximum lawful prices, provided that such escalations never operate to increase the proportion of contract quantities required to be taken by the importers above the levels specified in the Pan-Alberta contracts (namely, 50% on a daily basis and 65% on an annual basis). Based on the above determinations, the Commission said it can assure Foothills and Pan-Alberta that the principles for calculating the revenue stream will not be changed during the authorized term of the imports. In addition, the FERC noted its concern over the National Energy Board's characterization of the take-or-pay modification as "out of harmony with the Canadian contribution." The Commission emphasized that it chose a unit multiplier of $3.45, rather than the $2.16/MMBtu border price at the time Pan-Alberta entered into contracts with Canadian producers, in an effort to balance the need for initiatives to move the ANGTS forward with the need for a limitation on the exposure of the importing companies. Similarly, a key reason for providing an escalation for inflation is to remove, to the maximum extent possible, "any remaining doubts about the viability of the prebuild projects as proposed, conditioned and approved... ."

A second major condition imposed by the 4/28/80 order was the requirement for adjustment of Northern Border's depreciation schedule -- which rested on a unit of throughput method assuming a total throughput of 4.164 Tcf (achievable by shipments of 800,000 Mcf/d through Northern Border for 15 years at 95% load factor) -- to reflect Alaskan volumes at the time construction commences on the Alaskan segment of ANGTS rather than when Alaskan gas begins to flow, as proposed. In addition, the depreciation base must be adjusted if additional volumes are contracted for shipment through Northern Border from Consolidated Natural Gas Ltd. and Progas Ltd. Northern Border and Trans-Canada contended in an application for rehearing that revenues based on the unit of throughput methodology must be assured for a minimum of four years, without modification to reflect Alaskan gas, to satisfy the requirements of lenders providing the debt financing. Northern Border and Trans-Canada accordingly urged that the Commission provide for adjustment of depreciation upon the later of (1) the expiration of four years from the date on which the Eastern Leg prebuild project is completed and commissioned; or (2) the date on which main pipeline construction of the Alaskan segment commences. The Commission was also asked to clarify that the 4.164 Tcf depreciation base will not be modified by the commitment of Consolidated and Progas export volumes to Northern Border.

In the instant order on rehearing, the Commission reiterated its prior conclusion that commencement of construction of the Alaskan segment is the appropriate date to consider Alaskan volumes for depreciation purposes. Once construction of the Alaskan segment begins (in May 1983 according to Northern Border's application), the FERC explained, there is very little risk that Northern Border will not be used for transportation of Alaskan volumes. Accordingly, there is very little danger that Trans-Canada -- in its financial "backstopping" capacity -- will be required to repay the balance of the bank loan for the "prebuild" project upon maturity, with the result that certain limitations on the size of the "balloon" payment due at maturity (not more than 40% of the original amount of the loan) are unlikely to cause any problem. Nevertheless, because of the "unique role and material importance" of the Trans-Canada "backstop" commitment in financing of the Eastern Leg prebuild project and because lenders may consider the 40% loan balance requirement at maturity as a "real and necessary limitation" on liability, the Commission agreed to accept the depreciation adjustment provision recommended by TransCanada and Northern Border in their application for rehearing -- provided that any difference in depreciation expense and related taxes under this recommended schedule and the amount which would have resulted under the schedule previously imposed by the Commission (assuming adjustment for Alaskan volumes upon commencement of construction of the Alaskan segment) be collected subject to refund. The refund obligation would be extinguished in the event that TransCanada were required to assume full responsibility for repayment of the loan at maturity. On the other hand, the amounts involved would have to be refunded, with interest, at the end of the maturity of the loan if TransCanada does not assume sole responsibility for repayment (or at any earlier time that TransCanada's contingent liability to assume the payment at maturity may be eliminated).

Regarding the total throughput level of 4.164 Tcf contemplated as the economic life of the Northern Border prebuild project, the Commission affirmed the need to revise this throughput for economic life purposes under certain circumstances. However, based on the configuration of facilities inherent in the prebuild project, the Commission anticipated that any additional throughput beyond the initial 800,000 Mcf/d design capacity in the first six years could be achieved at a relatively small increase in capital cost, and that the revised facilities package would be justified with an economic life of 4.164 Tcf of expected throughput.

With respect to tracking issues raised on rehearing, the Commission adhered to its prior determination that shippers over the prebuilt Northern Border facilities may not commence charges to their customers until gas deliveries begin. While Northern Border was authorized to commence billing upon completion of construction (but before any flow of gas) in order to reduce risks and hence lower financing charges, the Commission said there is no similar financing benefit in permitting shippers to track the Northern Border charges before gas flows.

In addition, the Commission declined Foothills' request to provide at this time any general statement of principle to the effect that tracking of Canadian transportation charges will be permitted without further FERC review as soon as the appropriate Canadian regulatory authority has granted "leave to open." At the same time, the Commission made clear that it will continue to cooperate with Canadian regulatory authorities to develop an appropriate mechanism for U.S. shipper tracking of NEB-approved Canadian transportation charges.

The Commission also denied a request by the General Service Customer Group (comprising nine distributor customers of Panhandle) to eliminate the requirement that shippers classify Northern Border charges as demand charges. The Commission emphasized that charges to each shipper are predicated on the shipper's right to demand service and will not vary with volumes actually transported for the shipper. Hence, these payments can only be characterized as a demand charge.

Commissioner Holden dissented to the required classification of Northern Border's charges to shippers as demand charges. By this treatment, "the Commission chooses to dump on the residential, small commercial and other high priority customers a much greater share of the fixed costs than is obviously dictated by any facts of record."

SCOMM

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NOTE REGARDING THE FOLLOWING FRAME ON MICROFILM:

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THE PRESIDENT'S ALASKA NATURAL GAS TRANSPORTATION ACT WAIVER RECOMMENDATION

HEARINGS

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S.J. Res. 115

JOINT RESOLUTION TO APPROVE THE PRESIDENT'S RECOMMENDATION FOR A WAIVER OF LAW PURSUANT TO THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976

OCTOBER 22, 23, AND 26, 1981

Publication No. 97–38

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CORRECTION

CORRECTION

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT

SUMMARY
OF
THE ALASKA NATURAL GAS TRANSPORTATION SYSTEM
AND
THE WAIVER OF LAW
PROPOSED BY THE PRESIDENT
ON
OCTOBER 15, 1981

October 27, 1981

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Summary

Alaska Natural Gas Transportation System

The Alaska Natural Gas Transportation System (ANGTS) will be a 4,800 mile pipeline stretching from Prudhoe Bay, across Canada to terminals in Illinois and California. The ANGTS will provide a vital transportation link connecting 26 trillion cubic feet of natural gas at Prudhoe Bay -- 13 percent of our nation's total proven gas reserves -- and over 100 trillion cubic feet of potential gas reserves in Alaska to markets in the lower 48 states. It will be the largest privately financed construction project in history.

The ANGTS will:

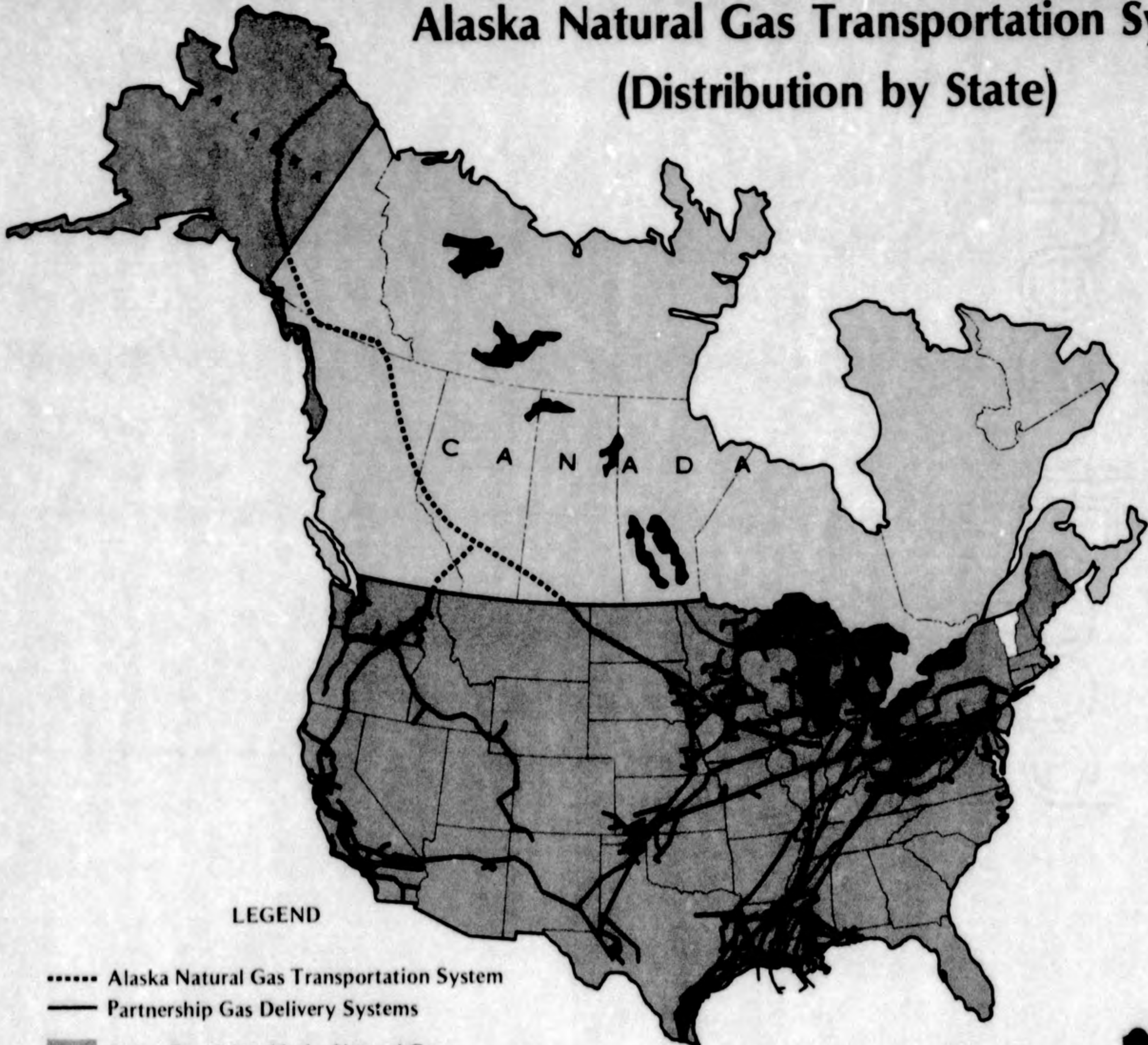
- provide natural gas that will be needed in the 1980's and thereafter;
- provide a lower cost energy alternative to foreign oil;
- enhance U.S. national security by reducing our dependence on foreign oil;
- stimulate the development of additional natural gas reserves in Alaska;
- create jobs for U.S. workers; and
- improve U.S. balance of payments.

Waiver of Law

In order to remove obstacles to private financing of the ANGTS, the President has transmitted to the Congress a waiver of law designed to:

- strengthen the financial base of the project by permitting both debt and equity participation in the ANGTS by the Alaska North Slope producers;
- authorize the FERC to approve, at its discretion, tariffs which will provide lenders with adequate assurances of debt and/or equity repayment;

Alaska Natural Gas Transportation System
(Distribution by State)



LEGEND

- Alaska Natural Gas Transportation System
- Partnership Gas Delivery Systems
- States Receiving Alaska Natural Gas

Northwest Alaskan
PIPELINE COMPANY

- include the conditioning plant that is required for the natural gas to be transportable as part of the ANGTS; and

- allow the FERC to expedite the issuance of final project approvals.

- Affirmative Congressional action on the waiver proposed by the President will remove the obstacles which otherwise preclude private sector financing of the ANGTS and will help this nation to achieve greater energy independence and security.

- The waiver will not authorize construction of the ANGTS to begin without final FERC certificates of public convenience and necessity issued pursuant to and in accordance with the provisions of the Natural Gas Act and the Alaska Natural Gas Transportation Act of 1976.

I. Project Description

- The Alaska Natural Gas Transportation System (ANGTS) will be a 4800 mile pipeline that will transport natural gas from Prudhoe Bay through Alaska (745 miles) and Canada (2,013 miles) to the lower 48 states (2,042 miles).

- The ANGTS will have an initial capacity of 2.0 billion cubic feet (Bcf) of gas per day and can be expanded to transport 3.2 Bcf of gas per day. At 2.0 Bcf per day, the ANGTS will supply over four percent of our Nation's daily natural gas requirements.

- About 70 percent of the gas transported through the ANGTS will go to the Midwest, the East and the South and about 30 percent to the West.

II. Project Participants

Alaska Pipeline and Conditioning Plant Segments

- Alaskan Northwest Natural Gas Transportation Company, a consortium comprised of affiliates or subsidiaries of the following ten major natural gas companies: Northwest Energy Company; American Natural Resources Company; Pacific Gas and Electric Company; InterNorth, Inc.; Pacific Lighting Corporation; Panhandle Eastern Corporation; The Columbia Gas System, Inc.; Texas Eastern Corporation; United Energy Resources, Inc.; and, TransCanada Pipe-Lines Limited.

- The three principal North Slope producers -- Arco, Exxon, and Sohio.

- The Engineering/Project Management Contractors are Fluor Engineers and Constructors for the Alaskan pipeline segment and Ralph M. Parsons Company for the gas conditioning plant. Assisting in this effort are Gulf Interstate Engineering, Michael Baker, Jr., Inc., Northern Technical Services, Inc., R&M Consultants, Inc., Morrison-Kudsen, Reading and Bates Corporation, Peter Kiewit and Sons, Curran-Houston Inc., a subsidiary of Sedco, Inc., and Green Construction Company.

Canadian Segment

- Foothills Pipe Lines (Yukon) Ltd., which is owned equally by NOVA (formerly the Alberta Gas Trunkline Company Limited) and Westcoast Transmission Company, Limited, both major natural gas pipelines in Canada.

Lower 48 Segment

- Eastern Leg -- Northern Border Pipeline Company, a consortium comprised of four major U.S. and one Canadian natural gas transmission companies.

- Western Leg -- Pacific Gas and Electric Company and Pacific Gas Transmission Company.

III. Project History

- In 1968 the largest single discovery of oil and natural gas on the North American continent was made at Prudhoe Bay on the North Slope of Alaska.

- Between 1974 and 1976 three separate and competing gas company consortia, including Alaskan Northwest, applied to the Federal Power Commission (FPC) for authority to build a pipeline to transport Alaskan gas to the lower 48 states. Over two years of formal evidentiary hearings at the FPC produced over 45,000 pages of testimony and over 1,000 exhibits.

- The Alaska Natural Gas Transportation Act was enacted in 1976 to expedite the decision-making process, to delegate to the President the responsibility for selecting the best Alaskan gas transportation system and sponsors to design, construct and operate that system, to expedite agency decisions, to limit and expedite judicial review, and to provide a mechanism whereby laws preventing the financing and expeditious construction of the ANGTS could be waived by Congress.

- On May 1, 1977, the FPC recommended that the President select from two overland pipeline proposals that would transport Alaskan gas across Canada to the lower 48 states.

- On July 1, 1977, various Federal agencies submitted comments to the President supportive of the Alaskan Northwest proposal.

- On July 4, 1977, the National Energy Board of Canada unanimously recommended certification of the Canadian portion of the route proposed by Alaskan Northwest and Foothills.

- On August 3, 1977, the U.S. Senate ratified the Transit Pipeline Treaty between the U.S. and Canada which protects the ANGTS from discriminatory pricing or other unfair treatment in Canada.

- On September 20, 1977, the U.S. and Canada signed an "Agreement on Principles" which established the terms and conditions that would apply to the ANGTS.

- On September 22, 1977, the President issued his Decision selecting the Alaskan Northwest proposal as the most efficient, economic, and cost-effective means to bring Alaska gas to the lower 48 states. This Decision specified certain terms and conditions which would apply to the ANGTS including: (1) a requirement that the Alaskan North Slope producers have no equity position in the ANGTS; and (2) a prohibition against any tariff which requires payment prior to completion and commissioning of the system.

- On November 2, 1977, Congress approved the President's Decision (H.J. Res. 621, P.L. 95-158).

- On December 16, 1977, the Federal Energy Regulatory Commission (successor to the FPC) issued a conditional certificate to Alaskan Northwest.

- On April 12, 1978 the Canadian Parliament enacted the Northern Pipeline Act which ratified the July 4, 1977 decision of the Canadian National Energy Board certificating the Canadian segment of the ANGTS, and established the Northern Pipeline Agency to monitor construction of the Canadian segment.

- On November 9, 1978 the Natural Gas Policy Act of 1978 was signed into law, which law established the wellhead price of Prudhoe Bay gas and provided that the price of Prudhoe Bay gas would be rolled-in with the prices paid by pipelines for gas from other sources for resale by such pipelines.

- In May 1979, Congress allowed the President's Reorganization Plan No. 1 of 1979 to take effect, which established the Office of the Federal Inspector to coordinate issuance of all necessary governmental approvals and to monitor construction of the U.S. segments of the ANGTS.

- On June 13, 1980, the FERC authorized Northwest Alaskan to import through the western leg pre-built facilities of the ANGTS up to 300,000 Mcf of natural gas per day purchased from Pan-Alberta Gas, Ltd. for delivery to southern California markets.

- On June 20, 1980 Alaskan Northwest and the major Prudhoe Bay gas producers - Arco, Exxon, and Sohio - entered into an agreement to fund jointly the design and engineering of the Alaskan pipeline and conditioning plant segments.

- On June 20, 1980, the FERC authorized Northwest Alaskan to import through the eastern leg pre-built facilities of the ANGTS up to an average of 800,000 Mcf of natural gas per day purchased from Pan-Alberta Gas, Ltd. for delivery to Eastern, Midwestern and Southern markets.

- In July 1980, Congress passed a concurrent resolution (S. Con. Res. 104) expressing the "sense of the Congress that the System remains an essential part of securing this Nation's energy future and, as such, enjoys the highest level of Congressional support for its expeditious construction and completion by the end of 1985." (See Appendix E).

- On July 18, 1980 President Carter sent a letter to Prime Minister Trudeau of Canada stating that the United States "stands ready to take appropriate additional steps necessary for completion of the ANGTS. . ." and that President Carter "would be prepared at the appropriate time to initiate action before the U.S. Congress to remove any impediment as may exist under present law." (See Appendix D).

IV. Construction to Date

- Construction of 1,000 miles of the ANGTS in the lower 48 states and 500 miles in southern Canada, or 30 percent of the total pipeline mileage, is now either complete or underway. This portion of the system is being pre-built to import over 1 billion cubic feet per day of Canadian gas to U.S. markets pending Alaskan gas deliveries. Deliveries of up to 300,000 Mcf per day through the Western Leg to southern California markets commenced on October 1, 1981. Deliveries of up to 975,000 Mcf per day through the Eastern Leg, including subsequently authorized volumes of other importers, to Midwestern, Eastern and Southern markets will commence in the fall of 1982.

- Canadian authorizations for the export of Canadian gas through the pre-built facilities and construction of such facilities were issued only after the Congress passed a resolution expressing support for the project (S. Con. Res. 104) and after Canada received assurances from the U.S., reflected in the letter from President Carter to Prime Minister Trudeau, that the entire ANGTS would be built and that steps would be taken in the U.S. to permit Canada to commence billing for the Canadian segment when it was completed and ready to operate.

V. Other Major Regulatory Approvals Already Secured And Other Developments

- FERC has approved the Alaskan Northwest and Northern Border partnership agreements.

- FERC has established the Alaskan pipeline segment's design specifications.

- FERC has established the incentive rate of return mechanism which will reward Alaskan Northwest if it completes the project under budgeted cost but penalize it for cost overruns.

- FERC has approved the tariffs under which Alaskan Northwest will render service. The FERC approved tariff permits Alaskan Northwest to charge a rate which will recover actual operating and maintenance expenses, current taxes, and debt service, including interest and scheduled debt retirement upon completion and commissioning of the pipeline segments of the ANGTS, before gas is actually transported or before completion of the gas conditioning plant. Thus, billing could commence prior to completion of the gas conditioning facility and/or before gas is available for transport.

- The Department of the Interior has issued the right-of-way grant across all federal lands.

VI. Current Project Status

- Alaskan Northwest and Fluor have assembled a team of highly experienced design and pipeline engineers, cost estimators, cost engineers, and environmental and other experts representing every discipline necessary for designing, engineering, constructing, and controlling the cost of the ANGTS.

- Collectively, Alaskan Northwest, Fluor and their consultants have spent over three years and more than 1,000,000 workhours in the design and engineering of the Alaskan pipeline segment, including extensive, highly technical field programs to ensure the correct design, and over one year in preparing a detailed schedule and capital cost estimate for this segment.

- A similar effort is also being made in the design and engineering of the conditioning plant.

- The final Alaskan pipeline design and engineering work is approximately 34 percent complete. All preconstruction field programs will be approximately 7[illegible] percent complete by the end of the year.

VII. ANGTS Capital Costs

- The ANGTS capital costs in 1980 dollars total $23 billion as follows: (1) $3.6 billion for the gas conditioning plant; (2)

$10.8 billion for the Alaskan pipeline segment; (3) $5.8 billion (U.S.) for the Canadian pipeline segment; and, (4) $2.8 billion for the Eastern and Western Legs in the lower 48 states. Of this $23 billion, the pre-build phase of construction is estimated to cost $1.7 billion.

- In "as spent" dollars the range of capital costs that must be financed is between $36 billion and $45 billion excluding the amounts for the pre-build facilities. These figures are derived by adjusting the 1980 capital cost estimate for inflation and interest rates. The range of U.S. inflation and interest rates assumed are from 7 percent to 11 percent and 10 percent to 14 percent respectively.

VIII. Marketability of Alaskan Gas

- The 20 year average cost of Alaskan gas to consumers will range from $4.65 to $5.10 per MMbtu compared to an average cost of oil over this same time period of $8.91 per MMbtu. In constant dollars the delivered cost ranges from approximately $9.20 to $9.35 per million Btu's in the first year to $2.75 to $3.20 per million Btu's in the twentieth year. This dramatic decline in the cost of Alaskan gas occurs because of the amortization of the investment over the project life.

- The factors which will be most influential in determining a market for Alaskan gas are real world oil prices, the demand for and availability of natural gas supplies in 1986-87 and thereafter, and the method by which Alaskan gas is priced to compete with oil.

- Alaskan gas will become an increasingly better buy than imported oil because as the real price of oil increases, the real price for Alaskan gas will decrease.

- Rising real prices of oil make Alaskan gas - the price of which is not linked to oil prices - a better buy than supplementary gas supplies whose prices are linked to oil prices.

- By 1987, when Alaskan gas will be available, the continuing decline of conventional lower 48 gas supplies will have created a strong demand for gas supplies.

- Under complete natural gas deregulation the price of Alaskan gas will adjust to the marketplace and be saleable. The price of Alaskan gas can be adjusted if necessary through use of a levelized tariff and/or gas producer/shipper contractual provisions to assure the marketability of Alaskan gas.

IX. National Benefits

Domestic Gas Supply

- The ANGTS will provide a transportation system capable of delivering 26 trillion cubic feet, 13% of all U.S proven domestic gas reserves, to U.S. consumers in 48 states.

- The ANGTS will provide needed incentives for the exploration and development of up to 100-200 trillion cubic feet of additional potential natural gas reserves in Alaska.

- Natural gas provided by the ANGTS will be needed to meet demand for gas in the late 1980's and thereafter.

Offset Foreign Oil

- At the initial delivery levels of 2 billion cubic feet of gas per day, the ANGTS will offset the need to import 400,000 barrels of foreign oil per day for the next 25 to 30 years.

- The ANGTS can be easily expanded to deliver 3.2 billion cubic feet gas per day which would offset a total of 600,000 barrels of foreign oil per day.

- The ANGTS will reduce adverse balance of payments by saving over $7 billion in foreign payments for oil in the first year and additional billions thereafter.

- The ANGTS will enhance the nation's security by reducing our dependence on uncertain foreign oil supplies. Alaskan gas will not be subject to OPEC price increases or embargo.

U.S. Economy

- The ANGTS will create jobs for U.S. workers and orders for U.S. businesses. Construction of the Alaskan pipeline segment and conditioning plant will require a peak work force of 16,000 workers.

- The ANGTS will produce a net national economic benefit of $40-90 billion. This is the present market value of Alaskan gas minus the cost of delivering such gas, and does not include indirect benefits such as increased energy independence, improved balance of payments, the creation of jobs, or the cost savings that would result from preventing a repeat of the economic dislocation caused by the curtailment of industrial gas customers.

International Relations

- Construction of the 4800 mile ANGTS through Alaska and Canada will strengthen the U.S. relationship with Canada and provide a basis for continuing cooperation with Canada on energy and other areas of mutual interest between our two countries.

- ANGTS will demonstrate to the rest of the world the U.S. commitment to the development of domestic sources of energy.

X. Remaining Regulatory Approvals

- Alaskan Northwest must file with and secure FERC approval of: (1) a private financing plan and related materials including a cost of service and marketability study which demonstrates the continued economic viability of the ANGTS; (2) amendments to its prior approved tariff which conform to the financing plan; and, (3) assuming Congressional approval of the proposed waiver, an application for a certificate for the gas conditioning plant and the related tariff.

- Northern Border and Pacific Gas Transmission must secure FERC approval to complete the non-pre-built portions of the U.S. Eastern and Western Legs.

- The shippers of Alaskan gas must secure FERC approval of tariffs which permit them to flow through to their customers the wellhead sales price of Alaskan gas and the conditioning and transportation charges to be paid by them under the FERC and the Canadian National Energy Board approved tariffs.

- Under the standards of the Natural Gas Act the FERC must examine a number of factors in determining whether to issue the above approvals. For example, the FERC must find that the project is economically feasible, that the project can be financed on terms and conditions acceptable to the Commission and that the proposed tariffs are just and reasonable and in the public interest. Congressional approval of the proposed waiver will not relieve FERC of these responsibilities.

XI. ANGTS Financing

- In May 1981, Alaskan Northwest and the Prudhoe Bay producers agreed to approach the financial community with a financing plan embodying the following concepts:

  ° For purposes of financing, the "as spent" cost of the Alaskan pipeline would be $21 billion and the plant would be $6 billion. In addition, a pre-committed completion assurance pool of $3 billion would be formed.

- The debt/equity ratio for all capital investment would be 75:25.

- The investment limits of all participating companies would be defined from the outset. As a group, the transmission companies would provide equity in an amount not to exceed $5.25 billion. As a group, the producer companies would provide equity in an amount not to exceed $2.25 billion.

- The Alaskan Northwest partners would own 70 percent of the pipeline and the plant, and the producing companies would own 30 percent of the pipeline and the plant. Equity commitments to the completion assurance pool would be made on the same 70:30 ratio.

- Debt funds (pipeline and plant) would be sought on a project credit basis. The transmission group would be responsible for arranging for $15.75 billion in project debt. The producer group would be responsible for arranging for $6.75 billion in additional project debt. The debt which the producers would be responsible for arranging would be accorded terms and conditions equivalent to those accorded other project debt.

- Each company's participation would be subject to satisfaciton of conditions precedent, namely;

  -- The conditioning plant will be included as part of the Alaska segment of the ANGTS.

  -- All debt and equity participants will issue firm commitments, acceptable to all other participants, prior to construction of the pipeline or plant.

  -- All necessary governmental approvals and authorizations will be issued and accepted by the participants.

  -- All parties are assured that the project is economically viable.

  -- All parties are assured that the Canadian segment will be financed and completed without U.S. company involvement.

\- On the basis of the agreement reached by Alaskan Northwest and the producers, the first formal presentaiton of an ANGTS financing plan was made in May 1981 to four major U.S. commercial bank lenders -- Bank of America, N.T.&S.A., The Chase Manhattan

Bank, N.A., Citibank, N.A., and Morgan Guaranty Trust Company of New York.

- On August 28, 1971 the four-bank coordinating group advised the partnership of the results of its preliminary assessment of the financing concepts. This group concluded that: (1) the project can be privately financed without government guarantees or participation; and, (2) that there are funds available on a world-wide basis sufficient to provide debt support for the project within a range of $12-18 billion. However, the banks further concluded that certain modifications to the approach to financing which the partnership and the producing companies proposed were necessary as follows:

  - Because of the greater financial requirements and the more difficult circumstances in which this project must be financed, it is incumbent that all project beneficiaries contribute more to realize the substantial benefits of the huge Alaska energy resource.

  - Credit support will be required of the participating companies during the construction phase of the project. The banks concluded that the completion pool of funds concept would not be acceptable to lenders as a basis for debt support during construction and that some degree of debt repayment assurance during the pre-completion phase would be required, involving a combination of (1) acceptable debt assumption arrangements by the sponsors and producers and (2) acceptable billing commencement provisions prior to completion of the overall system.

  - After completion, and when the ANGTS is operational pursuant to satisfactory tariff and tracking arrangements, the credit of the project itself will provide adequate assurances of debt service to the extent that the sponsoring companies will not be obliged to a continuing pledge of corporate credit.

- The banks have advised that the waiver proposal is critical to provide the necesary credit support -- indeed the absolute minimum -- required to raise the necessary funds from the private sector for completion of the ANGTS.

- Constructing and implementing a financing plan for the project cannot be accomplished in the absence of affirmative action by both Houses of the Congress on the waiver request. If the waiver is not permitted, private financing is impossible.

XII. Proposed Waiver of Law

On October 15, 1981, President Reagan transmitted to Congress a proposed waiver of law (see Appendices A, B and C) which would accomplish four specific purposes, all of which are necessary predicates to private sector financing of the ANGTS:

-- permit both debt and equity participation in the project by the Prudhoe Bay producers;

-- include the conditioning plant within the ANGTS;

-- permit the FERC, in its discretion, to approve tariffs which would provide lenders with sufficient assurances of debt and/or equity repayment to warrant their advancing the enormous sums needed for private financing; and,

-- enable the FERC to expedite the issuance of a final certificate.

A. Public Law 95-158 -- The President's Decision

1. Producer Participation

The President's *Decision* prohibits producer equity participation in the ANGTS. The proposed waiver would permit the Prudhoe Bay producers to own an equity interest in the project, while maintaining protection against any theoretical anticompetitive conduct.

Justification

- The President's *Decision* assumed that the producers would participate in the financing of the pipeline.

- The producers' financial participation is needed to help ensure a timely, cost effective completion of the ANGTS. The producers are willing to be responsible for substantial debt and equity financing requirements.

- The concern that producer participation in the ownership of the pipeline might give rise to potential competitive abuse is adequately protected by the proposed waiver:

  • The producers' equity position will be limited to a minority interest.

- Section 13 of the ANGTS requires that the FERC condition its certificate to prevent discriminatory treatment.

- The proposed waiver provides that the FERC, after consultation with the Attorney General, must find that producer participation will not create or maintain a situation inconsistent with the antitrust laws or create restrictions on access to the ANGTS or restrictions on capacity expansions.

2. Conditioning Plant

The President's Decision did not include a conditioning plant in the ANGTS. The proposed waiver would include a conditioning plant in the ANGTS and the ANGTS certificate subject to all terms and conditions of the President's Decision except that the incentive rate of return mechanism would not apply to it.

Justification

- Conditioning facilities are essential to permit Alaskan gas to be delivered to the lower 48 states. The ANGTS has special conditioning requirements for the gas to be transported through the system. Circumstances in Alaska are unique and gas processing costs in Alaska are much greater than the processing costs that normally occur in the lower 48 states.

- The producers' willingness to make a substantial financial commitment to the project is predicated on the inclusion of the conditioning plant as a part of the ANGTS to permit a recovery of costs associated with constructing and operating the plant, plus a reasonable return on invested capital pursuant to a FERC approved tariff.

- Application of the incentive rate of return mechanism to the conditioning plant would substantially delay issuance of a final certificate. However, the actual construction costs will be reviewed by the Federal Inspector and only prudently incurred plant costs will be recovered in rates.

3. Billing Commencement

The President's Decision prohibits any tariff which would require the purchaser or ultimate consumer to pay any charge with respect to the ANGTS at any time prior to completion and commissioning of the entire pipeline system.

The waiver proposed by the President would permit the FERC to approve a tariff permitting billing to commence for the gas conditioning plant, the Alaskan pipeline segment, or the Canadian segment of the ANGTS upon their individual and separate completion and commissioning, but not before a target operation date established by the FERC, in consultation with the Federal Inspector, as the most likely date for the transportation system to begin operation.

In the case of the Alaskan pipeline segment and the conditioning plant, the FERC would be authorized to permit recovery of actual operating and maintenance expenses, taxes and debt service, including interest and scheduled debt retirement. A return of or on equity would not be permitted until gas flows. Recovery of the full cost of service (including a return of and on equity) would be permitted for the Canadian segment.

Justification

- It is unlikely that a segment would be completed and commissioned without the other segments also being completed and commissioned on the target operation date established by the FERC.

  - The U.S. sponsors will not receive a return of or on equity until the entire system operates.

  - The project sponsors and regulatory authorities will assure coordinated construction. The U.S. and Canadian monitoring authorities have stated that they will do everything in their power to ensure that all facilities associated with delivery of Prudhoe Bay gas are completed simultaneously and that gas will begin to flow immediately upon their completion.

  - The most difficult portions of the project will be constructed first. Segments are expected to be completed together. All civil work in Alaska will be done prior to pipeline construction. Construction schedules for the gas conditioning plant and the Alaskan and the Canadian pipeline segments will be coordinated among the various responsible companies and regulatory authorities.

- The request that billing be permitted to commence for each of the three individual segments of the ANGTS upon their separate completion and commissioning and after a date set by the FERC as the most likely date for the entire ANGTS to commence operation represents a fair sharing of risks between investors and consumers.

  - Consumers would not pay for the ANGTS as it is being constructed. The ANGTS would be considered as three projects: the gas conditioning plant, the Alaska pipeline segment, and the Canadian pipeline segment. Charges for any segment could not begin until (1) the segment was completed and declared ready to operate by the appropriate governmental entity, and (2) a date certain established by the FERC as the most likely date for the entire (all three segments) ANGTS to commence operation. Accordingly, in no event would consumers be charged before November 1986, which is the currently projected date for completion of the entire ANGTS.

  - The consumer risk in the unlikely event of a delay is minimal because it is so widely dispersed. While the proposed waiver could require consumers to pay some of the costs of a portion of the system pending the delivery of gas, this risk will be spread over literally millions of households and commercial and industrial establishments. The average residential consumer would pay only 32 cents, 80 cents, or 98 cents per month after the target operation date depending on which segment was delayed.

  - The project sponsors would continue to incur significant risk:

    -- No charges could be made for any segment that is not completed and commissioned. Investors in a segment bear the loss associated with its noncompletion;

    -- U.S. sponsors do not receive a return of or on equity until gas flows;

    -- No charges can be made until the target operation date set by the FERC.

- Segmentation of the total system for purposes of billing commencement is necessary to attract extensive financial participation.

- The waiver honors a commitment to Canada. In a letter of July 18, 1980 (Appendix D) President Carter advised Prime Minister Trudeau of Canada that he would request the Congress to permit the Canadian sponsoring companies to collect their full cost of service upon completion of their segment. In addition, in July 1980, Congress approved a resolution stating that the ANGTS "enjoys the highest level of Congressional support for its expeditious construction and completion." (Appendix E). Both the congressional resolution and the President's assurances were relied upon by Canada's National Energy Board in its decision to permit new gas exports in support of the pre-build and its authorization of the construction of the pre-build in Canada.

- Congressional approval of the proposed waiver would not relieve the FERC of its statutory responsibilities under the Natural Gas Act to find that the project tariff is in the public interest. Under that Act the Commission would still be required to find that all rates and charges for delivering natural gas to markets in the lower 48 states are just and reasonable.

- Commencement of a minimum bill before the entire pipeline is completed would reduce the finance charges to be borne by consumers when service commences because the consumer would be paying carrying charges as they are incurred instead of having these carrying charges capitalized and paying for them in their rates over the life of the project.

- Consumers have more to lose if the ANGTS is not built. Over the next 25-30 years, U.S. consumers will pay more for their energy requirements if they have to use imported oil instead of Alaskan gas. In addition, the ANGTS will provide a reliable supply of energy to the lower 48 states which will not be subject to OPEC price increases or embargo.

B. Public Law 75-688 -- The Natural Gas Act

1. Evidentiary Hearing Requirement

Section 7(c)(1)(B) of the Natural Gas Act could be interpreted to require the use of formal evidentiary hearings on the ANGTS certificate application. The waiver proposed by the President would give the FERC the option to dispense with formal evidentiary hearings where they are not necessary.

Justification

- If Alaskan gas deliveries are to commence in late 1986, the process of obtaining initial certification pursuant to Section 7 of the Natural Gas Act must not be unduly delayed.

- Given the extensive government scrutiny of the project over the past years, the FERC should not be required to initiate further elaborate hearings if in its judgment to do so would add little or nothing to the already voluminous project record which includes:

- Over two years of formal evidentiary hearings before the Federal Power Commission prior to the President's 1977 Decision;

- one and one half years of hearings, both in Canada and the U.S., before the final "pre-build" authorizations were issued;

- two years of formal rulemaking relating to the project tariff and the Incentive Rate of Return mechanism;

- two years of FERC review of the design specifications for the Alaskan pipeline segment;

- Over one year of review by the FERC and the Office of the Federal Inspector of the cost estimate for the Alaskan pipeline segment.

- Approval of the proposed waiver would not in any way relieve the FERC of its statutory responsibility under the Natural Gas Act to find that construction and operation of the remaining portions of the ANGTS would serve the public interest and that all rates and charges are just and reasonable.

2. Authority to Modify or Rescind Orders

ANGTS costs will be recovered by the project sponsors through tariffs approved by the FERC. The tariffs will govern charges to the shippers by Alaskan Northwest for transportation services as well as subsequent charges by the shippers to their customers. These tariffs are the economic lifeline of the project.

The proposed waiver would ensure the ability of the sponsors to maintain debt service and the shippers to pass through their costs by limiting the authority of the FERC to change project tariffs after initial FERC approval in a manner that would impair the maintenance of debt service or preclude the recovery by shippers of costs associated with the transportation of Alaskan gas.

Justification

- The lenders will not advance the necessary capital to fund the project without assurances that, once approved by the FERC, the tariffs will not be subject to future regulatory action which would impair the recovery of debt.

- The FERC has attempted to provide as much regulatory certainty as possible by approving a tariff that, in the event of a service interruption, would assure a stream of revenues sufficient to service debt and pay operation and maintenance expenses and taxes. However, the FERC recognizes that it could be legally possible for a future Commission to modify this tariff.

- In a recent letter to the Chairman of the House Subcommittee on Fossil and Synthetic Fuels, the General Counsel of the FERC has indicated that both he and the FERC Chairman concur with the assessment that potential lenders to the ANGTS need greater assurances on the matter of regulatory certainty than they have been supplied to date and that, under present law, this assurance cannot be provided by the FERC. Accordingly, both he and the FERC chairman support the waiver proposed by the President.

- The proposed waiver is limited in scope in order to preserve a balance between the assurance of pipeline revenue recovery vital to lenders and the statutory obligation of the FERC to assure just and reasonable rates. This waiver would only prevent changes to the tariffs which would impair debt service for the ANGTS or preclude the recovery by shippers of costs associated with the purchase and transportation of Alaskan gas. Thus, actual expenses will still be subject to a FERC prudency examination.

3. Regulatory Status as a Natural Gas Company

The provisions of the Natural Gas Act apply to natural gas companies engaged in the transportation of natural gas in interstate commerce. In order to permit Alaskan Northwest to charge its minimum bill when the system is completed and commissioned, Sections 1(b) and 2(6) of the Natural Gas Act need to be waived to the extent that they provide a legal basis for any conclusion other than that Alaskan Northwest will be a natural gas company upon acceptance of the Commission's certificate.

Justification

- The President's Decision specified, and the Commission has found in Order No. 31, that Alaskan Northwest will commence billing when the system is completed and ready to operate.

Accordingly, the waiver is necessary to conform to the President's Decision and the Commission's order implementing that Decision.

4. Export and Import Authority

Section 3 of the Natural Gas Act requires government approval prior to the import or export of natural gas to or from the United States. The President proposes to waive this section to the extent any further authorization would be required for the export of Alaskan gas into Canada and the import of such gas into the lower 48 states.

Justification

This waiver would permit the export and import of Alaskan gas through the ANGTS without obtaining approval pursuant to Section 3 of the Natural Gas Act. Inasmuch as the President has already approved the export of Alaskan gas to Canada and the import of Alaskan and Canadian gas to the U.S. associated with the project, further governmental approvals are not necessary.

C. Public Law 94-163 -- The Energy Policy and Conservation Act

Section 103 of the Energy Policy and Conservation Act requires government approval prior to the export of natural gas from the United States. The President proposes to waive this section to the extent it would require further authorization for the export of Alaskan gas into Canada.

Justification

The proposed waiver would permit the export of Alaskan gas without obtaining approval pursuant to Section 103 of EPCA. Inasmuch as the President has already approved the export of Alaskan gas to Canada associated with the project, further governmental approvals are not necessary.

XIII. Conclusion

The ANGTS sponsors have worked diligently and ceaselessly over the last seven years to provide a transportaion system to bring much needed natural gas from Alaska to the lower 48 states.

The ANGTS can be built in a timely and cost-effective manner. The need for this vital transportation link is without question and its benefits are substantial. But time is critical.

Since Congressional approval of the President's Decision in 1977, the ANGTS sponsors both in Canada and the U.S. have spent approximately three-fourths of $1 billion - all of which is at risk - in the design and engineering of the ANGTS. Large additional capital expenditures and commitments must be made in the coming months to purchase the necessary supplies, materials, and equipment to keep the project on schedule. The Alaskan Northwest partnership cannot justify risking additional substantial sums of money to keep the project on schedule absent the unqualified support of Congress expressed through the approval of the waiver transmitted by the President.

Additionally, the capital markets are not limitless. Project delay results in increased capital costs. The projected total completed cost of the ANGTS is approaching the capacity of the worldwide capital markets successfully to fund the project. If Congress does not act on the waiver this session, the capital costs of the project will escalate even further and the ability to secure adequate funds to complete the ANGTS will be severely jeopardized.

APPENDIX A

TO THE CONGRESS OF THE UNITED STATES:

The Alaska Highway Pipeline route for the Alaska Natural Gas Transportation System was chosen by President Carter and approved by Congress in 1977. There was a strong Congressional endorsement that the pipeline should be built if it could be privately financed. That has been my consistent position since becoming President, as communicated on numerous occasions to our good neighbors in Canada and I am now submitting my formal findings and proposed waiver of law.

As I stated in my message to Prime Minister Trudeau informing him of my decision to submit this waiver:

> My Administration supports the completion of this project through private financing, and it is our hope that this action will clear the way to moving ahead with it. I believe that this project is important not only in terms of its contribution to the energy security of North America. It is also a symbol of U.S.-Canadian ability to work together cooperatively in the energy area for the benefit of both countries and peoples. This same spirit can be very important in resolving the other problems we face in the energy area.

This waiver of law, submitted to the Congress under Section 8(g) of the Alaska Natural Gas Transportation Act, is designed to clear away governmental obstacles to proceeding with private financing of this important project. It is critical to the energy security of this country that the Federal Government not obstruct development of energy resources on the North Slope of Alaska. For this reason, it is important that the Congress begin expeditiously to consider and adopt a waiver of those laws that impede private financing of the project.

Ronald Reagan

THE WHITE HOUSE,

October 15, 1981.

FINDINGS AND PROPOSED WAIVER OF LAW

Pursuant to the provisions of the Alaska Natural Gas Transportation Act of 1976 (ANGTA) 15 U.S.C. § 719, et sec., a transportation system to transport Alaska natural gas to consumers in the continental United States was selected and approved by Congress in 1977.

I find that certain provisions of law applicable to the federal actions to be taken under Subsections (a) and (c) of Section 9 of ANGTA require waiver in order to permit expeditious construction and initial operation of the approved transportation system. Accordingly, under the provisions of Section 8(g)(1) of ANGTA, I hereby propose to both Houses of Congress a waiver of the following provisions of law, such waiver to become effective upon approval of a joint resolution under the procedures set forth in Section 8(g)(2), 8(g)(3), and 8(g)(4) of ANGTA.

Waive P.L. 95-158 [Joint Resolution of approval,* pursuant to Section 8(a) of ANGTA, incorporating the President's Decision] in the following particulars:

Section 1, Paragraph 3, and Section 5, Conditions IV-4 and V-1, of the President's Decision, in order to permit producers of Alaska natural gas to participate in the ownership of the Alaska pipeline segment and the gas conditioning plant segment of the approved transportation system; provided, however, that any agreement on producer participation may be approved by the Federal Energy Regulatory Commission only after consideration of advice from the Attorney General and upon a finding by the Federal Energy Regulatory Commission that the agreement will not (a) create or maintain a situation inconsistent with the antitrust laws, or (b) in and of itself create restrictions on access to the Alaska segment of the approved transportation system for nonowner shippers or restrictions on capacity expansion; and

Section 2, Paragraph 3, First Sentence, of the President's Decision, to include the gas conditioning plant in the approved transportation system and in the final certificate to be issued for the system; and the

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† See: Executive Office of the President, Energy Policy and Planning, Decision and Report to Congress on the Alaska Natural Gas Transportation System (September 1977) (hereinafter referred to as President's Decision); and see H. J. Res. 621, Pub. L. No. 95-158 (1977), wherein the President's Decision was incorporated and ratified by Congress pursuant to Section 8(a) of ANGTA.

* 15 U.S.C. § 719f nt.

application of Section 5, Condition IV-2 of the President's Decision to the gas conditioning plant; and

Section 5, Condition IV-3, of the President's Decision; provided, however, that such waiver shall not authorize the Federal Energy Regulatory Commission to approve tariffs except as provided herein. The Federal Energy Regulatory Commission may approve a tariff that will permit billing to commence and collection of rates and charges to begin and that will authorize recovery of all costs paid by purchasers of Alaska natural gas for transportation through the system pursuant to such tariffs prior to the flow of Alaska natural gas through the approved transportation system --

(a) to permit recovery of the full cost of service for the pipeline in Canada to commence --
  (1) upon completion and testing, so that it is proved capable of operation; and
  (2) not before a date certain, as determined (in consultation with the Federal Inspector) by the Federal Energy Regulatory Commission in issuing a final certificate for the approved transportation system, to be the most likely date for the approved transportation system to begin operation; and

(b) to permit recovery of the actual operation and maintenance expenses, actual current taxes and amounts necessary to service debt, including interest and scheduled retirement of debt, to commence --
  (1) for the Alaska pipeline segment --
    (A) upon completion and testing of the Alaska pipeline segment so that it is proved capable of operation; and
    (B) not before a date certain, as determined (in consultation with the Federal Inspector) by the Federal Energy Regulatory Commission in issuing a final certificate for the approved transportation system, to be the most likely date for the approved transportation system to begin operation; and
  (2) for the gas conditioning plant segment --
    (A) upon completion and testing of the gas conditioning plant segment so that it is proved capable of operation; and
    (B) not before a date certain, as determined (in consultation with the Federal Inspector) by the Federal Energy Regulatory Commission in issuing a final certificate for the approved transportation system, to be the most likely date for the approved transportation system to begin operation.

Waive Pub. L. No. 688, 75th Cong., 2nd Sess. [Natural Gas Act]* in the following particulars:

Section 7(c)(1)(B) of the Natural Gas Act to the extent that section can be construed to require the use of formal evidentiary hearings in proceedings related to applications for certificates of public convenience and necessity authorizing the construction or operation of any segment of the approved transportation system; provided, however, that such waiver shall not preclude the use of formal evidentiary hearing(s) whenever the Federal Energy Regulatory Commission determines, in its discretion, that such a hearing is necessary; and

Sections 4, 5, 7, and 16 of the Natural Gas Act to the extent that such sections would allow the Federal Energy Regulatory Commission to change the provisions of any final rule or order approving (a) any tariff in any manner that would impair the recovery of the actual operation and maintenance expenses, actual current taxes, and amounts necessary to service debt, including interest and scheduled retirement of debt, for the approved transportation system; or (b) the recovery by purchasers of Alaska natural gas of all costs related to transportation of such gas pursuant to an approved tariff; and

Sections 1(b) and 2(6) of the Natural Gas Act to the extent necessary to permit the Alaskan Northwest Natural Gas Transportation Company or its successor and any shipper of Alaska natural gas through the Alaska pipeline segment of the approved transportation system to be deemed to be a "natural gas company" within the meaning of the Act at such time as it accepts a final certificate of public convenience and necessity authorizing it to construct or operate the Alaska pipeline segment and the gas conditioning plant segment of the approved transportation system or to ship or sell gas that is to be transported through the approved transportation system; and

Section 3 of the Natural Gas Act as it would apply to Alaska natural gas transported through the Alaska pipeline segment of the approved transportation system to the extent that any authorization would otherwise be required for ---

(1) the exportation of Alaska natural gas to Canada (to the extent that such natural gas is replaced by Canada downstream from the export); and
(2) the importation of natural gas from Canada (to the extent that such natural gas replaced Alaska natural gas exported to Canada); and
(3) the exportation from Alaska into Canada and the importation from Canada into the lower 48 states of the United States of Alaska natural gas.

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* 15 U.S.C. § 717

Waive P.L. 94-163* [Energy Policy and Conservation Act] in the following particulars:

Section 103 as it would apply to Alaska natural gas transported through the Alaska pipeline segment of the approved transportation system to the extent that any authorization would otherwise be required for --

(1) the exportation of Alaska natural gas to Canada (to the extent that such natural gas is replaced by Canada downstream from the export); and

(2) the importation of natural gas from Canada (to the extent that such natural gas replaced Alaska natural gas exported to Canada); and

(3) the exportation from Alaska into Canada and the importation from Canada into the lower 48 states of the United States of Alaska natural gas.

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* 42 U.S.C. § 6201, et seq.

APPENDIX B

THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

October 15, 1981

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The President submitted to you this day a proposed waiver of law under Section 8(G) of the Alaska Natural Gas Transportation Act. The enclosed material, a synopsis of the proposed waiver, is submitted by the Administration in support of the President's message. It should accompany the message in your deliberations.

Sincerely,

James B. Edwards

James B. Edwards
Secretary of Energy

Enclosure:
Synopsis of Waiver

SYNOPSIS OF WAIVER

Producer Ownership Participation

President Carter's 1977 Decision recognized that "(P)roducer participation in the financing of the project is warranted due to the beneficiary status and their financial strength." However, it limited that participation by prohibiting producers from having an equity interest in the project. The prohibition was based upon antitrust concerns, as expressed by the Department of Justice. A more thorough analysis of the antitrust issues reveals that the producers' ability to exert monopoly control over the project, or to inhibit further development of North Slope reserves by controlling the sole transportation available to natural gas markets, would most likely stem from their ability to limit access to the system or restrict its expansion. By requiring the Commission, in consultation with the attorney General, to address the access and expansion issues at the time of the final ANGTS certificate issuance, the proposed waiver provides sufficient antitrust protection to meet the express concerns.

Conditioning Plant

President Carter's 1977 Decision excludes the conditioning plant from the description of the approved transportation system. The exclusion stems from the original certificate application which requested certification of facilities commencing at the discharge side of the conditioning plant facilities. The system described in the Decision was necessarily limited to the facilities for which certification was requested. As a practical matter, the economic effect of including the conditioning plant in the system is the same as treating the plant as a separately certificated facility and providing a conditioning cost allowance sufficient to provide for the recovery of the gas conditioning cost.

Billing Commencement Date

The proposed waiver is designed to address two interrelated tariff issues which are not dealt with in President Carter's 1977 Decision. Part (a) will enable the Commission to conform the tariff provisions to the tariff approved by the Canadian National Energy Board. The Canadian tariff provides for recovery of the full cost of service for the pipeline in Canada. The proposed waiver recognizes the Canadian decision, while protecting United States natural gas customers from the possiblity that the Canadian segment of the pipeline would be completed in advance of the time it would be necessary. Part (b) will enable the Commission to fashion a tariff that will provide an assured source of revenue for the payment of a minimum bill tariff. Such a tariff could conceivably go into effect in advance of completion and commissioning of all parts of the system. The minimum bill tariff would not go into effect before a date determined by the Commission to be the most likely date for the entire pipeline system to begin operation.

Evidentiary Hearing Requirement

The Natural Gas Act may be construed to require a formal, on the record, evidentiary hearing by the Commission on each application for a certificate of public convenience and necessity to construct or operate any segment of the ANGTS. The proposed waiver simply eliminates the requirement that such a hearing be held, leaving the Commission with discretion to determine whether such a hearing is necessary. The waiver is consistent with the purpose of the 1976 ANGTS to expedite decision-making on the project. The Commission would most likely substitute streamlined rulemaking procedures, with complete opportunity for public participation, on the remaining certificate issues.

Authority to Modify or Rescind Orders

The proposed waiver is intended to assure lenders for the project that the income stream which serves as security for their loans will not be reduced below the level necessary to retire the principal of the loan and to pay the interest thereon. It would accomplish this purpose by precluding the Commission from changing the rules of the game, so to speak, in a manner which would undercut the security of the loan. This objective would be achieved by withdrawing from the Commission its authority under the Natural Gas Act to change the project tariffs in such a manner as to reduce project revenues below the level necessary to service project debt.

Regulatory Status as a "Natural Gas Company"

This waiver is technical in nature.

Import and Export Authority

This waiver is technical in nature.

APPENDIX C

TELEGRAM FROM

PRESIDENT REAGAN TO PRIME MINISTER TRUDEAU

Dear Pierre,

In view of the importance which you attach to this question, I wanted to advise you in advance of our public announcement that I have decided to submit for Congressional approval the full package of waivers requested by the sponsors of the Alaska Natural Gas Transmission System. My recommendation to the House and Senate will be submitted later today. It is the view of the project sponsors that this package of waivers will facilitate the completion of the Alaska Natural Gas Transmission System under private financing. As I made clear during our previous discussions of this matter, my Administration supports the completion of this project through private financing, and it is our hope that this action will clear the way to moving ahead with it. I believe that this project is important not only in terms of its contribution to the energy security of North America, it is also a symbol of US-Canadian ability to work together cooperatively in the energy area for the benefit of both countries and peoples. This same spirit can be very important in resolving the other problems we face in the energy area.

Sincerely,

/s/

Ronald Reagan.

APPENDIX D

THE WHITE HOUSE

TEXT OF A LETTER FROM THE
PRESIDENT TO THE
PRIME MINISTER OF CANADA

July 18, 1980

Dear Mr. Prime Minister:

Since you last wrote to me in March, the United States Government has taken a number of major steps to ensure that the Alaska Natural Gas Transportation System is completed expeditiously.

Most significantly, the Department of Energy has acted to expedite the Alaskan project. The North Slope Producers and Alaskan segment Sponsors have signed a joint statement of intention on financing and a cooperative agreement to manage and fund continued design and engineering of the pipeline and conditioning plant. The Federal Energy Regulatory Commission recently has certified the Eastern and Western legs of the System.

The United States also stands ready to take appropriate additional steps necessary for completion of the ANGTS. For example, I recognize the reasonable concern of Canadian project sponsors that they be assured recovery of their investment in a timely manner if, once project construction is commenced, they proceed in good faith with completion of the Canadian portions of the project and the Alaskan segment is delayed. In this respect, they have asked that they be given confidence that they will be able to recover their cost from U.S. shippers once Canadian regulatory certification that the entire pipeline in Canada is prepared to commence service is secured. I accept the view of your government that such assurances are materially important to insure the financing of the Canadian portion of the system.

Existing U.S. law and regulatory practices may cast doubt on this matter. For this reason, and because I remain steadfastly of the view that the expeditious construction of the project remains in the mutual interests of both our countries, I would be prepared at the appropriate time to initiate action before the U.S. Congress to remove any impediment as may exist under present law to providing that desired confidence for the Canadian portion of the line.

Our government also appreciates the timely way in which you and Canada have taken steps to advance your side of this vital energy project. In view of this progress, I can assure you that the U.S. government not only remains committed to the project; I am able to state with confidence that the U.S. government now is satisfied that the entire Alaska Natural Gas Transportation System will be completed. The United States' energy requirements and the current unacceptable level of dependence on oil imports require that the project be completed without delay. Accordingly, I will take appropriate action directed at meeting the objective of completing the project

more

(OVER)

by the end of 1985. I trust these recent actions on our part provide your government with the assurances you need from us to enable you to complete the procedures in Canada that are required before commencement of construction on the prebuild sections of the pipeline.

In this time of growing uncertainty over energy supplies, the U.S. must tap its substantial Alaska gas reserves as soon as possible. The 26 trillion cubic feet of natural gas in Prudhoe Bay represent more than ten percent of the United States total proven reserves of natural gas. Our governments agreed in 1977 that the Alaska Natural Gas Transportation System was the most environmentally sound and mutually beneficial means for moving this resource to market. Access to gas from the Arctic regions of both countries is even more critical today as a means of reducing our dependence on imported petroleum.

Successful completion of this project will underscore once again the special character of cooperation on a broad range of issues that highlights the U.S./Canadian relationship.

I look forward to continuing to work with you to make this vital energy system a reality.

Sincerely,

JIMMY CARTER

# # # # #

APPENDIX E

96TH CONGRESS
2D SESSION

S. CON. RES. 104

CONCURRENT RESOLUTION

Whereas, the Alaska Natural Gas Transportation System is a critically important energy project that will tap Alaska's North Slope natural gas reserves which constitute more than 10 percent of this Nation's entire proven natural gas reserves;

Whereas, the System, when complete will supply the United States with 5 percent of its annual natural gas demand, displacing over four hundred thousand barrels of oil, thereby greatly reducing this Nation's excessive dependence on foreign oil;

Whereas, the Congress has already expressed its overwhelming support for the System in approving by joint resolution the President's 1977 Decision on the Alaska Natural Gas Transportation System;

Whereas, a portion of the System known as prebuild can be constructed by the end of 1981 to bring Canadian gas to this Nation until the entire system is complete in 1985;

Whereas, prebuild will contribute to completion of the entire System by spreading demand for capital, labor and materials over several years, and will enable this Nation to obtain Canadian natural gas to displace two hundred thousand barrels of foreign oil a day;

Whereas, the Federal Energy Regulatory Commission has issued decisions granting certificates for the prebuild facilities in the United States;

Whereas, the sponsors of the Alaskan segment of the System and the North Slope natural gas producers have entered into an agreement to fund and manage jointly the design, engineering and cost estimation for the Alaskan segment and have made a joint Statement of Intention to work to develop a financing plan for the Alaskan segment with the object of completing construction by the end of 1985: Now, therefore, be it

Resolved by the Senate (the House of Representatives concurring), That it is the sense of the Congress that the System remains an essential part of securin[illegible] Nation's energy future and, as such, enjoys the highest leve[illegible]ongressional support for its expeditious construction and completion by the end of 1985.

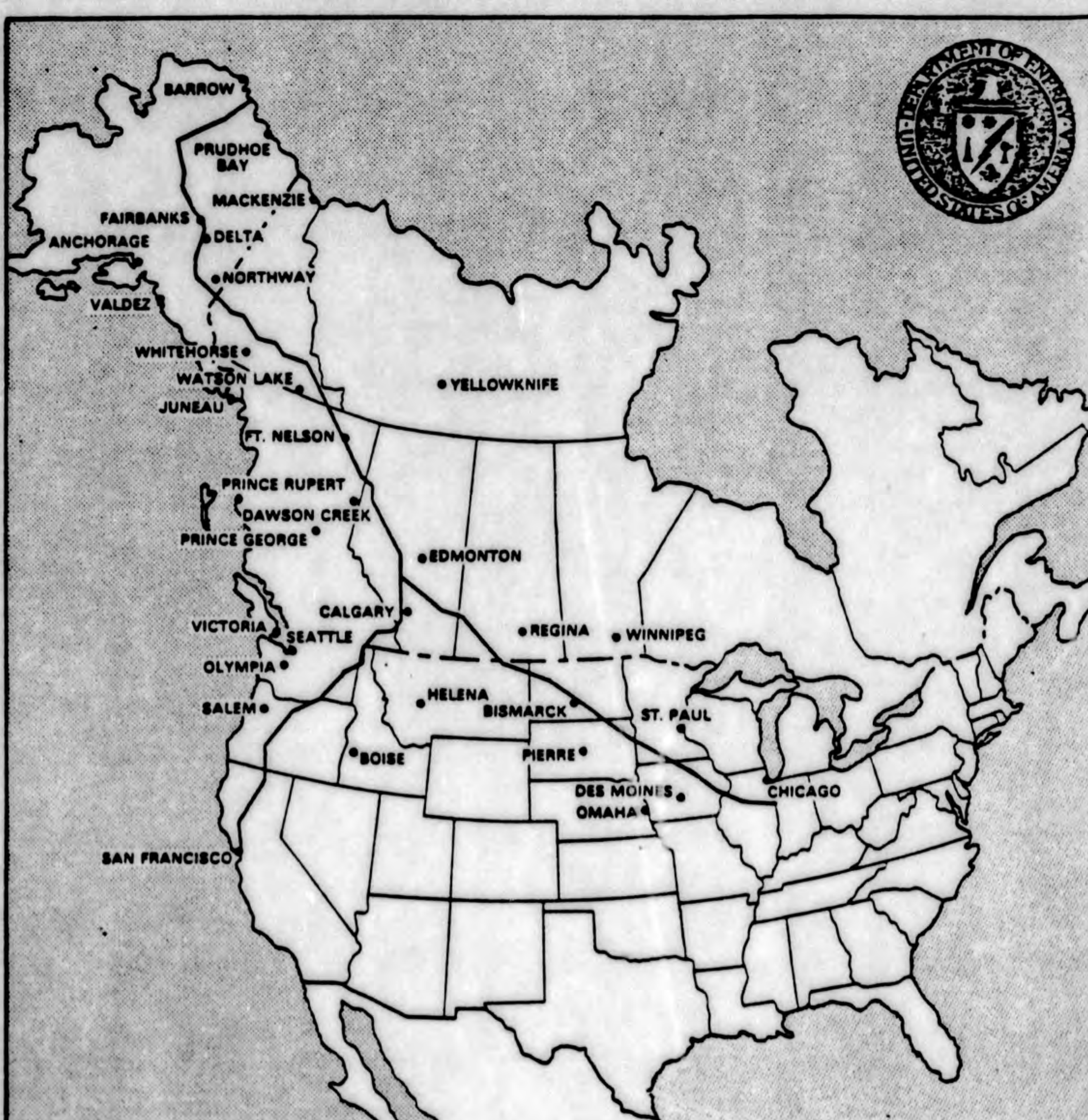
Passed the Senate June 27 (legislative day, June 12), 1980.

Attest:

Secretary.

APPENDIX F

ALASKA NATURAL GAS TRANSPORTATION SYSTEM



PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

SCOMM

28:21

Congress of the United States
House of Representatives
Washington, D.C. 20515

JOINT PUBLIC HEARING

Subcommittee on Fossil and Synthetic Fuels
Committee on Energy and Commerce

Subcommittee on Energy and the Environment
Committee on Interior and Insular Affairs

Date and Time: October 27, 1981 at 10:00 a.m.

Place: Room 2318 Rayburn House Office Building

Subject: H.J. Res. 341 (Providing for a Waiver of Law Pursuant To The Alaskan Natural Gas Transportation Act)

WITNESSES:

Honorable James B. Edwards
Secretary
U.S. Department of Energy
Washington, D.C. 20585

Panel I: U.S. Steel Caucus

Honorable Joseph Gaydos
Chairman
Congressional Steel Caucus
U.S. House of Representatives

Honorable Adam Benjamin
Executive Committee Chairman
Congressional Steel Caucus
U.S. House of Representatives

no stmt

Bruce Davis
Assistant Vice President of Government Affairs
Bethlehem Steel Corporation
Bethlehem, Pennsylvania 18016

Panel II: State Witnesses

~~Michael V. Hasten~~
~~Chairman~~
~~Illinois Commerce Commission~~
~~160 North LaSalle Street~~
~~Chicago, Illinois 60601~~

Don Newman
Director, Washington Office
State of Indiana
444 North Capitol Street
Washington, D. C. 20001

Panel III: U.S. Gas Industry Representatives

George H. Lawrence
President
American Gas Association
1515 Wilson Boulevard
Arlington, Virginia 22209

Jerome J. McGrath
President
Interstate Natural Gas Association of America
1660 L Street, N.W.
Washington, D.C. 20036

Edwin Rothschild
Director
Energy Action Educational Foundation
2000 P Street, N.W.
Washington, D.C. 20036

Congress of the United States
House of Representatives
Washington, D.C. 20515

Subcommittee on Fossil & Synthetic Fuels
Committee on Energy & Commerce

Subcommittee on Energy & the Environment
Committee on Interior & Insular Affairs

JOINT PUBLIC HEARING

Date and Time: Monday, November 9, 1981 at 2:00 p.m.

Place: 2123 Rayburn House Office Building

Subject: Waiver Proposal for the Alaska Natural Gas Transportation System (H.J. Res. 341)

WITNESSES:

Panel I: Methanol Option

Sullivan Marsden
Department of Petroleum Engineering
School of Earth Sciences
Stanford University
Stanford, California 94305

George Doremus
Senior Planning Coordinator for Corporate Planning
Atlantic Richfield Corporation
515 S. Flower
Los Angeles, California 90017

Richard Rowberg
Program Manager for Energy
Office of Technology Assessment
600 Pennsylvania Avenue, S.E.
Washington, D.C. 20510

William Kumm
Arctic Enterprises, Inc.
1220 M. Gemini Drive
Annapolis, Maryland 21403

LNG Option
Spencer Reitz
Deputy General Manager
General Dynamics Corporation
Electric Boat Division
Eastern Point Road
Groton, Connecticut 06340

Panel II: Other Public Witnesses

Daniel Muse
Commissioner
Colorado Public Utility Commission
500 State Services Building
1525 Sherman Street
Denver, Colorado 80203

Robert Georgine
President
Building & Construction Trades Department, AFL-CIO
815 16th Street, N.W.
Washington, D.C. 20006

Milton Copulos
Director of Energy Studies
Heritage Foundation
513 C Street, N.E.
Washington, D.C. 20002

Arie Verrips
Executive Director
American Public Gas Association
301 Maple Avenue West
Vienna, Virginia 22180

Edward Petrini
National Consumer Law Center
236 Massachusetts Avenue, N.E.
Washington, D.C. 20002

Canadian Indians
David Porter
Vice Chairman
Council for Yukon Indians
22 Nisutlin Drive
White Horse, Yukon
Canada Y1A3S5

Accompanied by:

Chief Paul Birkel
Don Rosenblum, Counsel

Congress of the United States
House of Representatives
Washington, D.C. 20515

JOINT PUBLIC HEARING

Subcommittee on Fossil and Synthetic Fuels
Committee on Energy and Commerce

Subcommittee on Energy and the Environment
Committee on Interior and Insular Affairs

Date and Time: Wednesday, November 4, 1981 at 10:00 a.m.

Place: 2123 Rayburn House Office Building

Subject: Waiver Proposal for the Alaska Natural Gas Transportation System (H. J. Res. 341)

WITNESSES:

Peter M. Sacerdote
Partner
Goldman, Sachs & Co.
55 Broad Street
New York, New York 10004

Panel: Economic Experts on ANGTS

James T. Jensen
President
Jensen Associates
84 State Street
Boston, Massachusetts 02109

Carl S. Spetzler
Director
Strategic Decision Group
3000 Sandhill Road
Menlo Park, California 94025

Arlon R. Tussing
President
ARTA, Inc.
2720 Rainer Bank Tower
Seattle, Washington 98101

Jerome Hass
School of Business & Public Administration
Cornell University
Ithaca, New York 14853

Edmond R. Dupont
Edmond R. Dupont & Associates
1302 18th Street, N.W.
Washington, D.C. 20036

Congress of the United States
House of Representatives
Washington, D.C. 20515

October 9, 1981

The Honorable Alexander M. Haig
Secretary of State
Washington, D. C. 20520

Dear Mr. Secretary:

President Reagan has announced that he will propose to the Congress a resolution providing waivers of law under the Alaskan Natural Gas Transportation Act. The Fossil and Synthetic Fuels Subcommittee of the House Energy and Commerce Committee, and the Energy and Environment Subcommittee of the House Interior Committee will be conducting jointly and separately, a series of hearings on the President's resolution if it is received by the House. Because of the statutory thirty-day period within which committees are expected to conclude their deliberations on any such waiver proposals, we intend to move in as expeditious a manner as possible consistent with giving full and balanced consideration to the issues involved. We are therefore scheduling hearings in advance of receipt of a proposal in order to assure that you are ready to assist us in our work.

The first hearing would be held jointly by the two subcommittees on Friday, October 16, at 10:00 a.m. in Room 2123 of the Rayburn House Office Building.

This project has assumed a role of great importance in relations between the United States and Canada, and has involved many previous negotiations and understandings between the two nations. Because you are responsible for the conduct of our international relations, your testimony on the international implications of our decision on the waiver proposals is essential. This invitation will be confirmed at such time as we have received a proposed resolution from the President.

In accordance with the standard practice of our subcommittees, we ask that 100 copies of your testimony (50 for each subcommittee) be provided forty-eight hours before your appearance. Your statement may be of any length, although you will probably wish to summarize it in your oral presentation. In addition, please bring at least fifty additional copies of your prepared statement to the hearing for distribution to the press.

We look forward to hearing your views.

Sincerely,

Morris K. Udall
Chairman
Committee on Interior and
Insular Affairs

Philip R. Sharp
Chairman
Subcommittee on Fossil
and Synthetic Fuels
Committee on Energy and
Commerce

TESTIMONY

OF

MILTON R. COPULOS

DIRECTOR OF ENERGY STUDIES

THE HERITAGE FOUNDATION

FOSSIL AND SYNTHETIC FUELS SUBCOMMITTEE

HOUSE ENERGY AND COMMERCE COMMITTEE

OCTOBER 9, 1981

The Alaska Natural Gas Transportation System will certainly rank among the most ambitious commercial ventures in our nation's history. Its construction will take place over some of the roughest terrain, and in some of the harshest climactic conditions known to man. Its price tag, which could ultimately reach $50 billion, will make it one of the most expensive energy facilities ever built. The resource it seeks to tap is one of the most prolific found within our borders. Given the magnititude of this project, we can all agree that it is one which should not be entered into lightly, or unnecessarily.

It is useful, to stop for a moment, and consider the circumstances and conditions which prevailed in 1977 when the ANGTS route was approved. Only four years earlier, our nation had been shocked out of its complacency regarding energy by the OPEC embargo. The gasoline lines and price hikes which accompanied the embargo worked a profound change on our attitudes, and steeled our resolve to free ourselves from the bondage inherent in an undue reliance on foreign sources of supply.

Again, in 1977, our faith was shaken as the cumulative effects of nearly two and one half decades of price controls on the interstate sale of natural gas made themselves felt with a vengence, and vast areas of the country were locked in the grips of a shortage. The sudden appearence of this shortage popularized the notion that we were rapidly exhausting our supplies of natural gas, and that like oil, gas too would soon be caught in a seemingly unending spiral of price escalations.

It was commonly believed at the time that even with sharp price increases for conventional gas, we would soon be importing large quantities of Liquified Natural Gas, for as much as $11 to $13 per thousand cubic feet. This belief was further reinforced by Carter administration studies suggesting that there was little additional gas to be found in the U.S. at any price. It is easy to see then, how the notion of developing the large gas reserves of Alaska would prove popular with both the COngress and the general public. However, circumstances have changed.

While estimates vary, all competant authorities, ranging from the Colorado School of Mines to the United States Geological Survey are in general agreement that the U.S. natural gas reserves are quite substaitial. If one includes unconventional gas, then these resources are enormous. Moreover, both Mexico and Canada have vast resources which they are willing to sell to us at prices far below the scare figures so common only a few years ago. The question is then, " Are the national security implications used to justify the huge expenditure for ANGTS apparent in our current domestic and hemispheric supply situation?" For the standpoint of supply, any competant observer would have to answer that they are not. This, however, does not allow for some future circumstance. Therefore, it is legitimate to ask whether building the pipeline can be viewed as an investment in our security further down the line. Here, the answers are not as clear.

We must first recognize that questions of energy security do not revolve around natural gas, but rather are focused on imported petroleum. Therefore, natural gas contributes to enhancing energy security only to the extent that it is a substitute for oil. It can do this in two ways. First, it can be used as a short-term substitute for fuel oil in industrial and utility boilers with dual capability and secondly, it can be used as a permanent substitute both in large boilers, and in home heating. Short-term shifts can be accomplished readily if there is a supply available, but long-term conversions require both more time, and a greater capital investment. How then can gas fit in?

Boiler conversions have been taking place at a somewhat slower pace than might have been anticipated due to the restrictions under the Fuel Use Act, and the uncertainty over supply. The potential though, in existing boilers with dual fuel capability is still considerable. In the short run, it may be that as many as 900,000 barrels of oil per day could be offset in an emergency, provided supplies of gas could be found at a reasonable price. At the same time, for the first time in a number of years, gas utilities are beginning to seek additional connections from residential consumers in some areas, indicating that substantial oil offsets might be realized there as well. All of this, however, hinges on the question of price. If gas is too expensive, neither residential or industrial consumers will use it. This is especially true if a cheaper alternative to expensive gas exists. The problem with Alaskan gas is that a cheaper alternative does exist :conventional gas.

Contrary to the view so popular only a few years ago, our nation is not exhausting its conventional gas supplies. A study, soon to be released by the Department of Energy indicates that amazingly, supply additions to proved natural gas reserves last year were only 2 Trillion Cubic Feet less than consumption. In coming years, this reversal of the trend twoards diminishing supplies is expected to be further accelerated, so that we may again, one day soon witness the discovery of new reserves at a rate in excess of that at which they are consumed. This will not only tend to keep the price down, but will also tend to encourage natural gas use. The irony is that this broader use of natural gas will diminish the contribution that the fuel can make in times of interruption.

A second point we should not miss about the new reserve additions is that they are being discovered, by and large, in the lower 48, and with the exception of deep gas, will be far less expensive than the apparent cost of gas brought in by ANGTS. The existence of these reserves will act as a barrier to entry of Alaskan gas into the domestic market. No one is going to pay from $10 to $15 for Alaskan gas when they can purchase gas from the Overthrust Belt at $4.50. In short, the national security argument used so widely in 1977, may not be valid today. This is not to say that there is no place for Alaskan gas in our nation's energy mix, but rather that market forces will determine what that place should be, and when it will be taken.

As to the argument that the pipeline will be such a monumental undertaking that the market will fail, I can only say nonsense. Market failures can result from the existence of cartels, or from external circumstances such as wars, but the mere fact that a project is expensive does not constitute a market failure.

What is really happening is not that the market has failed, but that it has sent a signal. That signal is quite clear, and it says that unless some cheaper form of transportation is found, there will be no market for Alaskan gas in the U.S. It may well be then, that we would be better advised to examine alternate markets such as Japan to see if they could support the cost of building a pipeline due to their relative energy poverty.

What then, of the waivers themselves? Let us first address the question of ownership. The exclusion of producers from ownership never made sense. First, they will not be in a position to sell their gas at below market prices, as their costs are too high to permit such action. Secondly, given the large capital requirements of the project, it is senseless to exclude from participation a major source of funds. Finally, the notion that producer ownership would lead to undue concentration in the gas industry is not supported by the facts. The gas industry is, in fact, one of the least concentrated of our major industrial sector, including literally thousands of companies. This compares with the auto industry in the U.S. which has three and one half producers, and that just barely. Therefore, I can see no reason not to exempt producers from the restriction on ownership.

As to allowing the Federal Energy Regulatory Commission to alter the agreed on tariff at some later date, I cannot see any justification for not prohibiting such action. All too often, the government changes the rules in the middle of the game, and any place their ability to do so can be reduced, is to the long-term benefit of the consumer.

Similarly, expediting the hearing process will also work to the benefit of the consumer in that it will ultimately reduce the costs they must bear.

One notion that does trouble me, however, is that the U.S. ratepayer should bear full responsibility for the cost of the construction of the Canadian section of the pipeline, with no guarantee that there will ever be an Alaskan section. It seems to me that the U.S. consumer is being saddled with the lion's share of the risk, and with little in return.

In conclusion, I would like to thank the Committee for this opportunity to express my views, and to state that it is my belief that the waivers will make little difference one way or the other, if, as appears to be the case, the market is unwilling to accept the project.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT

United States Senate

COMMITTEE ON ENERGY AND NATURAL RESOURCES

James A. McClure, *Chairman*

NEWS RELEASE

Room 3104
Dirksen Senate
Office Building
Washington, D.C. 20510

(202) 224-4971

STATEMENT BY SENATOR MCCLURE
FOR PRESS CONFERENCE ON
ALASKA NATURAL GAS PIPELINE,
OCTOBER 19, 1981

GOOD MORNING, LADIES AND GENTLEMEN. SENATOR JACKSON, SENATOR STEVENS, SENATOR MURKOWSKI AND I ARE HERE TOGETHER THIS MORNING FOR THE PURPOSE OF INTRODUCING THE SENATE JOINT RESOLUTION TO APPROVE PRESIDENT REAGAN'S WAIVER PACKAGE FOR THE PRIVATE FINANCING OF THE ALASKA NATURAL GAS PIPELINE. AS SOON AS THE SENATE CONVENES, I WILL FORMALLY INTRODUCE THE RESOLUTION OF APPROVAL ON BEHALF OF THE THREE SENATORS AND MYSELF. EACH OF US THEN WILL DISCUSS IN DETAIL ON THE SENATE FLOOR OUR SUPPORT FOR THE PIPELINE AND THE PRESIDENT'S WAIVER PACKAGE.

THE INTRODUCTION OF THIS RESOLUTION CULMINATES SIX MONTHS OF ACTIVE REVIEW, DISCUSSION, AND NEGOTIATIONS AMONG THE FOUR OF US, WITH THE PIPELINE SPONSORS, THE FINANCIAL COMMUNITY, AND BETWEEN OURSELVES AND THE ADMINISTRATION AND THE LEADERSHIP OF OUR COUNTERPART HOUSE COMMITTEES. WE JOINTLY WROTE TO THE PRESIDENT ON JULY 24TH AND AGAIN ON SEPTEMBER 14TH URGING HIM TO CONSIDER AND SEND TO THE CONGRESS A WAIVER OF LAWS NECESSARY TO ENABLE PRIVATE FINANCING OF THE PIPELINE. SINCE SPRING, THE ADMINISTRATION HAS BEEN ENGAGED IN A PARALLEL DIALOGUE WITH THE CANADIAN GOVERNMENT, INCLUDING A NUMBER OF DIRECT DISCUSSIONS BETWEEN THE PRESIDENT AND PRIME MINISTER TRUDEAU.

THE PRESIDENT ON OCTOBER 7TH ANNOUNCED HIS DECISION TO SEND TO CONGRESS A WAIVER PACKAGE SIMILAR TO THE ONE WE FORWARDED TO HIM ON JULY 24TH AND AGAIN ON SEPTEMBER 14TH. LAST THURSDAY, OCTOBER 15TH, CONGRESS FORMALLY RECEIVED THE PRESIDENT'S WAIVER PACKAGE, THUS TRIGGERING THE 60 DAY CONGRESSIONAL REVIEW AND APPROVAL PROCEDURE UNDER THE ALASKA NATURAL GAS TRANSPORTATION ACT OF 1976. THE SENATE JOINT RESOLUTION OF APPROVAL WE ARE INTRODUCING TODAY MUST BE ENACTED, WITH BOTH HOUSES OF CONGRESS APPROVING, PRIOR TO THE EXPIRATION OF THE 60 DAY PERIOD. THREE DAYS OF HEARINGS IN THE ENERGY AND NATURAL RESOURCES COMMITTEE ON THE RESOLUTION WILL BEGIN ON THURSDAY. I BELIEVE ALL OF THE CO-SPONSORS HERE ARE CONFIDENT THAT THE RESOLUTION ULTIMATELY WILL BE ENACTED, AND HOPEFULLY ENACTED BEFORE THE END OF THIS SESSION OF CONGRESS.

-MORE-

All of us are pleased, I am sure, that the President decided to send us this particular waiver package, which preserves in tact our substantive recommendations to him. The Alaska gas pipeline will open access to proven gas reserves on the North Slope which equal 15 percent of domestic gas reserves and will deliver 5 percent of our current annual gas consumption to the lower 48 states for a period of 20 to 30 years.

Such access and delivery will make a major contribution to our national energy security, the economic growth of America, and certainly our national security. Also, as the President cabled to Prime Minister Trudeau and noted in his formal transmittal statement, the project is "a symbol of U.S.-Canadian ability to work together cooperatively in the energy area for the benefit of both countries and peoples (and) this same spirit can be very important in resolving the other problems we face in the energy area."

Perhaps what all of us believe is most important about this specific package is that it will provide a positive opportunity for private financing of the pipeline, rather than any Federal Government assistance. Legal barriers to gas producer participation in financing the project would be modified to allow such participation, while retaining appropriate safeguards, thus ensuring needed equity financing for construction. Also, potential legal impediments to adequate debt financing are modified to increase the security of such investments in the billing arrangements and in needed regulatory predictability.

We are convinced that the combination of these several modifications, which the President found to be necessary under the law "to permit expeditious construction and operation" of the pipeline, will support the early negotiation of a viable financing plan with needed debt and equity for the pipeline. I believe we are also convinced that these modifications, which will be implemented and enforced by the Federal Energy Regulatory Commission under strict regulatory procedures, carefully balances the very best interests of this nation, including gas consumers, participating financial institutions, the participating pipelines, producers and sponsors, as well as internationally important Canadian interests. On that basis, we will urge our colleagues in the Senate and the House of Representatives to review and consider most carefully this package and the pipeline. Having done so, we are confident that they will agree with us to approve the President's proposal by enacting our Senate Joint Resolution in the next sixty days.

Thank you, and let me now defer to my co-sponsors and then take questions. Senator Jackson.

(A synopsis of the President's final waiver package is available in the press packets.)

# # #

SYNOPSIS OF PRESIDENT REAGAN'S FINAL WAIVER PACKAGE
FOR THE PRIVATE FINANCING OF THE ALASKA NATURAL GAS PIPELINE

Producer Ownership Participation

President Carter's 1977 Decision recognized that "(P)roducer participation in the financing of the project is warranted due to the beneficiary status and their financial strength." However, it limited that participation by prohibiting producers from having an equity interest in the project. The prohibition was based upon antitrust concerns, as expressed by the Department of Justice. A more thorough analysis of the antitrust issues reveals that the producers' ability to exert monopoly control over the project, or to inhibit further development of North Slope reserves by controlling the sole transportation available to natural gas markets, would most likely stem from their ability to limit access to the system or restrict its expansion. By requiring the Commission, in consultation with the attorney General, to address the access and expansion issues at the time of the final ANGTS certificate issuance, the proposed waiver provides sufficient antitrust protection to meet the express concerns.

Conditioning Plant

President Carter's 1977 Decision excludes the conditioning plant from the description of the approved transportation system. The exclusion stems from the original certificate application which requested certification of facilities commencing at the discharge side of the conditioning plant facilities. The system described in the Decision was necessarily limited to the facilities for which certification was requested. As a practical matter, the economic effect of including the conditioning plant in the system is the same as treating the plant as a separately certificated facility and providing a conditioning cost allowance sufficient to provide for the recovery of the gas conditioning cost.

Billing Commencement Date

The proposed waiver is designed to address two interrelated tariff issues which are not dealt with in President Carter's 1977 Decision. Part (a) will enable the Commission to conform the tariff provisions to the tariff approved by the Canadian National Energy Board. The Canadian tariff provides for recovery of the full cost of service for the pipeline in Canada. The proposed waiver recognizes the Canadian decision, while protecting United States natural gas customers from the possiblity that the Canadian segment of the pipeline would be completed in advance of the time it would be necessary. Part (b) will enable the Commission to fashion a tariff that will provide an assured source of revenue for the payment of a minimum bill tariff. Such a tariff could conceivably go into effect in advance of completion and commissioning of all parts of the system. The minimum bill tariff would not go into effect before a date determined by the Commission to be the most likely date for the entire pipeline system to begin operation.

Evidentiary Hearing Requirement

The Natural Gas Act may be construed to require a formal, on the record, evidentiary hearing by the Commission on each application for a certificate of public convenience and necessity to construct or operate any segment of the ANGTS. The proposed waiver simply eliminates the requirement that such a hearing be held, leaving the Commission with discretion to determine whether such a hearing is necessary. The waiver is consistent with the purpose of the 1976 ANGTS to expedite decision-making on the project. The Commission would most likely substitute streamlined rulemaking procedures, with complete opportunity for public participation, on the remaining certificate issues.

SYNOPSIS OF WAIVER

Authority to Modify or Rescind Orders

The proposed waiver is intended to assure lenders for the project that the income stream which serves as security for their loans will not be reduced below the level necessary to retire the principal of the loan and to pay the interest thereon. It would accomplish this purpose by precluding the Commission from changing the rules of the game, so to speak, in a manner which would undercut the security of the loan. This objective would be achieved by withdrawing from the Commission its authority under the Natural Gas Act to change the project tariffs in such a manner as to reduce project revenues below the level necessary to service project debt.

Regulatory Status as a "Natural Gas Company"

This waiver is technical in nature.

Import and Export Authority

This waiver is technical in nature.

DRAFT WITNESS LIST

October 22, 1981 - Public Officials

XXX
U.S. Senate

XXX
U.S. House of Representatives

~~Hon. Alexander Meigs Haig, Jr.~~
~~Secretary of State~~

~~Hon. James G. Watt~~
~~Secretary of the Interior~~

Hon. James B. Edwards
Secretary of Energy

* * *

Hon. Jay S. Hammond
Governor of Alaska

* * *

Hon. John J. Rhett, Jr.
Federal Inspector

Mr. C.M. Butler, Chairman
Federal Energy Regulatory Commission

* * *

XXX
National Association of Regulatory
Utility Commissioners

October 23, 1981 - Sponsors

Mr. John J. McMillian
Chairman and Chief Executive Officer
Alaskan Northwest Natural Gas
Transportation Co. - A Partnership
1120 20th Street, N.W.
Suite South 700
Washington, D.C. 20036

Partners:

Mr. James Trebilcott
Executive Vice President
American Natural Alaskan Company
(A subsidiary of American Natural Resources Co.)
1 Woodward Avenue
Detroit, Michigan 48226

Mr. John A. Sproul
Chairman of the Board
Calaska Energy Company
(A subsidiary of Pacific Gas & Electric Co.)
77 Beale Street
San Francisco, California 94106

October 23 cont.:

Mr. John H. Croom
President
Columbia Alaskan Gas Transmission Corporation
(A subsidiary of Columbia Gas System Service Corp.)
20 Montchananin Road
Wilmington, Deleware 19807

Mr. Radcliffe Latimer
President
TransCanada PipeLine Alaska Limited
(A subsidiary of TransCanada PipeLines Limited)
Commerce Court West
King and Pay Streets
P.O. Box 54
Toronto, Ontario M5L01C2

Mr. Gordon L. Severa
Presiding Director
Northern Arctic Gas Company
(A subsidiary of InterNorth Inc.)
InterNorth
2223 Dodge Street
Omaha, Nebraska 68102

Mr. Harry L. Lepape
President
Pacific Interstate Transmission Company
(A subsidiary of Pacific Lighting Co.)
720 West Eighth Street
Los Angeles, California 90017

Mr. Kenneth E. Kalen
President
Pan Alaskan Gas Compnay
(A subsidiary of PanHandle Eastern Pipe Line Co.)
3444 Broadway
P.O. Box 1348
Kansas City, Missouri 64141

Mr. H. Wayne Hodge
Vice President
Tetco Four Incorporated
(A subsidiary of Texas Eastern Transmission Co.)
1 Houston Center
1221 McKinney
P.O. Box 2521
Houston, Texas 77001

Mr. D. Lamar Smith
President
United Alaska Fuels Company
(A subsidiary of United Gas Pipe Line Co.)
P.O. Box 1478
700 Milan Street
Houston, Texas 77002

Mr. W.D. Leake
Vice President
Atlantic Richfield Company (ARCO)
515 S. Flower Street
Los Angeles, California 90071

Mr. Randall Meyer
President
Exxon, U.S.A.
Exxon Building
800 Bell Avenue
Houston, Texas 77001

October 23 cont.:

Mr. Frank E. Mosier
Senior Vice President
Supply and Transportation
The Standard Oil Company (Ohio)
1750 Midland Building
Cleveland, Ohio 44115

* * *

Mr. S. Robert Blair
President and Chief Executive Officer
NOVA, An Alberta Corporation
2800 Bow Valley Square II
205 Fifth Avenue, Southwest
Calgary, Alberta
CANADA T2P-2W4

Mr. Robert L. Pierce
Chairman and Chief Executive Officer
Foothills Pipe Lines (Yukon) Ltd.
1600 Bow Valley Square II
205 Fifth Avenue, Southwest
Calgary, Alberta
CANADA T2P-2W4

Mr. Edwin C. Phillips
Chairman and Chief Executive Officer
West Coast Transmission Company, Ltd.
1333 West Georgia Street
Vancouver, British Columbia
CANADA V6E-3K9

* * *

Mr. H. Anton Tucher
Vice President
Bank of America
Bank of America Center
Project Finance Division
555 California Street
San Francisco, California 94137

Mr. Stanley J. Lewand
Vice President
Chase Manhattan Bank
1 Manhattan Plaza
New York, New York 10081

Mr. Robert H. Graham
Vice President
Citibank N.A.
399 Park Avenue
4th Floor
New York, New York 10043

Mr. S.W. Jenks
Vice President
Morgan Guaranty Trust Co. of N.Y.
23 Wall Street
4th Floor
New York, New York 10015

* * *

Mr. Mark J. Millard
Senior Managing Director
Shearson/American Express, Inc.
374 Park Avenue
8th Floor
New York, New York 10022

October 23 cont.:

Mr. Peter M. Sacerdote
Goldman, Sachs & Co.
55 Broad Street
New York, New York 10004

Mr. William A. Shutzer
Partner
Lehman Brothers Kuhn Loeb, Inc.
44th Floor
New York, New York 10041

October 26, 1981 - User Groups

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

InterNorth

Addendum To Statement
of Robert P. Raasch

In Reference to Questions Posed by
Chairmen Sharp and Udall
by Letter dated October 19, 1981

Q. What are your reasons for being involved in the Alaskan Project?

A. We really have two reasons for being involved in the Project. First, the Alaskan Project is a means for us to bring Alaskan gas to our customers, thereby providing long term supply assurance needed in our market territory. Second, we believe that the financial commitment and business expertise we bring to the Project should allow us to earn an attractive return on our investment.

Q. What are your expectations as to the marketability and price of the delivered Alaskan gas in your service area?

A. We approach marketability by looking at the various supply alternatives available to us over the long term. These alternatives include conventional lower-48 supplies, unconventional natural gas supplies, synthetic gas, and imports, as well as Alaskan gas.

Alaskan gas is one of the more attractive alternatives when analyzed from a long term perspective. When Alaskan gas first begins to flow in the mid-80's, this project will be just beginning a life of approximately 25 years. That is true, even if no additional gas is found on the North Slope beyond Prudhoe Bay.

Over the life of this project as presently envisioned the real cost of delivered gas (adjusted for inflation) is going to fall. We do not visualize stable real prices for any other kind of supply project we could undertake, much less declining prices.

Over the first 20 years of the project, we expect the delivered cost of Alaskan gas to average about $5/MCF in 1980 dollars - a very attractive price. Additional gas discoveries could make that price even more attractive by reducing unit transportation costs.

We expect potential marketing challenges in the project's early years. We are examining ways, such as deferring depreciation, to overcome the relatively high initial delivered cost. Nevertheless, over the life of this project, Alaskan gas represents one of the best future energy bargains available to this country.

Q. What will the effective cost of the Project be to the various classes of your consumers?

A. We discussed the costs of delivering Alaskan gas to our 74 distribution customers utilities in the preceding answer. Our distribution customers differ widely in the way they classify service to the consumers they serve. They also operate under a wide variety of regulatory jurisdictions. We do not, therefore, know exactly how the delivered cost of Alaskan gas might be passed on to various consumer classes.

Q. What is the effect of the waiver proposal in assuring marketability of the Project's gas?

A. As we see it, the waiver proposal before you has little impact on marketability. We view the waiver package primarily as a prerequisite to further progress in obtaining private financing.

Q. What effect will partial or complete deregulation and particularly deregulation of Prudhoe Bay gas (in 1985 or earlier) have on your participation in the Project?

A. The pricing of Prudhoe Bay gas is an important consideration in the marketability of the gas, as delivered, which itself is a key determinant in our level of participation. As we currently view the project, the gas appears very marketable in the long term.

Decontrol of Alaskan gas per se does not have to adversely impact the marketability of the gas; in fact, some have drawn a scenario which shows improved marketability. At this point, the certainty afforded by the NGPA pricing scheme makes us most comfortable with it. Assuming appropriate action by the producers and regulators, decontrol would not prevent us from participation.

Since nearly everyone connected with the project agrees that it must be kept economically viable we are optimistic about our participation.

Q. What is the extent of your financial involvement in the Project as compared to your other business activities?

A. We expect to make a substantial financial contribution for a corporation our size. To put it in perspective, in 1980, our corporation had assets of about $3.5 billion in all its business lines. Our financial participation could be in excess of 25% of that figure. Stated another way, our participation could equate to 4 or 5 times last year's earnings.

Of course, this level of commitment presupposes satisfactory resolution of some key issues. the most immediate of which is this waiver proposal.

Q. What degree of risk does this project represent to your shareholders, customers, and final consumers from failure or delay?

A. If the project fails, our shareholders, customers, and the consumers which our customers serve all stand to lose. The nature and degree of loss will depend on the nature and circumstances of the failure.

The most serious losses take the form of lost opportunities. Our customers and the consumers they serve would be denied access to Alaskan gas. Many of their alternatives (synthetic fuels, imported gas, imported oil) will cost much more over the life of this project than Alaskan gas will cost. Our stockholders will lose a business opportunity, one which is uniquely suited to InterNorth expertise and experience.

Delay costs everyone. As John McMillian has pointed out, inflation continues to drive the cost of this Project up. Each day this Project is delayed, when inflation is 10%, increases its cost by $6-8 million. Everybody loses as the Project is delayed.

Q. What contracts for Alaskan gas have your signed or you contemplate signing?

A. We have signed gas purchase contracts with Exxon and Sohio which cover approximately 18-20 percent of the Prudhoe Bay gas.

Q. What are the take-or-pay, indefinite pricing, and renegotiation clauses in such contracts?

A. Prudhoe Bay gas is "associated" gas, i.e., it is found and and produced in conjunction with oil. As is common with such gas, we are obligated to take or pay for all gas tendered by the producers for delivery.

Under both contracts, the gas is to be priced under provisions of NGPA.

In the event of deregulation of Prudhoe Bay gas, our contracts provide that the producers may elect to redetermine price. These redeterminations are to be based on formulas which generally involve either other prices paid in the general Prudhoe Bay vicinity or equating the delivered price of the gas on our system to distillate prices.

In the event the gas is not marketable, except at an economic hardship, the parties agree to seek ways to rectify such a situation under both contracts.

Q. To what degree do your financial commitments to the Project and the potential liabilities of your customers relate to your Partnership share in the Project versus your actual receipts of Alaskan gas through the Project?

A. Our corporate financial commitments to the Project have not yet been finally determined. Our tentative commitments will be influenced heavily by what is prudent for a company of our size. We will seek to balance the diverse interests we must serve. For example, if it is necessary to more closely balance our financial commitment with our gas dedication, we will do so by adjusting one or the other.

As for our customers, we will exert every influence to insure that they too are treated equitably in relation to other customers of this Project.

Q. What is your perception of the flexibility of regulation at both State and Federal levels, with and without the Waiver proposal, and how might that affect your ability to participate and the costs of the Project to your customers?

A. We are sure that if the regulatory climate is not perceived as reasonable by prospective lenders and other investors, the Project will either cost more to compensate for risk, or the capital will not be available at all. That portion of the waiver proposal which relates to regulatory certainty is certainly going to affect our ability to participate. We understand it also will affect the ability of lenders to make capital available for the Project.