

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1057 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82

to resolve difficult problems and that a cost-effective frost heave design can be developed.

The safety of the existing oil pipeline has also been of serious concern. The Department of the Interior's Right-of-Way Grant required that, wherever possible, the gas and the oil pipelines be separated by at least 200 feet. This requirement has not solved the entire problem, but it has made it manageable. One of the more serious remaining problems is the small stretch through Atigun Pass in northern Alaska. Everyone recognizes that construction through Atigun Pass will be difficult. To allow adequate time to resolve any unforeseen problems, the sponsors plan to construct this portion one year earlier than the rest of the pipeline. In addition, plans now include construction of major river crossings, including the Yukon River, before the rest of the pipeline. This early construction of difficult areas should help assure that schedules can be met.

The current schedule for the Alaskan Leg calls for completion during the winter of 1986-1987. This schedule is still viable, but it is tight. Although there is usually room to adjust a schedule, the demanding arctic conditions add substantial constraints which are not present in more typical construction projects, thus limiting the sponsor's ability to compress certain elements of the schedule. For example, there are only about six weeks during the year in which modules for the gas conditioning plant may be shipped through the Beaufort Sea. Three such sealifts -- in 1983, 1984, and 1985 -- will be required. Another constraint is the fact that long lead times are necessary to procure equipment, fabricate modules for the conditioning plant, and build the compressor units. The sponsors are presently planning to make these commitments in the second quarter of 1982 in order to meet the 1986-1987 completion date.

The technical and engineering aspects of the Alaskan Leg and the gas conditioning plant have been developed sufficiently to assure that not only can the project be built, but its costs can be accurately predicted.

Finally, I would like to offer a few comments on the proposal before you today. The OFI is a technical agency, responsible for construction oversight. Only two of the elements of this proposal will affect OFI's operations and these effects are manageable.

If the conditioning plant is included as a certificated part of the project, the OFI will have almost the same responsibilities for the plant as it has for the pipeline. The major difference would be the absence of the Incentive Rate of Return mechanism. While the addition of the conditioning plant will increase the workload of the agency, we have planned for this change and do not believe that we will have any difficulty meeting the additional requirements.

The element of this proposal which would allow billing of charges upon completion of either the Canadian segment, the Alaskan segment, or the gas conditioning plant segment will require that the OFI work very closely with its Canadian counterpart, the Northern Pipeline Agency, and the sponsors to assure that the schedules for each segment are well-coordinated. Although such international coordination already exists and has been outstanding to date, this will require an additional effort from the OFI to assure that the schedules continually mesh and that the chances of large variances in completion dates are minimized. The need for this additional effort is also well-recognized by my Canadian counterparts. I have discussed various approaches with the Northern Pipeline Agency and the National Energy Board and we agree that a satisfactory mechanism can be established.

The scheduled completion date will be established by the Federal Energy Regulatory Commission, in consultation with the Federal Inspector. As the agency overseeing construction, the Office of the Federal Inspector will be able to provide a broad perspective on the construction issues and schedule. This governmental coordination will supplement the Alaskan sponsor's efforts to assure that the resource needs and schedules of the Alaskan pipeline and conditioning plant remain compatible. From an engineering and construction viewpoint, I believe that the risk that the various elements of the project will not be completed together is not great. Of course, there could be an unexpected event. The major uncertainty over the conditioning plant lies in the potential that ice conditions in the Beaufort Sea may affect the scheduled sealifts. If this happens, there would obviously be technical, schedule, and cost implications.

In summary, I would like to emphasize two things. First, this is an extremely complex project. It is often compared to the Trans-Alaska Pipeline System and, in many ways, that comparison is valid. However, there are many very important differences. I believe one of the most significant differences lies in the creation of the Office of the Federal Inspector. The Office of the Federal Inspector was given a unique set of authorities and a unique opportunity to demonstrate that the Federal government can protect the public interest while still working in a cooperative manner with private industry. Special requirements have been established to assure sound advance planning and early agreement on the conditions under which the pipeline will be built. The sponsors will be rewarded for cost-effective construction through the Incentive Rate of Return mechanism and the Office of the Federal Inspector has been charged with assuring cost-effective and timely completion of a safe and environmentally sound pipeline. The centralization of Federal authority will help assure balanced decisions and reduce

STATEMENT BY
MYER RASHISH
UNDER SECRETARY OF STATE
FOR
ECONOMIC AFFAIRS

BEFORE

A JOINT HEARING OF THE
SUB COMMITTEE ON ENERGY AND THE ENVIRONMENT
OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
AND THE
SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS
OF THE ENERGY AND COMMERCE COMMITTEE

WASHINGTON, D.C.

OCTOBER 30, 1981

IT IS A PLEASURE TO BE HERE TODAY TO TESTIFY BEFORE YOUR TWO SUB COMMITTEES ON BEHALF OF SECRETARY HAIG. I REGRET THAT THE DEPARTMENT OF STATE WAS UNABLE TO ADDRESS THESE COMMITTEES LAST WEEK BECAUSE OF MY PARTICIPATION IN THE CANCUN SUMMIT. I APPRECIATE YOUR GIVING ME THE OPPORTUNITY AT THIS TIME TO PRESENT YOU WITH OUR VIEWS ON THE WAIVER TO EXISTING LAW WHICH THE PRESIDENT HAS SUBMITTED TO FACILITATE THE PRIVATE FINANCING OF THE ALASKAN NATURAL GAS TRANSPORTATION SYSTEM (ANGTS). IN PARTICULAR, I WOULD LIKE TO DESCRIBE WHAT WE BELIEVE ARE THE KEY BENEFITS THAT ANGTS WOULD PROVIDE THE UNITED STATES.

IN ORDER TO ASSESS THE ROLE THE ANGTS MIGHT PLAY IN THE U.S. ENERGY PICTURE, IT WOULD BE USEFUL TO BEGIN BY NOTING SOME OF THE FACTORS OVER THE PAST DECADE THAT HAVE LED POLICY MAKERS AND PRIVATE ENERGY PLANNERS ALIKE TO URGE THE EARLY COMPLETION OF A NATURAL GAS DELIVERY SYSTEM PROVIDING ALASKAN GAS TO THE LOWER 48 STATES.

THE IMPETUS OF ANGTS HAS ITS ROOTS IN THE TURBULENT GLOBAL ENERGY DEVELOPMENTS OF THE PAST DECADE. IN THE EARLY 1970'S, THE GROWTH IN AMERICAN ENERGY CONSUMPTION QUICKLY OUTSTRIPPED THE CAPACITY OF OUR DOMESTIC ENERGY PRODUCERS. IMPORTS NATURALLY FILLED THE GAP. IMPORTED ENERGY WAS STILL RELATIVELY CHEAP, EASY TO PROCURE, AND SEEMINGLY FREE OF POLITICAL RISKS.

BY SEPTEMBER 1973, OIL IMPORTS ALONE CONSTITUTED 38.3 PERCENT OF TOTAL OIL CONSUMPTION, UP FROM JUST 21.2 PERCENT IN 1968. WITH THIS RAPID GROWTH IN ENERGY IMPORTS

CAME INCREASED VULNERABILITY TO ENERGY IMPORT CUTOFFS. UNFORTUNATELY, MOST DID NOT RECOGNIZE THE SERIOUSNESS OF SUCH A DEVELOPMENT.

THE OIL EMBARGO OF 1973-1974, AND THE RESULTING ENERGY SHOCK HERE AT HOME, AWOKE THE AMERICAN PUBLIC AND POLICY MAKERS ALIKE TO THE DANGERS OF FURTHER INCREASING OUR DEPENDENCE ON FOREIGN OIL. SOARING ENERGY PRICES AND LONG LINES AT THE PUMP DROVE HOME IN A TANGIBLE WAY THAT INCREASING DEPENDENCE ON FOREIGN SOURCES FOR OUR ENERGY NEEDS WOULD ONLY MAKE THE UNITED STATES INCREASINGLY VULNERABLE IN TIMES OF UNCERTAIN SUPPLY. THE GLOBAL ENERGY CRISES IN 1979 AND 1980 AS A RESULT OF THE REVOLUTION IN IRAN AND THE IRAN-IRAQ WAR ONLY UNDERSCORE THE FACT THAT SUPPLY UNCERTAINTIES MAY BE INCREASINGLY COMMON IN THE FUTURE.

IT WAS AGAINST THIS BACKDROP THAT A VARIETY OF ALASKAN GAS PROPOSALS WERE CONSIDERED AND FROM WHICH ANGTS WAS ULTIMATELY SELECTED. FROM THE OUTSET, THE PRIVATE SECTOR WAS EXPECTED TO ASSUME THE CENTRAL ROLE REGARDLESS OF THE KIND OF TRANSPORTATION SYSTEM ULTIMATELY SELECTED. WHILE SUCCESSIVE ADMINISTRATIONS RECOGNIZED THAT THE GOVERNMENT HAD A LEGITIMATE OVERSEER ROLE, EACH STEADFASTLY MAINTAINED, AS THIS ADMINISTRATION DOES TODAY, THAT THE PRIVATE SECTOR SHOULD BE RESPONSIBLE FOR UNDERTAKING ALL PHASES OF THE PROJECT, INCLUDING ITS FINANCING.

WE BELIEVE EARLY COMPLETION OF ANGTS WILL ADD SIGNIFICANTLY TO THE ENERGY SECURITY OF THE UNITED STATES AND HELP

US REDUCE THIS VULNERABILITY TO WHICH WE HAVE BEEN EXPOSED IN THE PAST. WITH DIRECT ACCESS TO APPROXIMATELY 13 PERCENT OF U.S. GAS RESERVES, IT IS ESTIMATED THAT ANGTS WILL REPLACE APPROXIMATELY 400,000 BARRELS OF OIL A DAY, THUS FURTHER REDUCING U.S. VULNERABILITY TO INTERRUPTIONS OF OUR ENERGY IMPORTS. ON AN ENERGY EQUIVALENT BASIS, GAS SHIPPED VIA THE ALASKAN PIPELINE WOULD REPRESENT NEARLY 10 PERCENT OF TODAY'S CRUDE OIL IMPORTS. AS OUR NEED FOR ADDITIONAL GAS GROWS ANGTS IS EXPECTED TO PROVIDE AN ENERGY EQUIVALENT OF 600,000 BARRELS PER DAY OF IMPORT OIL.

COMPLETION OF ANGTS, AND THE READY ACCESS TO THE 48 THAT IT REPRESENTS, WILL ALSO SPUR EXPLORATION. THIS WILL UNDOUBTEDLY RESULT IN A SUBSTANTIAL INCREASE IN PROVEN RESERVES THAT GEOLOGISTS BELIEVE ALASKA HOLDS. WITHOUT THIS ACCESS, HOWEVER, EXPLORATION ACTIVITY WILL BE SIGNIFICANTLY LOWER, AND PROGRESS IN SUBSTANTIATING PROVEN RESERVES SIGNIFICANTLY REDUCED.

ANGTS WOULD ALSO PROVIDE AN INDIRECT BENEFIT TO OUR EUROPEAN ALLIES. BY GREATER USE OF DOMESTIC GAS RESOURCES, THE UNITED STATES WILL REDUCE ITS NEED FOR IMPORTED GAS IN THE YEARS AHEAD. WITH ASSURED ACCESS TO ALASKAN GAS, WE WOULD NOT NEED TO COMPETE WITH OUR EUROPEAN FRIENDS FOR ACCESS TO GAS SOURCES ELSEWHERE IN THE FREE WORLD NOTABLY IN AFRICA, THE MIDDLE EAST AND EVEN IN THIS HEMISPHERE. MAKING ADDITIONAL GAS AVAILABLE TO EUROPE WILL BE ESSENTIAL IF THE EUROPEANS ARE TO LIMIT THEIR VULNERABILITY TO ENERGY CUTOFFS FROM THE SOVIET UNION AND EASTERN EUROPE.

I WOULD ALSO LIKE TO EMPHASIZE THAT APPROVAL OF THIS WAIVER PACKAGE WOULD HAVE IMPORTANT FOREIGN POLICY BENEFITS IN OUR RELATIONS WITH CANADA. ENERGY PLANNERS HAVE LONG RECOGNIZED THAT CLOSE COOPERATION WITH OUR CANADIAN NEIGHBORS WOULD BE ESSENTIAL IN PROVIDING THE LOWER 48 STATES WITH SECURE, DEPENDABLE ACCESS TO ALASKAN GAS. CANADA, FOR ITS PART, KNOWS THAT A STRONG, ENERGY INDEPENDENT UNITED STATES IS IMPORTANT FOR THE SECURITY OF THE FREE WORLD. CANADIANS RECOGNIZE, MOREOVER THAT U.S. ACCESS TO ALASKAN GAS WOULD PROVIDE CANADA WITH GREATER FLEXIBILITY IN MANAGING ITS OWN ENERGY RESOURCES BY LIMITING FUTURE U.S. DEMAND FOR CANADIAN GAS. FINALLY, MANY CANADIANS BELIEVE THAT DEVELOPMENT OF ANGTS WILL PROVIDE IMPORTANT BENEFITS TO THE CANADIAN GAS INDUSTRY AND FURTHER CANADA'S RESOURCE DEVELOPMENT.

BILATERAL COOPERATIVE EFFORTS TO BRING ALASKAN NATURAL GAS THROUGH CANADA WERE FORMALIZED BY TREATY IN SEPTEMBER 1977. THIS TREATY AND THE COMMITMENTS IT REPRESENTS HAVE BECOME AN IMPORTANT SYMBOL OF ENERGY COOPERATION BETWEEN OUR TWO COUNTRIES. WE HAVE CONTINUED TO BUILD ON THIS TREATY THROUGH NUMEROUS DIPLOMATIC EXCHANGES THAT HAVE EXPANDED THIS INITIAL EFFORT.

FROM THE BEGINNING OF OUR DISCUSSIONS, CANADA HAS STRONGLY SUPPORTED THE PIPELINE PROJECT DESPITE ITS COMPLEXITIES AND UNCERTAINTIES. IN 1980, IN ORDER TO GIVE IMPETUS TO THE PIPELINE PROJECT, THE U.S. URGED THE CANADIAN GOVERNMENT TO AUTHORIZE THE CONSTRUCTION OF TWO SOUTHERN LEGS OF

THE PIPELINE (THE "PREBUILD" PORTION) THROUGH SOUTHERN ALBERTA, SASKATCHEWAN AND BRITISH COLUMBIA. WE ALSO URGED THE APPROVAL OF THE EXPORT OF CANADIAN GAS THROUGH THOSE SEGMENTS UNTIL THE ALASKAN GAS BEGAN TO FLOW. DOMESTIC OPPONENTS IN CANADA, HOWEVER, PRESSED THE CANADIAN GOVERNMENT NOT TO APPROVE THE CONSTRUCTION OR GAS EXPORT AUTHORIZATION IN VIEW OF THEIR OPINION THAT THE PROJECT WOULD NEVER RECEIVE THE PRIVATE FINANCING NECESSARY TO COMPLETE THE REMAINING SEGMENTS. CANADA, THE OPPONENTS CLAIMED, WOULD BE STUCK WITH THE SOUTHERN PORTION IN PLACE BUT GOOD ONLY FOR CARRYING ALBERTA'S GAS TO THE U.S. -- GAS WHICH MANY IN CANADA ARGUED CANADA WOULD NEED FOR ITS OWN MARKETS.

PRIME MINISTER TRUDEAU MADE THE DIFFICULT DECISION TO PROCEED WITH THE SOUTHERN LEGS ON THE BASIS OF ASSURANCES FROM BOTH THE ADMINISTRATION AND THE CONGRESS. PRESIDENT CARTER SAID IN A LETTER TO THE PRIME MINISTER THAT THE U.S. GOVERNMENT WAS COMMITTED TO THE PROJECT, WAS SATISFIED THAT IT WOULD BE COMPLETED, AND WOULD TAKE "APPROPRIATE ACTION" DIRECTED AT MEETING THE OBJECTIVE OF TIMELY COMPLETION. CONGRESS, FOR ITS PART, PASSED A CONCURRENT RESOLUTION SAYING "IT IS THE SENSE OF CONGRESS THAT THE SYSTEM...ENJOYS THE HIGHEST LEVEL OF CONGRESSIONAL SUPPORT FOR ITS EXPEDITIONS CONSTRUCTION AND COMPLETION..." THANKS TO THESE EXPRESSIONS OF SUPPORT, THE CANADIANS DID AUTHORIZE THE PRE-BUILD. THE WESTERN LEG WAS RECENTLY COMPLETED AND WORK IS ON SCHEDULE ON THE EASTERN LEG.

IT WOULD BE DIFFICULT TO OVEREMPHASIZE THE NEGATIVE IMPACT ON U.S.-CANADIAN RELATIONS IF THE U.S. GOVERNMENT DID NOT HONOR ITS ASSURANCES TO REMOVE STATUTORY IMPEDIMENTS TO PRIVATE FINANCING. THE CANADIANS WOULD UNDOUBTEDLY FEEL BETRAYED AND THE BILATERAL RELATIONSHIP WOULD SUFFER.

PRESIDENT REAGAN HAS REAFFIRMED HIS COMMITMENT TO THE PIPELINE'S CONSTRUCTION BASED ON PRIVATE FINANCING. THE WAIVER PACKAGE BEFORE THE CONGRESS TODAY IS THE CONCRETE EXPRESSION OF THIS GOVERNMENT'S WILLINGNESS TO LIVE UP TO THE ASSURANCES GIVEN TO PRIME MINISTER TRUDEAU AND THE CANADIAN GOVERNMENT. IN OUR VIEW, THIS WAIVER PACKAGE REMOVES UNREASONABLE RESTRICTIONS THAT WOULD UNNECESSARILY COMPLICATE THE PRIVATE SECTOR'S ROLE IN MAKING ANGTS A REALITY.

IN CONCLUSION, THE DEPARTMENT OF STATE BELIEVES THAT EARLY COMPLETION OF ANGTS THROUGH PRIVATE MEANS WILL PROVIDE IMPORTANT ENERGY SECURITY BENEFITS THAT THE UNITED STATES CAN ILL AFFORD TO REJECT. IT ADVANCES BILATERAL ENERGY COOPERATION WITH CANADA, YET PROTECTS THE FUNDAMENTALLY PRIVATE NATURE THAT HAS BEEN A PREREQUISITE FOR THIS ADMINISTRATION'S SUPPORT. WE BELIEVE THE PRESIDENT'S WAIVER PACKAGE ELIMINATES UNNECESSARY RESTRICTIONS THAT CAN ONLY COMPLICATE THE SPONSORING COMPANIES' ATTEMPTS TO ATTRACT FINANCIAL BACKING FOR THIS IMPORTANT PROJECT.

THIS CONCLUDES MY PREPARED TESTIMONY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

Testimony of Richard E. Rowberg

Manager, Energy Program

Office of Technology Assessment

Before the Subcommittee on Fossil and Synthetic Fuels

House Committee on Energy and Commerce

And the Subcommittee on Energy and Environment

House Committee on the Interior and Insular Affairs

November 9, 1981

Thank you for the opportunity to testify today on this issue. With me is Dr. Tom Bull, Project Director of our current study on synthetic fuels. The rapidly increasing costs for the proposed Alaskan Natural Gas Transportation System (ANGTS) have renewed interest in alternate ways of delivering the Alaskan natural gas energy to the lower-48 states. The Office of Technology Assessment has recently carried out a brief analysis of two such alternatives. This testimony is an extension of a brief paper we completed in July 1981 describing the first phase of that analysis. In my testimony I will discuss the alternative of using the natural gas to produce ammonia or fuel grade methanol and transporting either of these chemicals to the lower-48 states by way of the existing Alaskan oil pipeline-tanker system.

Description of Alternatives

Both methanol and ammonia are logical choices to consider in a study of alternatives to ANGTS since they are by far the major chemicals currently being produced from domestic natural gas. Further, the conversion technology is well established and they are liquids which conceivably could be transported by an oil pipeline. Ammonia and methanol consumed about 2.6% of

the total natural gas supplied for domestic use in 1980. This amounted to 500 billion cubic feet which is about two-thirds of the total projected for delivery upon completion of ANGTS. In 1980, the U.S. produced about 18.5 million tons of ammonia and about 1.5 billion gallons of methanol. Ammonia is used almost exclusively to produce fertilizer while methanol is used for a variety of chemical products, chief of which is formaldehyde. In addition a very small but growing amount of fuel grade methanol is being used by hundreds of automobiles throughout the U.S.

If the natural gas projected to be delivered by ANGTS - about 2.1 billion cubic feet per day - were to be converted to ammonia or methanol, it would produce 30 million tons per year of ammonia or 8.1 billion gallons per year of methanol. Both totals would be in substantial excess of current domestic production levels. To produce that much ammonia, it would be necessary to construct the equivalent of 90, standard sized 1000 ton per day ammonia plants. For methanol, the equivalent of 36, standard 2000 metric ton per day plants would be needed. In each case we have assumed that natural gas would be used to fuel the chemical plant as well as for the feedstock. Because of this a certain fraction of the Alaskan natural gas would be consumed at the site which would reduce the amount of natural gas energy that eventually would reach the lower-48 states. In considering these conversion losses, of course, it is necessary to note that any use to which Alaskan natural gas would be put upon arrival in the lower-48 would also involve conversion losses. Further, as we shall note later, it would be possible to effectively recover some of the conversion losses if methanol is used to fuel motor vehicles.

Up to this point I have been considering both ammonia and methanol as alternatives to the ANGTS. There are a number of problems with ammonia,

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Up to this point I have been considering both ammonia and methanol as alternatives to the ANGTS. There are a number of problems with ammonia,

however, which effectively preclude it as a choice. First, it is not possible to use the oil pipeline system in its current condition to transport ammonia. Ammonia forms an emulsion with crude oil and could not be batched in the pipeline with the oil. Ammonia must also be transported under a pressure of at least 10 atmospheres if it is to remain a liquid at normal temperatures. Further, new tankers would have to be built since the vapor pressure of ammonia would exert excessive force on the walls of crude oil tankers. None of these problems exist with methanol. For these reasons methanol is a clearly superior candidate and we will focus on it for the remainder of the testimony.

Capital Costs

There appears to be no major technical uncertainty in developing a large scale methanol conversion facility on the North Slope. There are considerable cost uncertainties, however. The hostile environment and limited access will greatly increase the cost of any facility built on the North Slope compared to building it on the U.S. Gulf Coast. Various estimates have been given for this cost differential by engineering firms and chemical companies which have some experience with Alaskan conditions. The current consensus is that a chemical plant built on the North Slope will be 2.5 to 3.5 times more costly than one built on the Gulf Coast. The scarcity of detailed engineering designs and absence of extensive construction experience, however, leaves this estimate somewhat uncertain. The principal reasons for the differential are the extensive transportation costs, the need to provide labor camps, the much higher labor rates, and the limited accessibility by ship, rail and truck.

In addition to the uncertainty about the cost differential, there are

other uncertainties about the cost estimate of building methanol plants on the North Slope. The first concerns the auxiliary equipment needed. For example, there is insufficient fresh water to supply the steam needed in the first step of the conversion process. Therefore, desalinization equipment will probably be needed. Second, although cost estimates for building individual, 2000 metric tons per day methanol facilities are well known, there is much less knowledge about any economies of scale that may be attributable to building several of these units at once as would be the case if the entire 2.1 BCF were to be processed. Third, building several plants would greatly extend the construction time compared to just one or a few plants. In a recent study by Jensen, Associates, it is estimated that these two factors - economy of scale and extended construction time - effectively cancel one another. A fourth uncertainty concerns the effect of using new construction concepts such as barge-mounted process plants. Preliminary estimates suggest that barge-built plants would cost 50 to 70 percent as much as standard plants. The limited access to Prudhoe Bay, however, may greatly reduce any of these savings.

These uncertainties may only be satisfactorily eliminated by actually constructing plants in the North Slope. In the absence of any such information we will confine ourselves to cost estimates of currently built methanol plants adjusted by the cost differential factor we presented earlier. Currently, a 2000 metric ton per day methanol plant built on the Gulf Coast costs \$205 million in 1980 dollars. The cost of a facility capable of processing the projected Alaskan natural gas production would then range from 18.5 to 25.5 billion dollars using the cost differential range of 2.5 to 3.5. In addition, chemical companies generally add about 25% of the investment cost to account for construction outside of the plant boundary that is needed for complete operation. This construction, referred to as

construction outside the battery limits, includes such things as connections to the fuel, feedstock and electricity, product delivery connections, and auxillary buildings. In the Alaskan North Slope case this construction would also have to include any desalinization facilities. If we include this adjustment, the total becomes 23 to 32 billion dollars for the entire methanol production facility in 1980 dollars.

Methanol Costs

Of course, this is only one contributor to the selling price of the methanol. To determine this price we need to add working capital, operation and maintenance expenses, fuel and feedstock costs, and any other capital investments necessary to produce the methanol. The major contributor to the last point is the gas processing plant which is needed to remove the natural gas liquids from the Alaskan natural gas before it enters the methanol conversion plant. The gas processing plant is estimated to cost six billion dollars according to a design study by the Ralph Parsons Company. Because the gas liquids have a value in themselves, however, one cannot assign all of the cost of the processing plant to the methanol. The fraction assigned to the methanol facility depends, in turn, on the construction of a chemical processing industry to make use of the liquids. Although there are no firm plans for doing this, a large study of what such an industry would require has just been completed by a Dow Chemical Company and Shell Oil Company group.

Once the costs are determined, the selling price of the methanol can be calculated given various financial parameters such as return on equity, interest rate, book life and tax rate, and the operating efficiency of the plant. To arrive at our results we assumed that operation and maintenance

costs were equal to 10% of the plant investment and working capital 7.5% of this investment. These are characteristic of domestic methanol plants now operating. We used \$2.00 per MCF for wellhead price of the natural gas which is the 1987 NGPA price expressed in 1980 dollars. Because we were unable to determine how to assign the costs of the natural gas processing plant, we assumed that none of these costs would be attributed to the methanol complex. Finally, we assumed a conversion efficiency of 70% for the methanol plants. Although no methanol plants currently operate at this level (the average is around 55% to 60%), advances in operating technology are expected to increase conversion efficiency over the next few years to close to 70%. If, however, efficiencies remain around 60% the methanol prices we are about to present should be increased by 10%. The cost data, financial parameters and operating conditions are summarized in Table I. We have carried out our calculation for two sets of financial parameters, one describing the current ANGTS and the other characteristic of current chemical process plants. We obtain a plant gate price of \$0.80 to \$1.03 per gallon (\$12.60 to \$16.20 per MMBTU) assuming ANGTS financing and \$1.25 to \$1.63 per gallon (\$19.70 to \$25.65 per MMBTU) assuming chemical industry financing. These are in real, 1980 dollars. In other words we have removed the effect of inflation between now and the time such plants might be built. Therefore, they can be compared with the 1980 price of methanol and other fuels with which the Alaskan methanol would compete.

Transportation

To deliver the methanol to the lower-48 states it will be necessary to increase the capacity of the Alaskan oil pipeline system if crude oil flow is not to decline from its current 1.5 million barrels per day. Full scale

methanol production would amount to about 525,000 barrels per day. The pipeline could accommodate 2 million barrels per day with additional pumping capacity. In addition more tankers and storage facilities would be needed. The cost of these additions, however, are small compared to the cost of the conversion facilities. In an analysis carried out by Dr. Carl Thomas of the University of Tennessee in 1974, these transportation modifications added less than 10% of the total price of the methanol.

Another estimate of transportation costs can be made from the current tariffs for the Alaskan crude oil. These are about \$6 per barrel which includes, of course, the fixed charges of the oil pipeline. It is not clear how these charges would be apportioned to any methanol, if at all. If we assume a similar tariff for the methanol, however, an additional 14¢ per gallon would be needed which is less than 15% of the production cost.

Discussion

The major issue affecting the success of any Alaskan methanol concept is whether the methanol could be marketed once delivered to the lower-48 states. This issue has two significant parts: 1) can the market for methanol be expanded to accommodate the six-fold increase in methanol production the Alaskan natural gas could provide, and 2) if so, how will the cost of Alaskan methanol compare with other potential sources of methanol. Currently, methanol produced in the U.S. for chemicals is priced at about 75¢ per gallon. The chemical market for methanol will grow but is not expected to expand at the rate needed to absorb the 8 billion gallons per year that could be provided during the next two decades from Alaska. Therefore, there would have to be a very large growth in fuel methanol demand. The technical

problems of using methanol as a substitute for conventional liquid fuels are relatively minor and readily soluble. Methanol's highest value uses as a fuel are probably as a substitute for gasoline and light fuel oil used in combustion turbines. New cars can be constructed either to accept pure methanol or gasoline blends containing methanol as an octane booster. Currently, engines designed to run on pure methanol can be 10 to 20% more efficient than a comparable gasoline engine. Future developments could utilize methanol's properties to increase the efficiency of methanol engines even further. Many existing gas turbines could also be easily retrofitted to use methanol.

In a study of synthetic fuels for transportation that we are currently completing, we have found that the major barriers to widespread use of methanol as a fuel are institutional. Producers are reluctant to invest in fuel methanol production facilities without ready markets, and potential users will not convert to methanol unless there are convenient outlets for the fuel. This apparent dilemma will probably only be overcome if the methanol is introduced on an incremental basis and if dedicated automobile fleets are converted. Thus an increase in demand for fuel methanol will be difficult but no fundamental barrier exists, and we believe it has a good future as a fuel.

The other concern, competition from other sources, presents more of a problem for Alaskan methanol. In our synthetic fuel study we have calculated the cost of fuel methanol from coal which would be the major domestic competitor to any fuel methanol from Alaskan natural gas. The cost of methanol from coal can vary considerably depending on, among other things, the cost of constructing the coal to methanol plant and the credit assigned to any byproducts such as synthetic natural gas. We have estimated that the capital

cost of a coal-to-methanol facility that could produce 525,000 barrels of methanol per day is about 15 billion dollars in 1980 dollars. Based on these costs and the best available estimates for operating costs, and assuming no byproduct credit, we calculate that the real, plant gate price of methanol (in 1980 dollars) would range from \$0.52 per gallon (\$8.20 per MMBTU) to about \$0.87 per gallon (\$13.70 per MMBtu) depending on the type of financing used. These parameters are shown in Table II and are the same as we used for the Alaskan methanol case. The prices we calculate for methanol from coal are considerably below the range of estimates of the Alaskan methanol concept. Although there are more technical uncertainties with the coal to methanol than with the Alaskan proposal, they do not appear to be sufficient to eliminate the cost advantage coal-derived methanol would have over Alaskan methanol.

Conclusion

The Alaskan methanol concept offers some apparent advantages over ANGTS in producing the Alaskan natural gas for lower-48 state use. First of all, it can be done incrementally. Although we have calculated costs for the entire system, it is not necessary, of course, to build the entire facility at once. Such an approach would best fit in with developing methanol fuel markets. Second, it can use the existing crude oil pipeline system with only modest additions. On the other hand, the capital costs of the full methanol system are very high and are comparable to the current ANGTS estimate. There is considerable uncertainty about the methanol system costs, however, and favorable developments in construction techniques for chemical plants on the Alaskan North Slope, such as successful delivery of barge mounted assemblies, could lower these costs. More important to the success of the system, however, is the potential competition with methanol derived from coal. Even

if the cost differential between the Gulf Coast and North Slope were as low as two (rather than 2.5 to 3.5), it does not now appear that Alaskan methanol will be less costly than methanol from coal. Therefore Alaskan methanol will face great competition for any lower-48 fuel market. Since marketability will ultimately determine whether an Alaskan methanol concept would succeed - as indeed it would for Alaskan natural gas itself - the future of synthetic methanol from coal will have a strong effect on the ultimate financial success of any Alaskan methanol project.

This concludes my testimony and I will be happy to answer any questions.

Table I

Parameters for Cost Calculations

Alaskan Methanol

Capital Cost	23.0 to 32.0 Billion Dollars
Production	22.2 Million Gallons Per Day
Natural Gas Requirements	2.1 Billion Cubic Feet Per Day
Natural Gas Price	\$2.00/McF (\$1.96/MMBtu)
Operation and Maintenance	2.3 to 3.2 Billion Dollars Per Year
Working Capital	1.7 to 2.4 Billion Dollars Per Year

<u>Return on Equi</u>	<u>Case I⁽¹⁾</u>	<u>Case II⁽²⁾</u>
Return on Equity (Real)	0.08	0.10
Interest on Debt (real)	0.05	0.05
Debt/Equity	75/25	0/100
Income Tax	0.555	0.555
Other Tax	0.02	0.02
Tax Credit	0.10	0.10
Tax Life	10 years	10 years
Book Life	25 years	25 years

(1) ANGTS Parameters

(2) Chemical Industry Parameters

Table II

Synthetic Methanol From Coal

Capital Cost	15 Billion Dollars
Production	22.2 Million Gallons Per Day
Coal Requirements	105,800 Tons Per Day
Coal Cost	\$30/Ton (\$1.50/MMBTU)
Operation and Maintenance	1.5 Billion Dollars Per Year
Working Capital	1.1 Billion Dollars Per Year

<u>Return on Equity</u>	<u>Case I</u>	<u>Case II</u>
Return on Equity (Real)	0.10	0.10
Interest on Debt (Real)	0.05	0.05
Debt/Equity	75/25	0/100
Income Tax	0.555	0.555
Tax Credit	0.10	0.10
Tax Life	10 years	10 years
Book Life	25 years	25 years

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON ENERGY AND NATURAL RESOURCES

Prepared Statement
of
ROBERT L. PIERCE
President and Chief Executive Officer
of
Foothills Pipe Lines (Yukon) Ltd.
on Behalf of the Canadian Sponsors
of
The Alaska Natural Gas Transportation System

Mr. Chairman, my name is Robert L. Pierce, and I am President, Chief Executive Officer, and a member of the Board of Directors of Foothills Pipe Lines (Yukon) Ltd., the Canadian company which is responsible for the Canadian segment of the Alaska natural gas transportation system ("ANGTS"). I am also Executive Vice President and a member of the Board of Directors of NOVA, AN ALBERTA CORPORATION, which owns fifty percent of the outstanding shares of Foothills' capital stock.

Appearing with me today are Mr. S. Robert Blair, who is Chairman of Foothills, as well as President and Chief Executive Officer of NOVA, and Mr. Edwin C. Phillips, who is Vice Chairman of Foothills and Chairman and Chief Executive Officer of Westcoast Transmission Company Limited, which owns the other half of Foothills' stock.

Together, we are appearing before this committee to support the expeditious passage of a joint resolution approving the waiver package which was submitted to Congress by President Reagan on

October 15, 1981. Like our American co-sponsors, we believe that favorable action on the waiver package has become essential for this project to achieve private financing in 1982 and successful completion by 1986. Such a completion schedule is already four years behind the schedule set out in the United States/Canada agreement entered in 1977.

We also remind you of the commitment which the United States made to Canada in July of 1980 at the time of Canadian government approval of new gas exports and the commencement of construction on Phase I of the project, which is also referred to as the "prebuild" phase. You will recall that, in order to allay Canadian fears that the entire project would not be completed if the "pre-build" phase went forward, Congress passed a bipartisan and practically unanimous joint resolution on July 1, 1980, declaring that the entire system remained "an essential part of securing this Nation's energy future", and that it would be given "the highest level of Congressional support for its expeditious construction and completion ...".

In addition to this commitment, President Carter sent Prime Minister Trudeau a letter on July 18, 1980, reassuring Canada that the United States stood "ready to take additional steps" to insure the completion of the entire system.

One of the specific steps proposed in President Carter's letter was the initiation of proceedings before Congress to remove any impediment to the ability of the Canadian sponsors to collect their full cost of service from U.S. shippers as soon as

the Canadian segment is completed and capable of rendering service for the benefit of American consumers. In making this commitment, President Carter recognized that the Canadian sponsors have a "reasonable concern ... 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". 1/

The waiver package submitted by President Reagan on October 15th honors and supports that previous White House commitment. Specifically, it proposes that the Federal Energy Regulatory Commission ("FERC") be authorized to approve shipper tracking of Foothills' full cost of service "upon completion and testing" of the pipeline in Canada, provided that such date is "not before a date certain"; as determined by the Commission, in consultation with the Federal Inspector, "to be the most likely date for the approved transportation system to begin operation".

Although the arrangements for tracking upon completion and its necessity have been described thoroughly in our testimony before the United States and Canadian authorities for many years, I am advised that we should review it again today, for completion of your record, and describe why it is essential to the private financing of the

1/

The full text of President Carter's letter to Prime Minister Trudeau is appended to my prepared statement.

Canadian segment. Before addressing this matter in detail, however, it may be helpful to briefly describe the role of the Canadian project sponsors, review some of the significant contributions which we have already made, and summarize the regulatory progress which has occurred in Canada since the selection of the project. Viewed in this context, we believe the tariff arrangements which the Canadian sponsors require remain fair, reasonable, and consistent with the long-term interests of all concerned.

The owners of Foothills -- namely, NOVA and Westcoast -- own the main gas transmission systems in western Canada. During the past twenty-five years, we have constructed more than 16,000 kilometers of mainline and gathering pipelines which currently provide service to both domestic and export markets. These systems presently gather and transport in the West virtually all of the gas which is marketed in Canada, as well as the substantial volumes which are exported daily to the United States.

Because of our experience as builders and operators of gas pipelines in western Canada, it was only logical that NOVA and Westcoast should involve themselves in the transportation of Alaskan gas to markets in the lower forty-eight states. Accordingly, through Foothills, as our project company, we joined with a subsidiary of Northwest Energy Company in 1976 to co-sponsor the pipeline project which was ultimately selected by our two countries as the Alaska natural gas transportation system. It was our opinion then -- and it is our opinion now -- that a conventional

overland pipeline which follows the TAPS oil pipeline corridor and then the Alaska Highway, and which utilizes the resources and expertise of existing Canadian companies, is the most economic and environmentally sound means of transporting Alaskan gas to markets in the lower forty-eight states.

In 1977, following many years of regulatory litigation and exhaustive review in both Canada and the United States, our two countries consummated an Agreement on Principles relating to the construction and operation of the project. That agreement, among other things, committed both governments to the expeditious completion of all remaining regulatory proceedings. As you are aware, however, the targeted completion date of January 1, 1983, has now fallen behind. Primarily as a result of delays associated with the Alaskan segment, the completion date for the project has now slipped approximately four years to November of 1986. This delay, in turn, has increased the total cost of the project greatly and has naturally imposed an additional financial load upon the sponsors.

Notwithstanding these delays and their resultant cost impacts, the Canadian sponsors have steadfastly continued their work on the project, and they have continued to invest their money and resources toward its successful completion. Indeed, through Foothills, the Canadian sponsors have already invested a total of approximately 560 million dollars in the project, as of the end of August. With this level of investment responsibility in Canada, it

is clear that we have extended ourselves in total faith that the project is valid and committed. This has not always been easy for us to do and we have on many occasions faced questions on that total faith, particularly measured against the delays which we have endured, but to date we have been absolutely steadfast in "hanging in there".

Based upon the assurances given by the President and the Congress in the summer of 1980, we have devoted a substantial portion of this investment to Phase I, comprising approximately 25% of the length of the Canadian segment of the project, in order to transport new gas exports of more than one billion cubic feet per day to the United States. For the western delivery leg, the prebuild facilities have already been completed and are presently flowing gas. The eastern delivery leg is presently under construction and will be completed and ready for service by the fall of next year.

Concurrent with Phase I, Foothills has made substantial progress on Phase II, which comprises the remainder of the system. In this regard --

- detailed route location work for the entire pipeline has been completed;
- pipe burst tests have been successfully concluded;
- geotechnical, frost heave, and environmental studies have been undertaken; and
- design work is at an advanced stage.

In performing this work, Foothills has used the services of more than 700 people, 630 of which are employed directly, and the remainder of which are consultants.

Substantial progress has also been made during the past four years by the Canadian government. Indeed, within five months after Congressional ratification of the President's 1977 decision selecting the project, the Canadian Parliament passed the comprehensive Northern Pipeline Act, which gave full force and effect to the agreement which had been reached by our two countries. Among other things, that act granted final certificates of public convenience and necessity to Foothills; it established procedures and standards for the filing and review of Foothills' tariff; and it restricted judicial review of decisions issued by the National Energy Board in connection with the pipeline.

The Northern Pipeline Act also established the Northern Pipeline Agency, and vested it with both the responsibility and the authority to oversee the construction of the pipeline in Canada. Pursuant to that authority, the agency commenced operations at a very early date, and has already issued final terms and conditions on the technical, socio-economic, and environmental aspects of most of the pipeline.

The National Energy Board has also worked assiduously to expedite the Canadian regulatory process. It has issued necessary approvals for Phase I of the project; established an incentive

rate of return mechanism pursuant to the Agreement on Principles; and issued orders on both the mainline and prebuild tariffs of Foothills.

In short, Mr. Chairman, the Canadian sponsors and the Canadian government have worked diligently to fulfill every commitment made thus far in connection with the ANGTS. It is against this background that we ask you to consider the waiver package which has been submitted by the President.

Let me now turn from the general to the specific and concentrate on the billing commencement issue, which is the focal point of our concern. In this regard, it is important to focus upon the physical and financial requirements of the task which lies ahead for the Canadian sponsors. Given the size of our investment responsibility, Foothills must be paid its full cost of service upon completion of the Canadian segment.

In sheer physical terms, the 2,000 mile Canadian segment will be the longest of the four pipeline segments which comprise the ANGTS. It will be approximately twice as long as either the eastern or western delivery leg, and almost three times the length of the Alaskan segment.

The financial requirements for the Canadian segment are also considerable. As the owners of Foothills, NOVA and Westcoast start with the responsibility to invest about \$1.5 billion (Canadian) each in order to provide the equity component of the Canadian

capital costs, which will total approximately \$17.6 billion on an escalated basis in Canadian dollars. For comparison, each of the thirteen pipeline and producer sponsors of the Alaskan segment will be required to invest an average of approximately \$460 million (U.S.), in order to generate the equity component of the total Alaskan pipeline and plant costs of \$24 billion.

As well as furnishing equity funds, the Canadian sponsors must demonstrate corresponding credit strength to raise a substantial amount of debt. In this connection, we recognize that the Canadian segment is supported by the other two major Canadian pipelines, TransCanada Pipelines Limited and Alberta Natural Gas Company Ltd., both of whom will participate in the ownership of certain portions of the line. Thus far, however, the basic core of investment has stayed with our two companies.

To justify the investments required for Phase II, the Canadian sponsors, as well as the lenders of their debt funds, must be sure that Foothills will be in a positive cash flow situation as soon as the project which is the subject of their investment -- i.e., the Canadian segment -- is successfully completed. A positive cash flow at this point in time is absolutely essential in order that the equity sponsors of Foothills can compensate their shareholders, retire their debts, and finance their ongoing business operations. In addition, Foothills must be able to maintain the line upon completion, service its own debts, and proceed with work on the Dempster Lateral, which will connect the ANGTS with the

Mackenzie Delta region of the Canadian Arctic. In this regard, you may recall that the National Energy Board required Foothills to proceed with an application for the Dempster Lateral as a condition to receiving a certificate for the mainline.

In considering these future needs, the Canadian sponsors must face the fact that they will receive absolutely no cash flow benefits during the construction of the Canadian segment. Unlike the situation in the United States, in general, law on taxation in Canada will not permit NOVA and Westcoast to claim tax credits for their investments in the project. Moreover, Canadian law does not permit Canadian corporations to file their income tax returns on a consolidated basis, and thereby reduce their taxes through the deduction of expenses attributable to subsidiaries or affiliates. As a result, NOVA and Westcoast will receive no tax advantages from the interest paid by Foothills on its debt.

It is imperative, therefore, that the Canadian sponsors be placed in a positive cash flow situation as soon as they have completed their segment of the project and are ready, willing, and able to transport gas to U.S. consumers. Neither the Canadian sponsors nor their lenders can assume any construction, political, or regulatory risk present, or which might occur in the future, for the American segments, since those are matters completely beyond our experience, control, or ability to influence. In this connection, recoupment of investments made thus far by the Canadian sponsors has already been delayed approximately four years, primarily as a

result of regulatory proceedings in the United States. Under these circumstances, our companies cannot continue to make additional investments in the project without firm assurances that they will begin to recover their investments, plus a reasonable return, at a certain point in time.

For these reasons, Foothills' position on the billing commencement issue has been candid and unequivocal since the inception of the project. In our testimony before the National Energy Board, the Federal Energy Regulatory Commission, and various Parliamentary and Congressional committees, we have stated -- and we can reaffirm today -- that the Canadian sponsors cannot participate in the project unless Foothills is permitted to collect its full cost of service, including a return of and on equity, as soon as all Canadian segments are completed and leave to open has been granted by the NEB. This assurance is absolutely essential in order for NOVA and Westcoast to invest in the equity of the project. Moreover, it is a fundamental link in the credit strength which must be demonstrated to lenders before they will advance the required debt.

In making this point, we do not expect that the Alaskan facilities will be delayed, thereby making it necessary for Foothills to commence billing prior to the flow of gas. To the contrary, we believe, especially in light of our experience on Phase I, that careful planning of construction will lead to coordinated completion of all segments. For purposes of financing, however, the Canadian equity sponsors and lenders must be protected against the unexpected

event of a delay in the completion of the Alaskan pipeline or the conditioning plant.

In view of such considerations, the National Energy Board has approved the billing commencement provisions and other aspects of Foothills' proposed tariff. Standing alone, however, the NEB's approval does not guarantee that Foothills will, in fact, be paid upon completion of the Canadian segment. To complete the necessary "economic lifeline", U.S. shippers must contractually agree to pay all charges approved by the NEB under Foothills' tariff. The shippers will not enter into such agreements, however, unless they are permitted by the FERC to automatically track such charges through to their customers.

It is for this reason that Condition IV-3 of President Carter's 1977 decision is currently an impediment to financing. As interpreted by the FERC, that condition would prohibit the tracking of any payments made to Foothills until all pipeline segments of the entire project are completed and commissioned for service. If the proposed waiver is approved, however -- as we think it should be -- the Commission would have authority to permit automatic tracking of Foothills' charges upon completion and testing of the Canadian segment, provided that such date is not before a targeted completion date for the entire project. Assuming that the targeted completion date established by the FERC does not significantly depart from our present construction schedule, we believe that the waiver would pave the way for privately financing the Canadian segment.

That completes my testimony, Mr. Chairman. If the Committee has any questions, my colleagues and I will be more than happy to respond.

ATTACHMENT A

EMBARGOED UNTIL AFTER THE BRIEFING

JULY 18, 1980

Office of the White House Press Secretary

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 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

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SCOMM

28:22

WAIVERS FOR ALASKA GAS PIPELINE

DECEMBER 3, 1981.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DINGELL, from the Committee on Energy and Commerce,
submitted the following

REPORT

together with

CONCURRING, SUPPLEMENTAL, DISSENTING, SEPARATE,
AND ADDITIONAL VIEWS

[To accompany H.J. Res. 341 which on October 19, 1981, was referred jointly to the Committee on Energy and Commerce and the Committee on Interior and Insular Affairs]

[Including cost estimate of the Congressional Budget Office]

The Committee on Energy and Commerce, to whom was referred the joint resolution (H.J. Res. 341) providing for a waiver of law pursuant to the Alaska Natural Gas Transportation Act, having considered the same, report favorably thereon without amendment and recommend that the joint resolution do pass.

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Discharge of National Obligation to Canada.—The Committee has recognized in its favorable action on H.J. Res. 341 that the United States and Canada have been mutually obligated by treaty and understanding to the removal of legal and regulatory obstacles to the private financing of the Alaska natural gas pipeline project. The Committee notes that the authorization by the Canadian government of the construction of Canada's portion of the prebuild segment of the project, and the authorization of additional exports of Canadian natural gas through that prebuild section, were granted in reliance on the commitment of the United States Government to remove obstacles to private financing of the project.

It is the sense of the Committee that the passage of H.J. Res. 341 is a complete and sufficient discharge of our national commitment to Canada, in that the waiver proposal removes all remaining legal obstacles to private financing. Should the sponsors of the pipeline fail to secure private funds for its construction, despite passage of the waiver proposal, then it is the judgment of the Committee that a basic precondition of all agreements concerning the project with Canada, that is that the project be privately financed, will have failed through no fault of the United States, but through the exercise of the free judgment of private investors; and that no obligations of the Congress to consider further means of promoting or assuring construction of the project will remain.

The Committee desires to express its fervent hopes that private financing will be forthcoming for the project, and to communicate to the government and people of Canada its appreciation of the constructive cooperation they have demonstrated with regard to it. The Committee notes the substantial benefits that a completed pipeline project would bestow on Canada as well as the United States from better access to domestic energy sources, jobs and economic activity, use of domestic materials such as steel, and tax revenues, and hopes that the project will be looked upon with enough favor by private investors that these benefits may be realized.

As mutual beneficiaries the United States and Canada have participated in two agreements on this pipeline: (1) The Transit Pipeline Treaty and (2) The Agreement on Principles. Explicit in these documents is the Canadian commitment to nondiscriminatory taxation of the project. The Committee notes that the Federal government of Canada has yet to reach agreements with all of the Provinces affected. However, the Committee has supported the waiver proposal with the understanding that the Federal government of Canada would compensate the project for any unfair Provincial taxes.

The initial price of Alaskan gas may far exceed the price of imported crude oil, which is the basis for pricing Canadian natural gas exports to the United States. There was a concern that since Canadian gas would be flowing through the same system as Alaskan gas, that the Canadian gas export price might be pegged to the higher Alaskan gas price in the initial years of Alaskan gas delivery. However, the Canadians have stated that they have no intention of changing their current natural gas export pricing policy nor of pegging the price of Canadian gas to the price of Alaskan gas.

The Levelization of the Project Tariff.—Many witnesses in the Committee's hearings suggested that a major problem confronting

the pipeline project would be the natural gas delivered to U.S. years of the project before the substantially paid off or the depreciantly reduced project costs. The would be priced too high to be agents and advisors and potent that any such problems with m delivered would be analyzed at their initial deliberations as to secured. In addition, Mr. Char Federal Energy Regulatory Commission in its independent regulation project prior to granting a final potential problems of market unable to certificate the project make a convincing case to the be marketable under all of the

One means of dealing with the tariff applying to the project of some of the project costs, but to the average gas cost over the on its own initiative can consider either in approving the project changes requested in the tariff judgment of the Committee that an appropriate means for matching delivery system to the unit of ing those consumers receiving at the expense of those receiving an appropriate means of helping of the project when it is considered FERC to all available means of the initial tariff and in later years the regulatory certainty waive those that are otherwise compensated and the needs of all parties involved eventual consumers of the gas.

A second means suggested in year costs of gas delivered from ance by the producers of Prudhoe than the ceiling price amounts ral Gas Policy Act. Any diminution such production acquiesced in toward making economic the possible any revenues at all from Prudhoe Bay Unit gas in later the ceiling price, and other gas through the Alaskan Natural not be subject to such ceilings, initial losses to producers would any future legislative consideration applying to gas from the Prudhoe into account the responsiveness market conditions demonstrate

the pipeline project would be the high cost of service borne by the natural gas delivered to U.S. companies, particularly in the early years of the project before the debt burden of the project is substantially paid off or the depreciation of the investment has significantly reduced project costs. The stated fear was that Alaskan gas would be priced too high to be sold in the market. The financing agents and advisors and potential lenders to the project testified that any such problems with marketability of the natural gas to be delivered would be analyzed and constitute a significant factor in their initial deliberations as to whether private financing could be secured. In addition, Mr. Charles M. Butler, the Chairman of the Federal Energy Regulatory Commission testified that the Commission in its independent regulatory review of the merits of the project prior to granting a final certificate would also examine any potential problems of marketing the natural gas, and would be unable to certificate the project "unless the project sponsors can make a convincing case to the Commission that the gas is going to be marketable under all of the foreseeable range of probabilities."

One means of dealing with such a potential problem would be for the tariff applying to the project to provide for deferred collection of some of the project costs, bringing the first-year gas costs closer to the average gas cost over the life of the project. The Commission on its own initiative can consider such measures and order them either in approving the project tariff or in dealing with any later changes requested in the tariff by the project sponsors. It is the judgment of the Committee that such levelization mechanisms are an appropriate means for matching the true cost of the natural gas delivery system to the unit of delivered gas without unduly favoring those consumers receiving gas in the later years of the project at the expense of those receiving gas in its initial years, as well as an appropriate means of helping to assure the commercial viability of the project when it is completed. The Committee encourages FERC to all available means of levelizing the project tariff, both in the initial tariff and in later years at its own initiative (subject to the regulatory certainty waiver) and to incorporate in the tariff those that are otherwise compatible with the standards of the law and the needs of all parties involved with the project, including the eventual consumers of the gas.

A second means suggested in testimony for reduction of the first-year costs of gas delivered from the pipeline project is the acceptance by the producers of Prudhoe Bay gas of wellhead prices lower than the ceiling price amounts allowed in section 109 of the Natural Gas Policy Act. Any diminishment of expected revenues from such production acquiesced in by producers would appear to go far toward making economic the transportation system that makes possible any revenues at all from such production. Production of Prudhoe Bay Unit gas in later years would very likely command the ceiling price, and other gas produced in the area and shipped through the Alaskan Natural Gas Transportation System would not be subject to such ceilings, so there is great potential that any initial losses to producers would be more than made up. Finally, any future legislative consideration of removing the ceiling prices applying to gas from the Prudhoe Bay Unit would obviously take into account the responsiveness or lack of responsiveness to actual market conditions demonstrated by North Slope producers in their

pricing practices while controls were in place. For these reasons, the Committee encourages the participants in the project, and particularly the producers, to make clear in the proceedings before FERC their willingness to allow wellhead price reductions in initial years to assist with achieving a levelized tariff, and urges FERC to weigh this possibility carefully in reviewing gas purchase contracts for Prudhoe Bay Unit gas and in assessing the potential solutions to marketability problems prior to the issuance of the final certificate for the project.

Participation of the State of Alaska.—The State of Alaska and its citizens would clearly be among the major beneficiaries of a completed Alaska Natural Gas Transportation System. The economic benefits that would result from pipeline construction, access to natural gas, and encouragement of additional exploration for natural gas in Alaska would vastly outweigh, in the judgment of the Committee, the socio-economic and environmental costs the pipeline may exact. In addition, the benefit of State royalties and severance taxes on the natural gas produced for the pipeline, as well as State taxes on the project and its related employees and service industries, would yield a multi-billion dollar increase in the revenues of a State that is already in much better fiscal shape than its sister states due primarily to the current income from Alaskan oil production and related activities.

The State of Alaska has contemplated active participation in the natural gas pipeline project, perhaps using some part of its current revenue stream or financial capacity, or the creditworthiness that results from that financial capacity, to become an active participant in the natural gas project that will provide such benefits. Governor Hammond testified before the Committee that a conclusion to such consideration would depend in part on the financing plan submitted by the sponsors. The Committee recognizes the difficulty confronting a State government or other public entity in deciding whether or not to commit public revenues to a commercial venture or to use them to underwrite such a venture. Indeed, the Committee elsewhere finds that general U.S. government revenues should not be so dedicated. Nonetheless, the direct interest already present in the State of Alaska's ownership of the land from which the gas is to be produced, the other direct benefits which will accrue to the State, and the high probability of an excellent return on such an investment, lead the Committee to the conclusion that such a decision on the part of the State of Alaska may well be appropriate. The Committee encourages the State of Alaska to examine the benefits of this project to its citizens as well as to the rest of the Nation, to recognize the enormous positive effect that any contribution of capital or of credit security would have on the chances of the project to be financed, and to act as promptly as possible in accordance with the conclusions of such an investigation. The Committee further urges FERC to weigh the deliberations and actions of the State of Alaska very carefully in its own examination of the commercial worthiness and economic viability of this project, conceivably to draw a positive or a negative inference about the project from the decisions taken by a potential beneficiary and contributor of such magnitude and degree of intimate connection with the project.

The Deregulation of Nature
there has been substantial co-
potential changes in Federal
tion of the wellhead price of
Gas Transportation System. I
raised these concerns.

The first involves potential concern regarding lower-48 wellhead prices. It has been expressed that deregulation, the continued application of the amendment to, or revision of, the natural gas when delivered to be used in hearings focused on this concern. Witnesses representing the American Petroleum Institute, the producers, and other Federal agencies testified that there is no direct or current impact on this project and the issues associated with the policy. In addition, the Chairman of the Commission testified that the Commission will define the range of future probable impacts on the economic viability of the certificate, and that the Commission will determine intervenors appearing before the Commission on the waiver proposal of future options that may arise, some of which are related to leveled tariffs.

The Committee, in approving and financial involvement in these waivers permit, has stated additional shifts of risk or financial respect to this project. The Committee fully in mind when considering natural gas, and not to include would violate this commitment difficulties for the project caused of lower-48 natural gas are in costs absorbed, by other involved delivered through the project.

Second, concerns have been expressed about the wellhead price regulation of the Alaska Gas Bay Unit. Underlying the Commission's understanding that consumers would, if possible initially, receive Alaska gas at prices no higher than the prices of alternate fuels is the assumption that the sponsors, producers, and consumers of the low 20-year gas would occur because of the project. Any initial price premium would be more than offset by later price reductions to market levels. If, however, any initial price premium and delivery from Alaska had been required, the level the market would command would be the power to capture for his own benefit. The Commission for consumers and paid for by the producers of financing risks and waiver

The Deregulation of Natural Gas.—The Committee notes that there has been substantial concern with regard to the effect of potential changes in Federal law or policy concerning the regulation of the wellhead price of natural gas on the Alaska Natural Gas Transportation System. Two types of potential changes have raised these concerns.

The first involves potential changes of Federal law or policy with regard to lower-48 wellhead prices for natural gas. The concern has been expressed that deregulation of such gas, whether pursuant to the continued application of the Natural Gas Policy Act or by amendment to, or revision of, that Act, would cause Alaskan natural gas when delivered to be unmarketable. Many witnesses in the hearings focused on this concern or responded to it in questions. Witnesses representing the Administration, the project sponsors, the producers, and other Federal agencies, among others, testified that there is no direct or currently observable connection between this project and the issues associated with changes in such law or policy. In addition, the Chairman of the Federal Energy Regulatory Commission testified that the Commission would specifically examine the range of future probabilities in such policies as they would affect the economic viability of the project prior to issuing a final certificate, and that the Commission, the sponsors, and public intervenors appearing before the Commission are not deprived by the waiver proposal of future options for dealing with problems that may arise, some of which are noted above in the discussion of leveled tariffs.

The Committee, in approving the degree of consumer risk-taking and financial involvement in connection with this project that these waivers permit, has stated its intention not to approve any additional shifts of risk or financial burdens on consumers with respect to this project. The Committee intends to keep this commitment fully in mind when considering later legislation affecting natural gas, and not to include in such legislation provisions which would violate this commitment directly or indirectly. Any economic difficulties for the project caused by changes in wellhead regulation of lower-48 natural gas are intended to be dealt with, and their costs absorbed, by other involved parties than the consumers of gas delivered through the project.

Second, concerns have been raised with regard to changes in the wellhead price regulation of Alaskan natural gas in the Prudhoe Bay Unit. Underlying the Committee approval of the waiver is the understanding that consumers will, over the life of the project and if possible initially, receive Alaskan gas at a price which is lower than the prices of alternate fuels. Testimony from the Administration, the sponsors, producers, and others emphasized the benefit to consumers of the low 20-year average price for delivered Alaskan gas which would occur because of the declining real cost of the project. Any initial prices which were above market levels would be more than offset by later prices which were substantially below market levels. If, however, any participant in the chain of gas sale and delivery from Alaska had the freedom to price that gas at the level the market would command, he would similarly have the power to capture for his own benefit the economic benefit intended for consumers and paid for by consumers through their assumption of financing risks and waiver of regulatory protections. It is the

intent of the Committee that such benefits of the project be preserved for consumers and not be redirected for the benefit of others as a result of later policy changes. Secretary Edwards, speaking on behalf of the Administration in testimony, expressed agreement with this general principle.

Asked whether the Administration would oppose any efforts that would deprive the consumer of making gains when the economic benefit of the project begins to appear, and whether the Administration policy was to protect the consumer to make sure that the consumer gets the benefit that was argued to be available, Secretary Edwards replied:

Mr. Chairman, I think that it is only fair to say that certainly if they have taken the risk, they should have the benefit. I cannot imagine any situation where we would try to take away their benefit at some future date.

The Committee concurs with this position. It is the judgment of the Committee that the deregulation of Prudhoe Bay natural gas at the wellhead would deprive consumers of these benefits.

Under procedures provided for under ANGTA the Congress has 60 calendar days, excluding recesses of three or more days, to pass H.J. Res. 341 approving the waiver package. As of the date of this report the Joint Resolution must pass by December 21, 1981, to be effective. ANGTA also provides that the waiver of law is unamendable and unseparable and that Floor debate on the Joint Resolution is limited to one hour, evenly divided between those supporting and opposing the Joint Resolution.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 2(1)(3)(A) of Rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been made by the Committee.

COMMITTEE ON GOVERNMENT OPERATIONS

Pursuant to clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Operations.

COMMITTEE COST ESTIMATE

In compliance with clause 7(a) of rule XIII of the Rules of the House of Representatives, the Committee believes that the bill will have no budget effect for fiscal year 1981.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., November 30, 1981.

Hon. JOHN D. DINGELL,
Chairman, Committee on Energy and Commerce,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.J. Res. 341, a joint resolution providing for a waiver of

law pursuant to the Alaska ordered reported by the House, November 19, 1981.

The President has proposed ship, separate certification of ing procedure, and evidentiary sion on the Alaska Natural C pected that no significant add federal government as a rest

Should the Committee so de further details on this estimate Sincerely,

INFLATIONARY

Pursuant to clause 2(1)(4) of Representatives, the Committ with regard to the inflation: waiver proposal itself will h extent that private financing is and the project is begun, eff availability of capital, and w regions. When the project is co occur at prices high enough t energy price levels, depending these prices should later fall a the life of the project, the aver expected to be lower than prev ject is expected on balance to b

SECTION-BY-SECTION

Producer Ownership Partici waiver of law waives a condit sion (The President's decision) ral gas to participate in the segment and conditioning plan of ownership by the producers that they reach with the partn west Natural Gas Transporta project. The Federal Energy Re any such agreement, and may advice from the Attorney Gene the agreement will not establi sistent with the antitrust laws, non-owner shippers or restrict c

The waiver permits "owner that other participants enjoy s and conditions to be decided b ment. The agreement of the pa to the incidents of ownership, t the procedures and opportunite the actual extent of ownership participants. FERC may not app unclear in any particular that

From "Dissenting Views of Honorable Richard L. Ottinger and
Honorable Edward J. Markley"

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nance these supplier credits would give foreign firms a substantial advantage in bidding for big ticket items, such as pipe and conditioning plant.

Problems began for the American steel industry last year when the Canadian government, for purely protectionist purposes, chose to build the Canadian segment with 54-inch pipe. No American companies can produce this pipe.

With respect to the Alaskan segment, the situation is no better. The 48-inch Arctic pipe is currently capable of being produced by just one American company, and according to Mr. McMillian's (the project sponsor's) testimony:

We rated over 12 steel companies in the world that could produce 48-inch diameter pipes. Unfortunately, our steel mill that can produce 48-inch diameter pipes was at the bottom of this list and they just don't have the automation and the quality control and assurances that some other countries have.

The Congressional Steel Caucus has worked long and hard to eliminate the anti-U.S. aspects of this project, but has so far been unsuccessful. The only way the situation could be improved is to reject these waivers and to include a "Buy American" provision in a statutory package.

As Rep. Adam Benjamin, Executive Committee Chairman of the Congressional Steel Caucus, testified:

I would like to add a personal note. My colleague [Mr. Gaydos] is extremely fair and statesmanlike in his presentation. Personally, I would not grant one waiver or recommend the granting of one waiver unless a Buy-American provision was placed as a contingent under which the waiver would be granted.

THE STATE OF ALASKA WILL RECEIVE OVER \$20 BILLION FROM THE SALE OF NATURAL GAS—EQUALLYING OVER \$40,000 PER ALASKAN—WHILE IT HAS FAILED TO COMMIT ONE CENT TO THE PROJECT

The ANGTS will be heavily debt financed. At the current time, the project is nonetheless still lacking approximately \$10 billion in equity. Unless further offers of equity come forward, the project will fail.

The most likely candidate to invest is the State of Alaska which owns 12½ percent of the natural gas which will be produced. So far, the State has committed nothing.

Alaskan gas is currently under price controls. The price was \$1.45 per mcf in 1977 and it increases with inflation. The State of Alaska, therefore, stands to earn \$20 billion over the life of the project (\$4 billion in 1982 dollars) based upon the proved reserves. This could increase if more gas is found or the gas is decontrolled.

To put the vastness of this transfer of income to Alaskan residents in perspective, Alaskans stand to gain a minimum of \$40,000 per person over the project's 20-year life. These revenues will be paid by natural gas consumers in virtually every State of the Union.

Although one cannot force Alaskan gas can certainly condition the grant investment. The American consumer risk for gas which may never be produced which stands to gain \$20 billion put up nothing. One compromise is to the amount of any Alaskan

THERE HAS NEVER BEEN A COMMITMENT TO THIS PACKAGE

Some proponents of the set of waivers suggested that the Congress must honor its previous commitments to the Carter administration. The suggestion is to

To date, there has been not one commitment with respect to the project. To come to a commitment is a costly process. To adopt waivers permitting recovery of the project is a disavowal of previous commitments relating to prebilling of Alaskan gas production plant in the ANGTS rate base in commitments to the Canadian

It must be understood that in the recent months as a result of various waivers, producers, banks, and others. Various waivers are necessary and appropriate for the ANGTS; there has been no commitment of waivers. In fact, the waivers requested by Reagan cut back in many respects. Just as the President has not refused to endorse all requested waivers, he has refused to approve the waivers because of the cost.

The Congress has been on the fence about Alaskan gas through a privately negotiated deal. They have shifted the financing burden far in other respects. The Congress has not approved these waivers.

THERE ARE BETTER ALTERNATIVES TO THE CONGRESS HAS THE RIGHT TO

During the course of consideration, many members who opposed the various options which would improve upon the current situation. If the Congress rejects the current options, it should expeditiously develop a legislative package (proposing new waivers) so that the project can proceed.

Proponents of the waivers have several reasons. First, they suggest that the delays will be caused by the failure to find adequate capital

Although one cannot force Alaska to invest in this project, one can certainly condition the granting of these waivers on such an investment. The American consumer is asked to put \$37 billion at risk for gas which may never be received. The State of Alaska, which stands to gain \$20 billion over the project life, is asked to put up nothing. One compromise would be to limit consumer liability to the amount of any Alaskan investment.

**THERE HAS NEVER BEEN A COMMITMENT TO CANADA TO ACCEPT
THIS PACKAGE OF WAIVERS**

Some proponents of the set of waivers have at various times suggested that the Congress must enact these waivers because of previous commitments to the Canadian government made by President Carter. The suggestion is totally without foundation.

To date, there has been not one single sheet of paper indicting commitments with respect to these waivers. The closest one that comes to a commitment is a commitment to request Congress to adopt waivers permitting recovery of the cost of service for Canadian segments if the project is delayed or not completed. Waivers relating to prebilling of Alaskan segments, placing the gas processing plant in the ANGTS rate base, and others were never promised in commitments to the Canadian government.

It must be understood that this set of waivers was developed in recent months as a result of various negotiations among pipelines, producers, banks, and others. While one can recognize a commitment to waive various statutes, if it can be shown that such waivers are necessary and appropriate to expedite construction of ANGTS; there has been no commitment to ratify this particular set of waivers. In fact, the waivers presented to Congress by President Reagan cut back in many respects the original waiver proposals. Just as the President has not reneged on commitments by failing to endorse all requested waivers, the Congress has no responsibility to approve the waivers because they have been requested.

The Congress has been on record in favor of recovering the Alaskan gas through a privately financed venture. These provisions have shifted the financing burden to the public, and have gone too far in other respects. The Congress has made no pledge to ratify these waivers.

**THERE ARE BETTER ALTERNATIVES TO THIS SET OF WAIVERS, AND
THE CONGRESS HAS THE RESPONSIBILITY TO ENACT THEM**

During the course of considering the proposed waivers, Committee members who opposed the waivers have suggested a variety of options which would improve upon the waiver request of the President. If the Congress rejects these waivers, the Committee could expeditiously develop a legislative package (or the President could propose new waivers) so that the pipeline could go forward expeditiously.

Proponents of the waivers reject such a process for unsound reasons. First, they suggest that there would be delay. However, in fact, the delays will be caused not by Congress, but by the sponsors' failure to find adequate capital. The improved waivers could actu-

The lenders to the project are insisting that the equity be invested first, this lowers the effective rate of return to the sponsors. This effect is included in the 25 percent estimate. A higher figure of 35 percent rate of return would result if sponsors contributed their equity in fixed proportion with debt as anticipated in the President's decision.

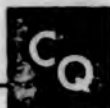
With the average return on invested capital for U.S. industry as a whole being about 15 percent, this project would certainly be attractive investment if it can be completed.

The waiver package would not affect return on investment, except to increase the possibility that the project would be financed. Alaska segment equity participants would not be paid during any prebilling and are at risk in the case of noncompletion. Although the sponsors cannot collect their return on equity during prebilling it is not correct to say that equity participants lose money during this period. The existing equity investments are added to the rate base and would increase due to the AFUDC additions (allowance for fund used during construction). Equity contributions are allowed and accumulating return on investment during construction. All of which begin to be paid when the project is actually completed. Of course, the waivers allow Canadian equity holders to begin to collect their equity upon prebilling.

2. *Producers.*—Aside from being participants in the equity financing of the project, the producers benefit from the ability to sell their Alaska natural gas. Without ANGTS the natural gas would be reinjected and of no realizable value until it can be marketed. Thus, the producers, including the state of Alaska which owns a 12 percent royalty share of the natural gas, have much more to gain from the sales of the gas than their equity participation in the project. When the profits from the sale of Alaska natural gas and the return on investment in ANGTS are combined, the producers are calculated to receive a return on investment of over 50 percent. In other words, the producers would make back their investment, on average, every two years. The revenue on the sales of the Alaska natural gas alone would be over \$30 billion.

B. The Canadians

The Canadians gain a number of benefits from the construction of ANGTS. First, the prebuilt section of the project provides them with a ready mode of transporting Canadian gas to United States markets. Although the initial transportation charges are net back to Alberta producers, the prebuilt section in Canada would be paid for by American consumers upon billing commencement for the entire Canadian segment. Second, the pipeline in Canada for the most part is 56-inch pipe, larger than the pipeline in the Alaska segment. The larger Canadian pipeline was designed with the idea that the line could eventually carry

**House Fight Fails:****Congress Approves Waivers To Help Secure Financing For Alaska Gas Pipeline**

Swatting aside last-minute parliamentary tactics by opponents, Congress Dec. 10 cleared President Reagan's Alaska gas pipeline waivers, dumping the fate of the \$40 billion project in the lap of the nation's banks.

The waivers to the 1977 decision to build the pipeline will put part of the risk of construction delay or non-completion on 38 million natural gas consumers in 47 states. Project sponsors hope that this, plus increased involvement by major oil companies, will persuade banks and other U.S. and foreign investors to lend them \$22.5 billion to build the Alaska segment of the pipeline.

Funding for the portion going through Canada appears assured, and the section in the continental United States is nearly completed. If the entire 4,800-mile pipeline is built — and there is still considerable doubt, even with the passage of the waivers — it would be the largest project ever built with private financing.

In 1977, it was estimated that the pipeline would cost \$8 billion to \$10 billion. But more detailed engineering studies, coupled with inflation, have driven the cost to about \$40 billion, which made it difficult to find financing and led sponsors to seek the waivers.

Opponents called the waiver package a consumer rip-off and contrary to the administration's professed free-market philosophy. Supporters said it was a reasonable attempt to open up Alaska's huge supplies of natural gas to help meet the nation's energy needs.

Consumer advocates were outmatched as the pipeline sponsors put on one of the heaviest lobbying campaigns in recent congressional memory. Also working with the sponsors were labor unions whose members would benefit from the jobs pipeline construction will provide.

Congressional Action

President Reagan sent the waivers to Congress Oct. 15. The Senate Nov. 19 voted 75-19 for a resolution (S J Res 115) approving the package. The House passed an identical resolution (H J Res 341) by a 233-173 vote Dec. 9. (*Vote 322, p. 2470; Senate action, Weekly Report p. 2313*)

However, opponents blocked the resolution from being formally cleared until Dec. 10, when they forced another House vote. They hoped the delay would enable them to switch enough votes to kill the waivers.

They did manage to narrow the margin by 18 votes but still lost, 230-188, as the House passed the Senate resolution Dec. 10. Eight members, all Republicans, switched from supporting the resolution to opposing it. There were no defections from the opposition. (*Vote 329, p. 2472*)

Most of the opposition to the waivers in the House

—By Andy Plattner

came from the Midwest and Northeast, where residential use of natural gas for heat is heaviest. For example, voters from Maine, New Hampshire, Vermont, Connecticut, Rhode Island and Massachusetts produced only one vote for the waivers Dec. 9, and 21 against. On the other hand, the gas-producing states of Oklahoma, Texas and Louisiana voted 23-1 for the waivers. Representatives from 19 Midwest states voted 42-73 on the resolution.

Sen. Howard M. Metzenbaum, D-Ohio, and Rep. Philip R. Ottinger, D-N.Y., challenged the second House vote as illegal and promised a court suit. They said the 1977 law (PL 94-586) providing for expedited congressional consideration of Alaska pipeline issues prohibited more than one vote in either chamber on the waivers within a 60-day period. Supporters said the vote was legal because it was an identical resolution. Rep. Philip R. Sharp, D-Indiana, said opponents were using a "tortured interpretation" of the 1976 law, which limited debate and barred amendments.

Background

The 1976 law, the Alaska Natural Gas Transportation Act, directed the president to select a method for bringing natural gas to the continental United States from Prudhoe Bay, Alaska, where 26 trillion cubic feet of gas, 35 percent of U.S. proven reserves — were discovered in 1968. In 1977 President Carter decided a pipeline would be built. (*Background, map, Weekly Report p. 1535*)

The decision stipulated that the project would be privately financed. It prohibited the oil companies from

The waivers package is "the greatest consumer rip-off in history."

—Rep. Tom Corcoran, R-Ill.



the gas from also owning part of the pipeline. And gas consumers could not be billed for the construction of the pipeline until the line was completed and operating.

But the consortium seeking to build the pipeline, the Alaskan Northwest Natural Gas Transportation Company, was unable to secure financing under those restrictions early last summer, at the insistence of its bankers, it sought a package of waivers to the 1977 law.

The sponsors' proposal was more liberal than the 1977 law. President Reagan eventually submitted to Congress a package that would have enabled the companies to begin billing consumers immediately for construction costs. But it

ators consulted by the administration suggested a package that would not charge consumers until significant portions of the line were finished; Reagan adopted their version.

The administration argued that helping to secure financing for the project was necessary to meet U.S. commitments to Canada, which is building the pipeline within its borders. That argument helped persuade key Democrats, including Morris K. Udall, D-Ariz., chairman of the House Interior Committee, which approved the waivers Nov. 12 by a 32-9 vote (H Rept 97-350, Part I).

Another key Democrat, Sharp, chairman of the House Energy and Commerce Subcommittee on Fossil Fuels, decided that the burden placed on consumers by the waivers



"In return for bearing a small financial risk, consumers will benefit by receiving a secure and economic source of U.S. fuel."

—Rep. Don Young,
R-Alaska

was not as great as the benefit they would gain from the Alaska gas supplies. His support, along with extensive lobbying by the sponsors, secured a 27-14 vote Nov. 19 for the waivers in the full committee (H Rept 97-350, Part II).

House Debate

When the waiver package was drafted, strong opposition came from two key members of the House Energy and Commerce Committee: ranking Republican James T. Broyhill, N.C., and Clarence J. Brown, Ohio, senior Republican on the Fossil Fuels Subcommittee.

But neither wanted to take the lead in opposing the White House on the issue on the floor. Instead, the opposition was led by Tom Corcoran, R-Ill., who had tried unsuccessfully to block the waivers in the committee.

In floor debate Dec. 8, 9 and 10, opponents of the waivers argued that there were other, cheaper ways to bring the gas from Alaska, such as in liquid form by ship. They also warned that the gas might be so expensive because of the high transportation cost that it would be unmarketable, and that the waivers could be the first step toward federal financing of the project.

Sponsors countered that the pipeline was the only viable way to transport the gas. They said banks and prospective lenders will not loan the consortium the money if the gas will not be marketable. And they said the waivers are as far as Congress will go — no federal financing will ever be approved.

Sharp acknowledged that the waivers had problems. "But in my mind the promise of the pipeline is sufficient to outweigh the problems with the waivers," he said, "and you cannot have one without the other." He said failure to go forward with the project would put consumers in danger of

not having adequate gas supplies.

While Corcoran labeled the waivers "the greatest consumer rip-off in history," Don Young, R-Alaska, said "this is a consumer-oriented package of waivers. In return for bearing a small financial risk, consumers will benefit by receiving a secure and economic source of U.S. fuel."

Majority Leader Jim Wright, D-Texas, said approval of the waivers "is one way that we can strike a blow for energy independence for the United States." He said delay of the pipeline would cost consumers more in the long run.

After the House passed H J Res 341, Corcoran objected to a routine unanimous consent request to then approve the identical Senate measure. Udall said in his 20 years in the House he had never seen such an objection.

Aided by consumer advocate Ralph Nader, Corcoran hoped to use the delay to generate additional opposition to the waivers. Nader, noting extensive campaign donations to members of Congress from pipeline sponsors, said after the Dec. 9 House vote that the Democratic Party had "sold its soul and sold its credibility for a few million dollars in campaign contributions."

The Senate could have eased the situation by simply passing H J Res 341, which was identical to the bill it passed Nov. 19, but Metzenbaum promised a filibuster if the issue came up. Instead, sponsors got clearance from the House Rules Committee Dec. 9 to bring S J Res 115 to the House floor on Dec. 10.

Provisions

As cleared by Congress, S J Res 115:

- Allowed the major oil companies that own the Prudhoe Bay gas to also own part of the pipeline. The companies are the Exxon Corp., Standard Oil Co. of Ohio (Sohio) and Atlantic Richfield Co. (ARCO).

The Justice Department in 1977 insisted that oil company ownership of the pipeline be prohibited based on antitrust concerns. But the banks said it was unlikely private financing could be arranged without the substantial involvement of the oil companies. In testimony supporting the waivers, pipeline sponsors said the oil companies would own 30 percent of the project.

- Allowed the Prudhoe Bay conditioning plant, needed to prepare the gas for shipping in the pipeline, to be included as part of the project that eventually will be charged to consumers. This \$6 billion plant originally was to be the responsibility of the oil companies, but as part of the deal for the companies assuming part of the pipeline ownership, they insisted the plant be included as part of the system.

- Allowed consumers to be billed for part of the project before gas actually is transported.

If the entire pipeline is not completed by the date the Federal Energy Regulatory Commission (FERC) determines that it should be completed (probably 1987), consumers could begin getting bills if at least one of the three segments (the pipeline in Alaska, the pipeline in Canada, the conditioning plant) is finished and ready to operate.

- Eliminated the requirement that FERC hold formal hearings on each application for certification that the pipeline will require. However, FERC would be allowed to hold such hearings at its discretion.

- Restricted FERC's authority to modify the tariff schedules for billing consumers after it sets them. This "regulatory certainty" provision was said to be necessary to assure lenders that the income generated by the project would not be reduced by later FERC changes. Tariffs could be increased by FERC but not lowered.

Reagan Plan Opposed:**Committee Votes to Block Continued Production From Naval Oil Reserve**

With unusual partisanship, the House Armed Services Committee voted 19-13 Dec. 9 to block President Reagan's plan to continue pumping oil from the Naval Petroleum Reserve at Elk Hills, Calif.

The prime beneficiaries of continued production would be refiners in Reagan's home state and the U.S. Treasury, which gets \$2 billion a year from selling the oil.

The committee vote is likely to be meaningless, however, because House action on the disapproval resolution (H Res 287) is not expected before the early January deadline for congressional consideration.

House Armed Services traditionally has operated in a bipartisan manner; for example, unlike other committees, it does not have Republican and Democratic staffs, just one professional staff. But on H Res 287, Democrats voted 15-4 for it while Republicans opposed it 4-9.

The president had told Congress Oct. 6 that it was in the national interest to continue Elk Hills production at the maximum efficient rate for another three years. Energy Department (DOE) officials acknowledged that the decision was based primarily on economic benefits that accrue to the Treasury by the sale of the oil. The DOE office that administers the reserve had recommended that the field be "shut in," which means producing at only the minimum level necessary to sustain the field.

Under the 1976 law (PL 94-258) that allowed production at the military reserve, Congress had 90 days to block that decision by passage of a resolution of disapproval by either chamber. No action to disapprove Reagan's plan has been taken in the Senate.

The House Armed Services Committee decided it was wiser to save the oil from Elk Hills for use by the military in an emergency. If the House passed H Res 287, oil from the Elk Hills field, the second largest in the United States, would dry up to a relative trickle, from 180,000 barrels a day to about 25,000 barrels a day.

"There really is no need for Elk Hills production [now]," said Richard C. White, D-Texas, chairman of the Armed Services Investigations Subcommittee, who sponsored the disapproval resolution. "But if we ever get into a national defense emergency, there will be a need for it." White's panel approved the resolution, 6-4, Dec. 8.

But the resolution had to be passed by the House before Congress adjourned for the year. (By the time Congress returns in January, the 90-day period for consideration would have expired.) White said Dec. 9 he had no assurances from the leadership that floor action would be scheduled before adjournment.

The administration, with \$2 billion in revenue at stake, was opposing H Res 287. So were California legislators who represent refiners that benefit from Elk Hills oil. Also lined up in opposition was Standard Oil Co. of California (Chevron), which owns 20 percent of the Elk Hills reserve.

The reserve at Elk Hills and one at Teapot Dome,

Wyo., were set aside by the government early in this century to ensure that the Navy would have fuel in an emergency. But in 1976 Congress authorized production of oil from these reserves for six years. After that, the president could ask for three-year extensions of production if he certified that it was in the national interest to do so, as Reagan did Oct. 6. (1976 action, 1976 Almanac p. 105)

H Res 287 also would block continued production at Teapot Dome, but that reserve is nearly depleted anyway; it produces only about 3,000 barrels of oil a day. But Elk Hills has proven reserves of over a billion barrels and, in an emergency, could pump nearly 250,000 barrels daily. (The daily peacetime requirement of the Defense Department is about 450,000 barrels a day.)

Elk Hills oil is a light crude that is exceptionally high in quality and low in sulfur content. Currently, about 100,000 barrels a day are being sold to California refiners; they mix it with heavier, lower quality oil in a blend that is piped to West Coast refineries.

According to a staff report prepared for the House Energy and Commerce Committee, which studied the issue but did not act on it, "a number of California small refiners have become very dependent on Elk Hills crude oil over the past six years." Part of the remaining oil from Elk Hills goes to Chevron, as its share, and part is sold to the Defense Department.

One argument made by Armed Services for shutting in Elk Hills was that a West Coast supply of crude oil was needed in case of a national emergency. Although there are over 200 million barrels of oil in the Strategic Petroleum Reserve located on the U.S. Gulf Coast, that oil can only get to the West Coast by ship through the Panama Canal. ■

Energy-Water Bill Signed

Deciding that an extra \$375 million did not bust his budget, President Reagan Dec. 4 signed the fiscal 1982 energy and water development appropriations bill into law (HR 4144 — PL 97-88).

Although it exceeded his revised budget request by that amount, Reagan said the \$12.5 billion measure "should be a model for a responsible approach to reducing budget deficits. It provides nearly three-fourths of the additional savings for 1982 that I requested."

When Congress cleared HR 4144 Nov. 21, members were not sure Reagan would sign it. The final version of the bill gave him more money than he requested for energy research, water projects and the Appalachian Regional Commission, and less for nuclear weapons programs. (Weekly Report p. 2352)

Reagan had promised at an Oct. 1 news conference that "I will sign no legislation that would bust the budget and violate our commitment to hold down federal spending." (Weekly Report p. 1883)

In March, Reagan requested \$13.4 billion for programs funded in HR 4144. In September, in the face of growing budget deficits, he cut that to \$12.1 billion.

HR 4144 included most of the fiscal 1982 funding for the Energy Department. About \$1 billion for the department's fossil fuel and conservation programs was included in the Interior appropriations bill (HR 4035). (Weekly Report p. 2226)

—By Andy Plattner

Grants Eminent Domain Power:**Panel Narrowly Approves Coal Pipeline Legislation**

Legislation to promote the construction of coal slurry pipelines as an alternative to shipping Western coal by rail has been approved by one vote by the House Interior and Insular Affairs Committee.

The bill (HR 4230), ordered reported by a 21-20 vote Dec. 8, would allow federally approved pipeline firms to obtain rights-of-way across private lands through eminent domain after private negotiation had failed.

Similar legislation was reported during the 96th Congress, but opposition from railroads and some Western states kept it from reaching the House floor or moving out of a Senate committee. This year, proponents also face resistance from President Reagan. (1980 *Weekly Report* p. 3506; 1979 *Weekly Report* p. 2840)

Coal slurry is pulverized coal mixed with water transported through a pipeline. At the end of the line, the water is reclaimed and the coal burned to generate energy.

The only operating pipeline is the Black Mesa Pipeline, which connects the Black Mesa coal mine in northeastern Arizona with a power plant in southern Nevada. Others are planned but have been blocked by the refusal of railroads to grant rights-of-way.

Utilities, other coal interests and some consumer advocates argue that the bill will help bring down energy costs by providing competition to railroads. They say railroads now can charge unduly high rates because there is no alternative transportation available.

The railroads, credited with the 1978 House defeat of a pipeline bill, contend that it would be unfair to give competitors the power of eminent domain over rail lands and allow them to siphon off needed revenue. Also, some Western states are concerned that the pipelines would divert scarce water

supplies. (1978 *Almanac* p. 675)

Administration officials said that allowing the federal government to grant eminent domain powers to pipeline companies would be a blow to states' rights. President Carter had supported coal slurry legislation.

"We were dealt a severe blow by the administration. I can't believe a Republican administration that believes in competition would be against this," Interior Committee Chairman Morris K. Udall, D-Ariz., said.

Despite Reagan's opposition, HR 4230 drew bipartisan support from committee members.

The House Public Works Committee began hearings on the bill Dec. 8. Floor action is not expected until next year. Another coal pipeline measure (S 1844) is pending in the Senate Energy and Natural Resources Committee.

Legislation

The bill (HR 4230) requires the Interstate Commerce Commission (ICC), which regulates surface transportation, to issue a certificate to a pipeline company if the commission determined that "public convenience and necessity" required or would be enhanced by the operation of the proposed coal pipeline.

Once a company received the certificate, it then could go to federal or state court to exercise the power of eminent domain and secure rights-of-way through private lands.

The court would set the compensation due the property owner.

However, the eminent domain authority would not give pipeline companies rights to water except as allowed by the state.

The provision was included by the committee to help assure Western states that scarce water needed for farming and other uses would not be diverted to coal slurry pipelines against their will.

Provisions

As ordered reported, HR 4230:

- Declared that coal pipeline construction was a public use that justified granting the power of federal eminent domain to companies under certain conditions.

- Allowed a person with an ICC certificate to acquire rights-of-way through private lands by exercising eminent domain in federal or state court.

- Prohibited anyone from acquiring water rights by eminent domain.

- Prohibited, except under certain circumstances, right-of-way acquisition through eminent domain if the land was a historic site, wilderness or wildlife refuge.

- Required the ICC to approve a certificate of "public convenience and necessity" to construct, operate or maintain a coal pipeline if the commission determined that the present or future "public convenience and necessity" required or would be enhanced by construction, operation and maintenance of the pipeline. The ICC may approve the certificate with modifications.

- Required coal pipeline carriers with ICC certificates to provide service upon reasonable request.

However, carriers could contract with shippers to provide services under specified rates and conditions. The carriers could not discriminate unreasonably by refusing to enter into similar contracts with other shippers.

- Allowed the interior secretary to grant rights-of-way through federal lands.

- Prohibited the federal government or certified pipeline operators from reserving or using water within any state for a pipeline unless the use was pursuant to state law.

- Required the transportation secretary within a year of enactment to issue regulations establishing standards for the safe construction, operation and maintenance of coal pipeline facilities.

Failure to comply with the regulations would result in a penalty of up to \$5,000 for each day the person was in violation. Willful violation would be subject to a penalty of up to \$10,000 and one year in jail.

—By Judy Sarasohn



Stalled over Auto Standards:

Tough Issues Still Unresolved In Rewrite of Clean Air Law

The Senate Environment and Public Works Committee has completed its 1981 work on a Clean Air Act rewrite, leaving unresolved many of the cloudiest air pollution issues.

At its last markup Dec. 11, the committee voted 9-7 to delay a decision on perhaps the thorniest issue relating to automobile pollution: whether to relax carbon monoxide emission standards, a change sought by automakers and the Reagan administration. (*Auto lobby*, p. 2443)

An amendment by Sen. Steven D. Symms, R-Idaho, would allow 1983-86 model cars to emit 7 grams of carbon monoxide per mile, rather than the 3.4 grams per mile currently required.

After 1986, the Environmental Protection Agency (EPA) could determine whether the 7-gram standard should be retained, changed, or returned to the 3.4 gram level, based on new studies of the public health effects of carbon monoxide emission.

Action on the Symms amendment was delayed at the request of Pete V. Domenici, R-N.M., who wanted the panel to evaluate new information released by environmentalists Dec. 9 about the effects of relaxing the standard. Vice President George Bush called Chairman Robert T. Stafford, R-Vt., during the meeting to urge delay also. (*Stafford profile*, p. 2440)

Symms, admitting he lacked the votes to adopt his amendment, supported the delay.

The Senate committee did not resolve several other vehicle emission issues, including what to do about emissions at high altitudes and in cold climates — where certain pollutants are more difficult to control — and what kind of manufacturer guarantees should be required for pollution control equipment.

In addition, the panel must decide whether to retain a requirement

that cities that cannot meet national clean air standards impose inspection and maintenance programs for pollution control equipment on cars already on the road.

Also held over until next year were most non-automobile issues, such as whether to retain the act's strict requirements to protect pristine air and what kind of pollution control measures to require in dirty-air areas.

The authorization for appropriations under the law (PL 95-95) expired Sept. 30, but money was provided to extend the program in the continuing appropriations resolution (H J Res 370). The regulations will stay on the books until changed by Congress. (*1977 Almanac* p. 627)

Background

Title II of the law requires that new automobiles, trucks, buses and motorcycles emit fewer pollutants each year — using catalytic converters and other devices — so that cities can meet the national clean air standards by 1982.

The act sets limits for hydrocar-

bons (HC), carbon monoxide (CO) and oxides of nitrogen (NOx), and requires a 90 percent reduction from uncontrolled levels for all auto-related pollutants except NOx, which must be reduced by 75 percent. (*Health effects of pollutants*, *Weekly Report* p. 267)

The EPA can waive certain standards, if public health does not require the statutory standard and if the technology to meet it does not exist.

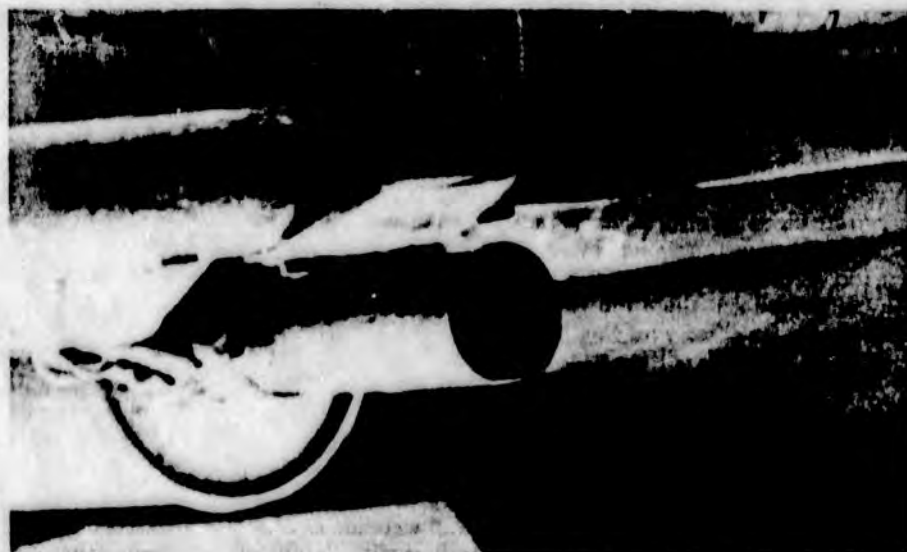
Industry Objectives

The Symms amendment was only one of several changes in the act sought by the beleaguered U.S. auto industry, which has seen new car sales slump to their lowest levels in 23 years.

The other industry proposals were included in a House measure (HR 4400), introduced by Reps. Bob Traxler, D-Mich., and Elwood Hillis, R-Ind., that auto companies admitted was an industry "wish list." No similar bill was introduced in the Senate.

The Senate committee considered only a handful of the items covered in HR 4400, the most controversial of which was the relaxation of carbon monoxide standards for automobiles. The panel refused to consider another major relaxation sought by the industry: changing the 1.0 gram per mile standard for NOx to 2.0 grams per mile.

The automakers claimed the na-



Auto companies want to roll back emission standards for oxides of nitrogen. Diesel-powered automobiles, like the one above, cannot meet current standards.

—By Kathy Koch

tion's air quality would continue to improve, and most U.S. cities could still meet the national air pollution standards, even if both the CO and NOx standards were relaxed. As old cars wear out, auto officials argued, the air will improve enough to make up the difference.

The Reagan administration agreed, noting that relaxing the standards would save the industry \$1 billion a year.

However, the proposals are tough to sell to Congress because they mean removing equipment already on most cars and rolling back standards that already can be met.

Nearly all 1981 cars met the NOx standard. During the Carter administration, only 30 percent of the 1981 fleet was granted waivers from the 3.4 gram standard for carbon monoxide. But 70 percent of the 1982 cars have been granted waivers by the Reagan administration.

The auto officials never argued that changing the standards would make a sufficient difference in cost to sell enough cars to save the ailing industry. But it would spare car buyers needless expense, they said, because the tighter controls were not necessary to meet the national standards.

The manufacturers argued that if both standards were relaxed they could remove about \$360-worth of pollution control equipment — \$60-worth of equipment for controlling CO and \$300 for equipment to control NOx.

General Motors (GM) Chairman Roger B. Smith promised Congress his company would lower sticker prices on new cars, passing on to consumers "dollar for dollar" any savings realized from removing the equipment.

"The air will keep getting cleaner and cleaner, and car prices will go down," said Smith. "That's the best way I know of affecting sticker shock right now."

Carbon Monoxide Arguments

Although the Senate panel balked at changing the NOx standard, it considered the CO relaxation mainly because it was recommended by the National Commission on Air Quality (NCAQ). The NCAQ said the NOx standard should not be changed. (NCAQ report, *Weekly Report* p. 423)

Symms said relaxing the CO requirements would save \$30-\$60 per car and improve fuel economy by up to 1 percent. Public health would be adequately protected, he said, yet the action would "help a depressed indus-

try at an environmental cost which is at most infinitesimal."

Sen. Gary Hart, D-Colo., who was chairman of the NCAQ, opposed Symms' amendment because it did not incorporate other NCAQ recommendations proposed as part of a total vehicle pollution control package. Only if all the vehicle recommendations were included in the law, Hart said, could the CO standard be relaxed without causing U.S. cities to exceed the national standards.

The NCAQ package included:

- Retaining the CO emission standards for heavy duty trucks scheduled to go into effect in 1984.

- Retaining the requirement that autos sold in high-altitude areas comply with national emission standards.

- Requiring that pickup trucks meet the national emission standards in high altitude areas.

- Retaining the requirement that cities with the most severe auto-related pollution problems establish mandatory programs to inspect and maintain pollution control equipment on cars already on the road.

Hart had offered to draw up such a package and offer it to the committee, but did not get much support from the rest of the panel. Consequently, he may propose each of the NCAQ proposals separately.

What the Opponents Say

The National Clean Air Coalition — a collection of environmental, labor and citizen action organizations — disputes the claim that the national standards can still be met even if the CO standard is relaxed.

In a Dec. 9 press conference, the coalition released a study showing that at least 16 cities — containing more than 40 million people — may never meet the national standard for CO if the 3.4-gram standard is relaxed.

"We think it is very important that the myth that we don't need this level of control be dispelled," said David Hawkins, coalition counsel and the former head of EPA's air pollution program. "We believe that relaxing the standard would have a very adverse affect on public health."

Using internal EPA documents, Hawkins said assertions that the standards can still be met with relaxed CO standards were based on over-optimistic predictions about on-the-road performance of pollution control equipment.

In addition, he said, EPA's pre-

dictions ignored the increased carbon monoxide emitted by cars at high altitudes and in cold-weather cities.

"What we've got here is a public health gamble," said Hawkins.

The same day, seven health organizations, including the American Lung Association and the American Public Health Association, wrote the Senate panel urging rejection of the Symms amendment.

They said carbon monoxide, 83 percent of which comes from motor vehicles, can aggravate angina and can be dangerous to persons with cardiovascular disease and pregnant women.

They noted that the NCAQ suggestion that the CO standard be relaxed was based on the assumption that mandatory inspection and maintenance programs would be retained.

"We question the validity of these assumptions," the groups said, noting that some members of Congress want to eliminate mandatory inspection requirements. Without inspection programs, the groups said, violations of the national carbon monoxide standard are projected to double between 1984 and 1990.

NOx Standard Retained

The Senate panel did not even consider relaxing the NOx standard, primarily because it is a precursor to acid rain and contributes to ozone, another pollutant regulated by the act. Further, national levels of NOx are expected to increase over the long term, as more factories and power plants shift from oil to coal. Coal emissions contain NOx.

Some Senate staffers said one reason the industry wants to relax the NOx standard is to allow manufacturers to switch to diesel-powered cars.

Diesels may not meet the current 1.0 gram per mile standard for NOx until 1985. All 1981 and most 1982 diesels were granted waivers allowing them to emit up to 1.5 grams per mile.

But because diesels achieve about 35 percent better mileage than gasoline engines, auto companies, particularly GM, plan to start manufacturing diesels on a large scale. Current estimates are that diesels may represent 20 to 25 percent of the auto and pickup truck sales by 1995.

Since Ford and Chrysler are not prepared to make the diesel switch as quickly as GM, changing the NOx standard would give GM a competitive advantage over the other two companies, according to a recent Congressional Research Service study. ■

Stafford Walking Political Tightrope . . .

As he seeks to shepherd a rewrite of the Clean Air Act through his Senate Environment and Public Works Committee, Chairman Robert T. Stafford, R-Vt., is walking a political tightrope.

On the one hand, he is under pressure from industry and the Reagan administration to make significant changes in the landmark anti-pollution law. On the other, Stafford is seeking re-election next year from a state with a strongly pro-environment electorate, and environmentalists are urging him to stand fast against any modifications in the law.

So far, the Vermont Republican has managed to balance the competing pressures by using a combination of quiet patience and stubborn Yankee determination. Without publicly confronting those who seek major changes in the Clean Air law, he has insisted that only a fine-tuning of the legislation can make it out of his panel and through the Senate this Congress.

"He is the quintessential Vermonter," said freshman committee member Sen. Slade Gorton, R-Wash. "He's very calm and thoughtful, and he doesn't speak a whole lot. But he has very strong views. He's very principled, and he doesn't change his views easily."

Stafford's tenacity has surprised — and frustrated — industry and the administration, both of whom thought earlier in the year that he would be a pushover for major changes they sought in the act.

"He's clearly been more effective than a lot of people last year thought he could be against the industry tide," said one observer who helped write the congressionally mandated National Commission on Air Quality (NCAQ) report on the law. (*NCAQ report, Weekly Report p. 423*)

"He's been helped by an inept administration. Industry is just appalled at the administration's handling of this issue," he said.

In the face of strong public support for the act, the administration has taken a backdoor approach, leaking proposals for major changes in the law rather than coming out publicly with a bill of its own. (*Background, Weekly Report p. 2191*)

Stafford Strategy

Stafford's strategy has been to sit tight, play his cards close to the vest and put the burden of proof on those who want changes to show that they are necessary.

In an unusual approach, he has not introduced a draft bill from which the committee could work. Instead, he is having the panel review the act section by section, forcing anyone seeking changes to draft specific amendments and sell them individually to the rest of the committee.

Since it is difficult to horse-trade votes without knowing what will be in the rest of the bill, committee members have been reluctant to take stands on certain controversial issues.

Meanwhile, Stafford — an original author of the landmark law — has sat back during markups in his characteristically taciturn, wry style and watched as other members — most of whom are unfamiliar with details of

the Clean Air Act — slowly realize that it is far too complicated to deal with in a slap-dash manner.

"He's conducting these sessions with a great deal of bemused patience," said committee member Alan K. Simpson, R-Wyo., "as he watches us doing now what we should have been doing during the 25 days of committee hearings — and that's participating."

"He's a man of great patience, but more extraordinarily, he has the ability to let each of us vent our frustrations with the complexity of the act. He's a true old pro," Simpson said.

Stafford's strategy has been buttressed by several recent polls showing strong public support for the act and by the heavy grass-roots lobbying of environmental groups, who contend the administration wants to gut the act. The polls and the lobbying have left the committee extremely skittish about changing the law.

"The U.S.A. is wired up," said Simpson. "The word is that when you say you want to fine-tune the act, that means doing nothing. And none of us has the time or the [communication] systems to explain the depth and nuances of why we would vote to change certain parts of the act."

Mixed Reviews

Stafford's strategy has drawn mixed reactions from fellow committee members.

Some blame Stafford for the glacial pace of the committee's rewrite, criticize him for not offering a markup vehicle and complain privately that Stafford — while extremely well-respected for his gentlemanly approach — is not showing leadership.

"I'm not satisfied with the progress we're making," said Sen. Lloyd Bentsen, D-Texas. "I don't think the format is conducive to making any kind of progress. I had hoped we could have used the NCAQ report as a [markup vehicle]. Having a markup vehicle makes for an orderly process. That's the way we do it in many committees."

"There's some anxiety that all we're doing is spinning our wheels and treading water," said one Republican staffer who did not want to be identified. "Some members are getting disgruntled about it. I just don't think the leadership is there."

Others disagree. "There has been some unhappiness expressed by some members about the way things are being handled, but I'm not among those," said Gorton. "I can't say that I am unhappy about the speed of the action," he said.

"His [Stafford's] strategy is consistent with his personality," said Gorton. "He's not a hard-driving person. He's the farthest thing there could be from a dictatorial chairman."

"He's handling the process excellently," said Leon Billings, the committee's staff director when the act was passed in 1970 and amended in 1977 and currently a consultant to the California Air Resources Board.

"The only way that bill can survive the Senate is if the committee can develop a consensus, and Stafford knows that," said Billings.

... As He Guides Clean Air Law Rewrite

"To do that, a whole lot of people have got to back off from their knee-jerk positions. Stafford is helping by being patient, by not pushing people, by not demanding votes or drawing lines in the dirt.

"He's letting everyone have the full opportunity to understand how complex and difficult this law is, so that they realize there ain't no such animal as a quick fix," Billings continued.

Tightrope Act

Stafford's delicate tightrope act is necessitated by several factors.

First, he strongly believes that the law does not need drastic changes. In dozens of speeches since last January, he has reiterated the "only fine-tuning" theme.

His philosophical commitment to the act is reinforced by parochial political considerations as he prepares to run for another term in environment-conscious Vermont.

Secondly, Stafford has consistently argued that because of the complexity of the act and the nature of the Senate, only a bill acceptable to the entire committee can make it through the Senate.

"The bill as a whole must reflect a consensus. I believe we can complete a reauthorization this year, but if not, our chances will be dramatically diminished if not virtually extinguished in this Congress," Stafford said when the panel began its markup Nov. 3.

However, he chairs a committee that, in order to reach agreement, will probably approve more changes than Stafford himself would prefer. His position is complicated further by the fact that there is no accord on key issues among Republicans on the panel — let alone between them and committee Democrats.

Yet he is under intense pressure from top White House officials, with whom he meets regularly, to get a bill cleared this year.

At a Dec. 3 meeting, White House officials told Stafford that President Reagan was ready to go on television calling for Senate action this year.

Stafford quietly pointed out that at each markup he has asked those seeking changes favored by the administration if they were ready to vote, but that senators supporting such amendments have backed away from a showdown because they have not had the votes.

Bucking the Administration

The Clean Air rewrite is not the first time this year that Stafford has stood up to President Reagan.

The Vermont Republican also serves on the Senate Labor and Human Resources Committee, where he was instrumental last May in modifying the president's proposals to lump a wide range of health and education programs into block grants to the states.

Along with Lowell P. Weicker Jr., R-Conn., Stafford joined committee Democrats in opposing Reagan's original proposal — a centerpiece of the president's "new federalism."

He then crafted a compromise plan that exempted

from the block grants certain major programs such as aid to low-income students, legal services for the poor and aid to the handicapped. Stafford's compromise, largely incorporated into law (HR 3982 — PL 97-35), also placed restrictions on many smaller programs that were incorporated into the block grants. (*Weekly Report* p. 907)

Stafford the Educator

Stafford's concern for education carries over to his handling of the Clean Air rewrite.

One reason he has been unable to move any faster on the legislation is because many members of the committee simply do not understand the complex jargon and



"I believe we can complete a reauthorization this year, but if not, our chances will be dramatically diminished ... in this Congress."

—Robert T. Stafford,
R-Vt., chairman,
Senate Environment
Committee

intricate workings of the act. Even the staff at times has disagreed publicly over the impact of various amendments.

The panel held two dozen hearings during the year, but many of the senators did not show up for them. Stafford then held caucuses with the Republican members who were anxious to get moving with amendments, but no consensus could be reached, largely because some of the newer members did not understand the act.

Then Stafford scheduled several "seminars," during which panel members discussed the seven major issues, trying to establish a consensus among the members. Even in the month since formal markup began, much of the time has been spent educating the members on the issues.

"I think he's on the right track, even though it's a slow process," said Simpson.

"He's held 24 hearings, and now we're all suddenly paying attention and trying to bring ourselves up to speed. He's patient and wry as he watches us.

"If you went quicker," he added, "you would disclose on the floor a great deal of confusion from the jurisdictional committee, and that's never good. He's letting us slowly come to that position."

—By Kathy Koch

Spinning Their Wheels:

Auto Firms Find Slow Going For Changes in Clean Air Law

Over the years, the auto industry has accumulated a lot of political mileage. But in their drive to relax the auto emission standards of the Clean Air Act, the automakers have not been running on all cylinders.

An industry-backed effort to amend the auto emission section of the 1970 Clean Air Act has had slow going in the House, even with the formidable figure of Rep. John D. Dingell, D-Mich., in the driver's seat.

In the Republican-run Senate, despite backing from the Reagan administration, the automakers have not even tried to find a sponsor for some of their more controversial proposals. (*Details of legislation, p. 2439*)

All of this comes at a time when the auto industry — an economic wreck — would seem to be a natural candidate for congressional sympathy.

"Here's an industry that, if it ever was to receive any favorable treatment, now is the time," said Ben Jackson, a lobbyist for firms that make and sell replacement auto equipment. "But Congress is not buying the argument."

The automakers still have plenty of horsepower and several opportunities to gain ground before the Clean Air Act revisions clear Congress.

But the problems the industry has had so far are revealing. They illustrate both the surprising political durability of the clean air law and possibly some inherent limitations in the industry's political machinery.

The motor vehicle lobby is a tenuous coalition of a few big companies that regard each other with a sense of competition and suspicion.

General Motors Corp. (GM) and Ford Motor Co., the least-ailing companies financially, have large Washington offices. Chrysler Corp., the American Motors Corp. and other domestic manufacturers of cars and trucks keep thinly populated offices in the capital. The lobbyists bring in executives from Detroit to enhance their case.

The companies also retain an array of lawyers and consultants, includ-

ing some of the city's most prestigious, to specialize in such areas as tax law.

The Motor Vehicle Manufacturers Association (MVMA) tries to harmonize industry views. Over the years it has become less a conventional trade association, pooling the power of many members, than a referee among giants. MVMA had 146 member companies in 1920; today it has 11.

The industry's consensus bill (HR 4400) was drafted to specifications hammered out by industry representatives around a conference table at MVMA, and MVMA has tried to orchestrate the lobbying on its behalf.

The "big four" automakers — General Motors, Ford, Chrysler and American Motors — all maintain political action committees to reinforce their lobbying activities. Their reports to the Federal Election Commission showed that by the end of October, they had contributed nearly \$124,000 to federal candidates in 1981, including 14 members of the House Energy Committee and five on the Senate Environment Committee, where clean air legislation is being considered.

While 1981 has been a grim year for automakers economically, it started off bright politically.

The Reagan administration in

April postponed a rule requiring that all cars contain air bags or other passive restraints; in October, the rule was rescinded altogether. The Environmental Protection Agency has indicated it is willing to relax several pollution-related rules automakers have challenged in court. The administration, after heavy lobbying from Chrysler's tax lawyers, has allowed distressed automakers to sell their unusable tax breaks to more solvent firms, a provision that has meant millions to Chrysler and Ford.

Early Optimism

Last summer, some industry lobbyists were confident that with Dingell, Reagan and Senate Majority Leader Howard H. Baker Jr., R-Tenn., helping out, by the end of 1981 they would also win the top issue on their wish list, a rollback of the emission limits for carbon monoxide (CO) and oxides of nitrogen (NOx).

By November, however, that optimism had dissolved.

One congressional aide related the story, possibly apocryphal, of an auto lobbyist who confronted a White House political operative in November, demanding to know why the administration had not prodded Baker to help out during early markups in the Senate Environment Committee.

"Where was Baker?" the lobbyist cried.

The White House aide supposedly retorted, "Why don't you look in your pocket. That's where you said he was."



Congress is studying whether to roll back two Clean Air Act standards governing exhaust emissions from automobiles.

—By Bill Keller

Industry and congressional participants have a variety of explanations for why the automakers have not fared as well as they hoped.

One problem is the message. The industry does not claim it lacks the technology to meet the CO and NOx standards; the equipment is already on many cars. It says removing the equipment would save about \$300 per car and improve fuel economy, but concedes that would not mean economic rescue for the industry.

Instead, the industry contends the tough standards are not necessary to meet clean air goals, and therefore are philosophically objectionable.

"I think the main reason to do it is because you *should*, not because it will sell more cars," said MVMA lobbyist Timothy C. MacCarthy.

Even among lawmakers who agree, MacCarthy conceded, that argument does not promote the sense of urgency the industry generated in opposing emission standards in 1977.

"In 1977, if certain changes weren't made, cars weren't going to be produced," he said. "It's a harder job selling a rollback. Now we're talking about standards that we're meeting that we don't think need to be met."

To Wayne H. Smithey, Ford's vice president for Washington affairs, this predicament is ironic: "For a long time, the automobile companies have been perceived as not having credibility because we were 'alarmists.' Now we come in with what we think is a fairly moderate proposal, and people say they're not stirred because we're not threatening to shut down."

But Leon Billings, former staff director of the Senate Environment Committee who is now a consultant to one of the Clean Air Act's defenders, the California Air Resources Board, said that "it appears the auto companies want everything or nothing, and the usual result of that approach is that you get nothing."

Little Help From Friends

Another problem has been that the automakers depend on allies who have not — so far — lent much clout.

"One of the mistakes the auto companies made was concentrating most of their facilities in the Midwest," contends Jackson, noting the companies consequently have a relatively narrow political base.

That is changing; MacCarthy said MVMA members now have plants in 123 congressional districts. But the companies still rely on a relative hand-

ful of lawmakers — including Dingell and HR 4400 sponsors Bob Traxler, D-Mich., and Elwood Hillis, R-Ind. — to lead the way.

When a major floor fight occurs, as in 1977, the automakers need help, particularly from the auto dealers and the United Auto Workers (UAW). (*Background, 1977 Almanac p. 636*)

Both the UAW and the National Automobile Dealers Association (NADA) have endorsed HR 4400 and are members of a loose coalition pushing it. Both groups are influential, with far-flung memberships and political action committees (PACs) a good deal wealthier than those of the automakers. (The UAW's PAC had raised over \$1 million by Nov. 1.)

But they have not thrown themselves into the battle with anything like their past energy.

H. Thomas Greene, executive director of legislative affairs at NADA, said the association has been busy with other issues, especially efforts to block a Federal Trade Commission rule on used cars. Moreover, he said, emission controls "are basically a manufacturer problem" rather than a dealer problem.

Greene said Chrysler, GM, and Ford have tried to mobilize individual dealers, but with limited success.

When they do focus on the clean air law, the dealers' main interest will be the stricter requirement for emission controls at high altitudes, which has caused car-supply problems for dealers in mountain areas. On this issue, many dealers oppose the manufacturers, who favor separate standards for high and low altitudes rather than a stricter, uniform standard.

The UAW was the key to victory for the automakers on a 1977 House amendment, but congressional sources described its lobbying this time as halfhearted. The UAW does not see huge numbers of jobs riding on the outcome, and it is traditionally loyal to the Democrats, who want to claim clean air as a campaign issue in 1982.

Nonetheless, Robert Howard, a Dingell committee aide, said unions, dealers and allied industries are ready to act. "... [A]t the appropriate moment I'm sure there will be quite a bit of championing for [HR] 4400."

The automakers received one timely bit of assistance from friends in the steel and aluminum industries — major purveyors to the auto companies. In recent weeks, aluminum- and steel-makers in West Virginia made urgent calls to Sen. Jennings Ran-

dolph, D-W.Va., a member of the Senate Environment Committee. Randolph said in an interview the pleas helped convince him to support an amendment relaxing CO standards.

Polls and Politics

One factor stalling the industry's drive is polling evidence that the public sees the Clean Air Act as sacred.

According to two sources involved in the auto dispute, House Speaker Thomas P. O'Neill Jr., D-Mass., was so concerned about the political sensitivity of clean air that he urged Dingell to ease his pressure for quick amendment of the act.

When asked what was holding up the industry's lobbying campaign, J. R. Kingman, Washington public relations manager for General Motors, replied: "The Lou Harris poll."

Pollster Louis Harris told lawmakers in October that clean air "happens to be one of the sacred cows of the American people," and that Democrats can capitalize on the issue politically. (*Poll details, p. 2192*)

Environmental lobbyists have already made good use of the polling data. Rep. Edward R. Madigan, R-Ill., a member of the House committee, told an industry group in November that its cause was in trouble because "the people who do not want any changes in the act have been much more active politically than those who want change."

Another drain on industry clout has been the role of the Reagan administration. The Environmental Protection Agency was slow getting involved — its administrator was not confirmed until May — and then decided to promote a vague set of principles rather than a specific bill.

GM's Kingman contends the industry might have done better under a second Carter administration. He said Reagan's policies and appointments have galvanized environmentalists, and attacks on the Clean Air Act have become a symbol of the larger threat.

In early December, top White House officials met with Republican senators and volunteered Reagan to play a more active personal role in amending the act.

Industry lobbyists expect the Senate to be more hospitable than its Environment Committee, and the House to be even friendlier. Ford's Smithey says:

"One advantage the delay in consideration of the Clean Air Act gives us is the time to play catch-up." ■

ential subsidy has been paid is barred from engaging in the coastwise trade.

The *Oceanic Constitution* is presently under foreign flag but was originally built as the SS *Constitution* for the now-defunct American Export Lines. The bill removes the restrictions imposed by the above sections and will help to expand and revitalize our once-proud U.S.-flag passenger fleet by returning a passenger vessel to U.S.-flag registry.

The vessel will be employed in the Hawaiian passenger cruise trade. Her sister ship, the *Oceanic Independence*, is employed on a weekly cruise service among the Hawaiian islands—with accommodations for nearly 800 passengers. She is manned by 350 American seamen and is serviced by 100 shore-side personnel. The vessel's operations in the Hawaiian islands have immeasurably added to the area's economic strength. The *Oceanic Constitution* should parallel these employment and economic benefits.

Other additional benefits include the use of U.S. shipyards to maintain and repair the vessel as required by the bill. For example, recently her sister ship, the *Oceanic Independence*, underwent extensive repairs in a west coast shipyard at a cost of over \$1 million. Addition of this ship to the U.S. fleet will strengthen our Nation's military preparedness and help improve our balance of payments due to the increased flow of international tourist dollars.

In conclusion, I want to note that even those who spoke in opposition to the bill agreed that it would be of great benefit to the U.S. merchant marine by providing us with a second large passenger vessel under the U.S. flag. It would benefit maritime labor, American shipyards, and the related support industries that will share in keeping her operational.

Enactment of this legislation will not result in any unwarranted costs to the Government, nor any unusual administrative burdens involved in re-flagging the *Oceanic Constitution* to U.S. registry. This legislation enjoys bipartisan support. It enjoys the support of the administration. I urge your support.

Mr. CARNEY. Mr. Speaker, if the gentleman will yield, 2 years ago, this House passed Public Law 96-41 which admitted five vessels to the coastwise privilege in an endeavor to revitalize the U.S.-flag operated cruise trade. This was done by waiving certain statutory restrictions in the Merchant Marine Act of 1920 and clarifying section 506 of the Merchant Marine Act of 1936. Today we propose to admit one more—the SS *Oceanic Constitution*—a ship which has been sitting in the Far East under Panamanian flag since it was sold at bankruptcy by the American Export Lines in 1974.

Of those earlier ships, only the *Independence*, sister ship of the *Constitution*, has actually returned to service. It has been operating at a

profit for some months now. This ship requires a crew of 350 men—and already provides jobs ashore and afloat for some 200 Americans. The *Constitution* will provide another 700 to 750 jobs.

The benefits to our Nation are not limited to the jobs for our mariners. Each ship will carry 800 passengers on weekly cruises, to all of the five Hawaiian islands. These 80,000 passengers each year include many European and Japanese visitors whose expenditures on the cruise and in the ports will in prove the U.S. balance of trade.

But, most importantly, at a time when we are reappraising our military responsibilities throughout the world along with resources we have available to meet them, the almost instant availability of these ships to transport troops and technicians should not be overlooked. In most areas of concern to us and to our allies, airlift can do only part of the job. Indeed, there are some volatile places of concern to us in the world where our largest cargo plane cannot land on the available airstrips. We must take practical steps to have the means to deliver troops where they are needed. The Navy would like to have eight or nine ships the size of the *Constitution* available.

At no cost to the taxpayer, simply by granting coastwise privilege to a U.S.-built ship that was sold foreign—and being thereby banished forever under the 1920 law—the Congress can provide a significant increase in the well-being of this Nation. There is probably ample business for more ships in this trade. I would like to see this ship, and in time more, U.S.-flag ships paying their own way in the cruise trade.

The SPEAKER pro tempore. The question is on the amendment offered by the gentleman from North Carolina (Mr. JONES).

The amendment was agreed to.

Mr. HEFTTEL. Mr. Speaker, I rise in support of H.R. 3782, to grant coastwise trading privileges to the passenger vessel *Oceanic Constitution*. I would like to compliment and thank Chairman Jones for his prompt and efficient consideration of this legislation.

This bill will allow the vessel *Oceanic Constitution* to engage in interisland passenger trade in Hawaii. A sister ship, the *Oceanic Independence*, is already operating an interisland cruise service in Hawaiian waters. This venture has been a tremendous success and has been a boon to the Hawaiian economy. Local residents and tourists alike have been enjoying the interisland cruises offered by the *Oceanic Independence*, which have added a new dimension to our tourism and transportation resources. An addition to this passenger fleet will serve to further expand our passenger trade and strengthen the maritime industry in Hawaii. The simple waivers provided in H.R. 3782 are an effective and inexpensive means of assisting an

entire industry as well as our island economy in general. I am pleased to support his bill and I urge my colleagues to join with me in passing this legislation.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. JONES of North Carolina. Mr. Speaker, I ask unanimous consent that all Members who wish to do so may have 5 legislative days in which to revise and extend their remarks on the bill, H.R. 3782, just passed.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

PROVIDING FOR A WAIVER OF LAW PURSUANT TO THE ALASKA NATURAL GAS TRANSPORTATION ACT

Mr. UDALL. Mr. Speaker, pursuant to section 8(d)(5) of Public Law 94-586, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the joint resolution (H.J. Res. 341) providing for a waiver of law pursuant to the Alaska Natural Gas Transportation Act.

PARLIAMENTARY INQUIRY

Mr. CORCORAN. Mr. Speaker, I have a parliamentary inquiry.

The SPEAKER. The gentleman will state his parliamentary inquiry.

Mr. CORCORAN. Mr. Speaker, is the pending motion before the House subject to a motion to postpone debate?

The SPEAKER. Under the statute governing the procedure of the House at this time, it is.

Mr. CORCORAN. Mr. Speaker, I have a further parliamentary inquiry.

The SPEAKER. The gentleman will state his parliamentary inquiry.

Mr. CORCORAN. Mr. Speaker, is that motion debatable?

The SPEAKER. The motion is not debatable.

PRIVILEGED MOTION OFFERED BY MR. CORCORAN

Mr. CORCORAN. Mr. Speaker, I offer a privileged motion.

The Clerk read as follows:

Mr. CORCORAN moves to postpone consideration of House Joint Resolution 341 until December 10, 1981.

The SPEAKER. The question is on the privileged motion offered by the gentleman from Illinois (Mr. CORCORAN).

The question was taken; and the Speaker announced that the yeas appeared to have it.

Mr. CORCORAN. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The **SPEAKER**. Evidently a quorum is not present.

The Sergeant at Arms will notify absent Members.

The vote was taken by electronic device, and there were—yeas 50, nays 270, not voting 113, as follows:

[Roll No. 337]

YEAS—50

Bedell	Gunderson	Petri
Bonior	Holland	Pursell
Brown (CO)	Hyde	Railsback
Burton, John	Jeffords	Rodina
Burton, Phillip	Kastenmeier	Rogers
Congers	Kildee	Rosenthal
Concorn	Leach	Seiberling
Coughlin	Lowry (WA)	Sensenbrenner
Courter	Markey	Skelton
Donnelly	Martin (IL)	Snowe
Downey	McDade	Stark
Edwards (CA)	Michel	Tauke
Ertel	Miller (CA)	Volkmer
Evans (IA)	Mitchell (MD)	Weaver
Florio	Mottl	Weiss
Gonzalez	O'Brien	Yates
Gradison	Ottlinger	

NAYS—270

Addabbo	Dunn	Lent
Akaka	Dwyer	Lewis
Alexander	Dyson	Livingston
Anderson	Early	Loeffler
Annunzio	Eckart	Long (LA)
Archer	Edgar	Long (MD)
Aspin	Edwards (AL)	Lott
Badham	Edwards (OK)	Lowery (CA)
Baalis	Emerson	Lujan
Bailey (MO)	English	Lundine
Barnard	Erdahl	Lungren
Barnes	Erlenborn	Madigan
Beilenson	Evans (DE)	Marks
Benedict	Fascell	Marlenee
Bergamin	Fazio	Marriott
Bennett	Fenwick	Martin (NC)
Bereuter	Findley	Martin (NY)
Bethune	Fish	Mavroules
Bevil	Flippo	Mazzoli
Blagel	Foley	McCollum
Bingham	Ford (TN)	McCurdy
Billey	Forsythe	McEwen
Boggs	Fountain	McGrath
Boland	Frenzel	Mica
Boner	Frost	Mikulski
Bouquard	Fuqua	Miller (OH)
Bowen	Gaydos	Mineta
Brinkley	Geddeson	Miniah
Brooks	Glickman	Moxley
Broomfield	Goodling	Molinar
Brown (CA)	Gore	Mollohan
Burgener	Gramm	Moore
Butler	Gregg	Moorhead
Byron	Grieham	Morrison
Campbell	Hagedorn	Murphy
Carney	Hall, Sam	Myers
Chappell	Hamilton	Napier
Chapple	Hammerschmidt	Natcher
Cheney	Hansen (ID)	Neal
Claussen	Hansen (UT)	Nelligan
Clinger	Harkin	Nelson
Coats	Hartnett	Nowak
Coelho	Hatcher	Oakar
Coleman	Hefner	Oberstar
Collins (IL)	Hendon	Obey
Collins (TX)	Hightower	Oxley
Conte	Hill	Panetta
Craig	Holt	Parris
Crane, Daniel	Hopkins	Pashayan
Crane, Philip	Hoyer	Patman
D'Amours	Hubbard	Patterson
Daniel, Dan	Hughes	Paul
Daniel, R. W.	Hunter	Pease
Danielson	Hutto	Pepper
Dannemeyer	Ireland	Payser
Daschle	Johnston	Pickle
Daub	Jones (NC)	Porter
Deckard	Ka, an	Price
DeNardis	Kemp	Pritchard
Derrick	Kindness	Quillen
Derwinaki	Kramer	Rahall
Dickinson	LaPalce	Ratchford
Dicks	Lagomarsino	Regula
Dingell	Leath	Rhodes
Dorgan	LeBoutillier	Richmond
Dornan	Lee	Ritter
Duncan	Leland	Roberts (KS)

Roberts (SD)	Smith (NJ)	Wampler
Robinson	Smith (OR)	Watkins
Roe	Solarz	Weber (MN)
Roemer	Solomon	Weber (OH)
Rose	Spence	White
Roth	Stangeland	Whitehurst
Roukema	Stanton	Whitley
Roussiot	Staton	Whittaker
Rudd	Stenholm	Whitten
Sabo	Stokes	Williams (MT)
Sawyer	Stratton	Williams (OH)
Scheuer	Studds	Winn
Schneider	Stump	Wolf
Schroeder	Swift	Wortley
Shamansky	Synar	Wright
Shannon	Taylor	Wyden
Sharp	Thomas	Wylie
Shaw	Trible	Yatron
Shumway	Udall	Young (AK)
Shuster	Vander Jagt	Young (FL)
Smith (AL)	Vento	Young (MO)
Smith (IA)	Walgren	Zablocki
Smith (NE)	Walker	Zefaretti

NOT VOTING—113

Albosta	Fithian	Matsui
Andrews	Foglietta	Mattox
Anthony	Ford (MI)	McClary
Applegate	Fowler	McCloskey
Ashbrook	Frank	McDonald
Atkinson	Garcia	McHugh
AuCoin	Gephardt	McKinney
Bailey (PA)	Gibbons	Mitchell (NY)
Beard	Gilman	Moffett
Blanchard	Gingrich	Montgomery
Boiling	Ginn	Murtha
Bonker	Goldwater	Nichols
Breaux	Gray	Perkins
Brodhead	Green	Rangel
Brown (OH)	Guarini	Reuss
Broyhill	Hall (OH)	Rinaldo
Carman	Hall, Ralph	Rostenkowski
Chisholm	Hance	Roybal
Clay	Hawkins	Russo
Conable	Heckler	Santini
Coyne, James	Heflert	Savage
Coyne, William	Hertel	Schulze
Crockett	Hillis	Schumer
Davis	Hollenbeck	Shelby
de la Garza	Horton	Siljander
Dellums	Howard	Simon
Dixon	Huckaby	Skeen
Dougherty	Jacobs	Smith (PA)
Dowdy	Jeffries	Snyder
Dreier	Jenkins	St Germain
Dymally	Jones (OK)	Tauzin
Emery	Jones (TN)	Traxler
Evans (GA)	Kogovsek	Washington
Evans (IN)	Lantos	Waxman
Fary	Latta	Wilson
Ferraro	Lehman	Wirth
Fiedler	Levitas	Wolpe
Fields	Luken	

□ 1330

Mrs. **BOUQUARD** and Mr. **HANSEN** of Idaho changed their votes from "yea" to "nay."

So the privileged motion was rejected.

The result of the vote was announced as above recorded.

□ 1345

The **SPEAKER** pro tempore. The question is on the motion offered by the gentleman from Arizona (Mr. **UDALL**).

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the joint resolution (H.J. Res. 341), with Mr. **FUQUA** in the chair.

The Clerk read the title of the joint resolution.

By unanimous consent, the first reading of the joint resolution was dispensed with.

Pursuant to section 8(d), clause (5), Public Law 94-586, the time will be controlled and divided between the gentleman from Arizona (Mr. **UDALL**), who will be recognized for 30 minutes, and the gentleman from Illinois (Mr. **CORCORAN**), who will be recognized for 30 minutes.

The Chair recognizes the gentleman from Arizona (Mr. **UDALL**).

Mr. **UDALL**. Mr. Chairman, I yield myself 4 minutes.

(Mr. **UDALL** asked and was given permission to revise and extend his remarks.)

Mr. **UDALL**. Mr. Chairman, back in 1977, President Carter submitted a law to the Congress which set up a method of choosing which one of three ways we were going to use to bring the natural gas from the Prudhoe Bay area in Alaska. In 1978 a choice was made for the overland route from Prudhoe Bay joining up with the Canadian segment up the McKenzie River Valley then on down with two legs into the United States.

Under that act, the President had the power, if he chose to use it, to submit to the Congress certain waivers of provisions of law.

Earlier this year President Reagan submitted to the House and to the Senate a package of waivers of law. Under the law as it now exists, the Senate took action on this on November 19 and by a vote of about 78 to 14 or something of that kind, approved the waiver package.

If the House approves the waiver package now before us, the waivers proposed by President Reagan will take effect. If we do not act in opposition to it, the waivers will not take place.

Mr. Chairman, I am a little ill at ease here today arguing to my colleagues to approve this package of waivers. I am generally found with the consumer federation and some of the consumer groups or issues of this kind, and I have not yet been selected as Exxon's man of the year as far as I can determine.

But it seems to me that the wise thing for our country to do is to approve this resolution, because we are dealing with a huge chunk of natural gas. This is something like 13 percent of all the natural gas reserves that we are dealing with in a known situation, now, and with further discoveries we may well be talking about a doubling of the natural gas reserves in this country.

The old utility concept that we have operated under for so many years was valid, and the central idea was that investors would put up money to build an electric plant, or another kind of utility, and once it was in being, and constructed and the consumers are getting gas or electricity, then the consumer begins to pay.

But this in an unusual hybrid situation, which involves a joint construction project, and two countries. The

Canadians have gone to a great deal of trouble. We are not really in the situation ordinarily of some local utility asking for consumers to pay before they receive any of the product.

So I suggest that this is a big hybrid unusual kind of project somewhat similar perhaps to COMSAT where the old rule should not apply, and when we should modify the proven concepts that we generally use in utility situations.

The second major reason I favor the package of waivers is fairness to our neighbors in Canada. We twisted arms pretty hard to get the Canadian Government and some of their provincial governments to come along on this. Some of the provincial governments had to change the law. The settlement had to be made with the natives in the northern part of Canada, and if this project goes down, and there is a chance it will, if this project goes down I would rather not talk to the Canadians and say that we did not even give it a chance, that while the Senate was willing and the President was willing, that the House of Representatives was unwilling to give this project a last chance to put it together.

So, the outcome is in doubt. Some people think the project, even with these waivers, will not survive. I believe it will have a fighting chance and I therefore urge my colleagues to vote "yea" on the pending resolution.

Mr. Chairman, I reserve the balance of my time.

Mr. CORCORAN. Mr. Chairman, I yield myself 3 minutes.

(Mr. CORCORAN asked and was given permission to revise and extend his remarks.)

Mr. CORCORAN. Mr. Chairman, first of all, I want to apologize to my colleagues who may have been inconvenienced by the vote that was held just a few moments ago, but I thought it was essential that with a subject of this magnitude, with a public policy question of this proportion, we should have more time to consider this legislation. It seems to me that this is an issue of considerable substance, and the original intent of the Alaskan Natural Gas Transportation Act was that waivers could be presented to the Congress for concurrence by the President in the event that there was some minor, technical problem with respect to a permit, a certificate of convenience, or some other decision on the part of an agency of the Federal Government under these expedited circumstances with only 1 hour of debate. This is reasonable for much minor issues but this is a major, substantive matter and we deserve more time to debate it. Furthermore everyone should at least be in town when we consider it.

Mr. Chairman, I realize a lot of Members would like to see this issue go away, but I think we ought to debate it and I think we ought to consider seriously what is contained in

the proposition pending before the House. It seems to me that for us to have 1 hour of debate on a matter of this consequence and vote 2 or 3 days hence does not do justice to this House. That is the reason that I felt it was important that we try to postpone until next Thursday, December 10, in order to have the debate and the vote take place at the same time.

Mr. Chairman, I want to begin my part in the debate today on House Joint Resolution 341 by referring you and my colleagues in the House to portions of a memorandum from Chairman JOHN DINGELL, a colleague from Michigan, to me and other members of the Committee on Energy and Commerce, dated November 3, 1981. In that memorandum, as is so frequently the case with our distinguished colleague from Michigan, he has superbly framed the issues which confront us in this pending legislation.

He points out that the President has transmitted to the Congress a proposed waiver of various provisions of law to permit expedited construction of the Alaska Natural Gas Transportation System (ANGTS), pursuant to section 8g of the Alaska Natural Gas Transportation Act (ANGTA).

As the chairman says:

The question facing the Congress at this time is not whether we will develop the Alaska gas resource for the benefit of the United States, or even whether the ANGTS project is the appropriate vehicle for doing so. These questions have already been answered through ANGTA.

He further points out that:

Aside from the question of economics—whether the project with these waivers is viable and beneficial to consumers—the sole issues are whether this waiver package is necessary and appropriate. The advantages of the waiver process created in ANGTA are speed and simplicity. If we find that the need for the gas is sufficiently urgent, of that the provisions of law to be waived are relatively unimportant we may approve the President's package. Otherwise, we can only reject the package since we cannot amend it. Such action does not foreclose future consideration of an amended waiver package or of legislation to expedite the project.

Mr. Chairman, I refer to this memorandum because I think it raises for us the two tests, the two standards, the two basic questions we have to resolve in determining whether to support House Joint Resolution 341. They are: First, is the need for Alaska gas urgent? Second, are the provisions of law to be waived as provided in this resolution "relatively unimportant"? If your answer to these questions is in the affirmative, then one should vote in support of the resolution. If, on the other hand, the debate here today indicates that the answer to these questions is in the negative, then I would hope that the Members of the House would cast their votes against this resolution, despite other considerations to the contrary. Surely, with something as important as this issue and the controversy it has generated in recent weeks, I should think that every Member of the House would

want to be recorded on the merits of this issue.

Mr. YOUNG of Alaska. Mr. Chairman, will the gentleman yield?

Mr. CORCORAN. I yield to the gentleman from Alaska.

Mr. YOUNG of Alaska. Mr. Chairman, in the gentleman's statement about debate for 1 hour and the gentleman's reference to only minor technical convenience or minor technical waivers will be offered, I do not find that anywhere in the law that was passed by this Congress. It says, in fact, any provision of law can apply.

I want to make the record very clear these waivers are in line with the law that this Congress acted on and so I want to make sure the gentleman's statement is not taken out of context.

Mr. CORCORAN. I think it is a question of judgment as to whether or not these waivers are unimportant. I think when we look at questions like producer ownership participation of the project, when we look at questions like regulatory certainty—that is a great euphemism if I ever heard one—and when we look at the several other provisions of law involved in this waiver package, most of our constituents would conclude as I have, that paying for something we may never get is indeed a very important matter.

Mr. MOTT. Mr. Chairman, will the gentleman yield?

Mr. CORCORAN. I yield to the gentleman from Ohio.

(Mr. MOTT asked and was given permission to revise and extend his remarks.)

Mr. MOTT. Mr. Chairman, I would like to compliment the gentleman from Illinois for his staunch opposition to these waivers and I would like to associate myself with his remarks that he is going to make now and subsequently.

I think this is potentially one of the biggest ripoffs for the consumers of the State of Ohio and the Midwest and other States that are going to receive this natural gas and having to prepay it and not even receive the gas.

□ 1400

So I would like to compliment the gentleman from Illinois and the gentleman from New York who have led the opposition. I would like to join them in the opposition and hope my colleagues in the House of Representatives will vote a resounding no to the resolution.

Mr. UDALL. Mr. Chairman, I yield 1 minute to the gentleman from Kentucky (Mr. HUBBARD).

(Mr. HUBBARD asked and was given permission to revise and extend his remarks.)

Mr. HUBBARD. Mr. Chairman, as we debate House Joint Resolution 341, I believe it is important to keep the real issue in perspective. We cannot amend the waiver package or pick and choose only those provisions we favor. Our sole decision is whether to ap-

prove the President's proposed waiver of law. I will vote for the resolution and urge my colleagues to join me.

We need the Alaskan natural gas. We are depleting our existing gas reserves faster than we are adding to them. The 26 trillion cubic feet of Alaskan gas represents 13 percent of the total U.S. reserves—the largest U.S. gasfield ever discovered—and it will assure a safe, secure, domestic source of energy in the years ahead. In addition, it will replace 400,000 to 600,000 barrels per day of imported OPEC oil and ease our balance of payments by \$7 to \$9 billion a year. Just as important, the availability of Alaskan gas will reduce the risk of future natural gas shortages—shortages such as those which closed factories and schools and caused severe economic hardship just a few years ago.

The United States has affirmed its commitment to Canada to build and complete the pipeline system in separate messages from two U.S. Presidents. In addition, Congress enacted a joint resolution in 1980 stating that the pipeline "enjoys the highest level of congressional support for its expeditious construction and completion * * *." It is time for the House to honor this commitment and approve the waiver package.

The Alaskan gas pipeline will be the largest privately financed construction project in history—approximately \$40 billion—and will involve no Federal subsidy or loan guarantees. The waiver package is designed to clear away governmental obstacles to private financing and construction of the project. Without congressional approval of this waiver, private financing and construction of the pipeline cannot proceed.

There has never been a private venture of this magnitude. A \$40 billion obligation is staggering and will require tremendous resources just to service the debt. The billing commencement waiver minimizes the exposure of consumers to charges before gas flows in the pipeline and even in the event prebilling is necessary it is a minimal amount—no more than \$1.78 per household a month under the worst of circumstances. As a consumer I do not personally believe this is an unreasonable risk for me given the overall national benefit and the need for this secure, clean supply of energy.

Support for the waiver resolution is a vote to allow the private sector the opportunity to work out a financing package and to construct the pipeline. I urge all Members to vote for House Joint Resolution 341 and approve the President's proposed waiver of law.

Mr. CORCORAN. Mr. Chairman, I yield 2 minutes to the distinguished gentleman from New Mexico (Mr. LUJAN).

(Mr. LUJAN asked and was given permission to revise and extend his remarks.)

Mr. LUJAN. Chairman, I rise today in support of approval of the

Alaska natural gas pipeline waiver package requested by our President.

There is one aspect of this matter which I am particularly concerned about. It is our relationship with our longstanding ally, Canada. Over 5 years ago, the Canadian Government agreed to allow us to build 2,000 miles of this pipeline through their nation. The Canadian Parliament enacted legislation, the Northern Pipeline Act, providing for the construction of the pipeline. The Canadian National Energy Board certified the Canadian segment of this pipeline. The Canadian Government even established a separate agency, the Northern Pipeline Agency, to oversee the construction of the Canadian segment of this pipeline. Finally, Canadian pipeline companies agreed to construct the Canadian segment of this pipeline.

After all of those agreements had been reached, after all of those actions had been taken, various U.S. gas pipeline companies went back to Canada and asked for another favor. They requested that the power part of the pipeline system be hooked up to natural gas production facilities in Canada so that Canadian gas could be exported from Canada to the United States while waiting for the upper part of the pipeline system to be built through Alaska.

Once again, our friends in Canada agreed. They knew that we needed that Canadian gas. They knew that this was a one-sided agreement. And they knew that U.S. law precluded prebilling.

However, the President of the United States promised our friends in Canada that he would try to have that provision in the law waived. As a result of that promise, the lower segment of the pipeline is now delivering thousands of cubic feet of Canadian natural gas to our Western States. The eastern leg of the pipeline system is under construction and will be delivering thousands of cubic feet of Canadian natural gas to the rest of the Nation in less than a year.

Let me emphasize what I am concerned about. Our Government promised the Canadian Government and the Canadian pipeline companies that U.S. law would be changed to allow prebilling so that if the Canadian segment is fully completed, by a date to be set by our Federal Energy Regulatory Commission, the Canadian companies would begin collecting their full service costs even if other segments of the line have not been completed. This is a commitment our President made to one of our strongest, best, and longest standing friends.

I urge my colleagues to support this waiver package. I could discuss our national interest in tapping 13 percent of our total proven gas reserve. I could discuss the small chance of these prebilling provisions ever taking effect. I could discuss the fact that voting no on this waiver will kill this project right now. I could discuss the need to

leave the economics question of whether or not to build the pipeline up to the private financial sector. But others will make those points in detail.

I want you to think back a few months ago when we had some hostages rotting in confinement in Iran. I remember who helped us. I remember who stuck their necks out for us when very few other nations gave a tinker's dam. These are our friends and we ought to honor our President's commitment to them.

Mr. SHARP. Mr. Chairman, I yield myself 4 minutes.

Mr. Chairman, I rise in support of the resolution. The House today will consider House Joint Resolution 341, the waiver of law proposed by the President, under procedures laid out in the Alaska Natural Gas Transportation Act, to facilitate the private financing of the Alaska gas pipeline. The resolution was favorably reported by the Energy and Commerce Committee and the Interior and Insular Affairs Committee.

The proposed pipeline will provide access to some 26 trillion cubic feet of gas reserves—about 13 percent of all proven reserves in the United States—and to an estimated 100 to 200 trillion cubic feet of additional potential reserves. Without question, the gas can supplement the declining reserves in the lower 48 States and help to meet the increasing demand for gas. In addition, Alaskan gas is a secure source of energy that will reduce our dependence on foreign oil and save billions of dollars spent for imports.

Mr. Chairman, this is a very difficult decision, but one that is vital to this project. The waiver proposal would not guarantee our access to this energy, but it would give the private financial community a clear chance to build this most expensive energy project of all time. By allowing this project to proceed, we will potentially add to our national security by promoting domestic energy, add strength to our economy by promoting the creation of thousands of jobs in private industry, and open an avenue to the enormous potential resources existing in the North. No alternative to this project has been shown to be cheaper, faster, or otherwise more in the national interest.

The waiver package before us is the result of the pipeline sponsors' determination that certain obstacles need to be removed if they are to be able to raise the private capital for the project. But it is also the result of extensive informal discussions among the administration and Members of both parties in the House and Senate. As a result of these discussions, the waiver package was substantially improved. The original package requested by the sponsors extensively changed existing laws and regulatory practice and clearly transferred excessive risk to gas consumers; the revised package before us today is far better for the consumer

and more in accord with traditional regulatory practices.

Nonetheless, the proposed waiver package does create some potential risk for consumers, and it does depart from traditional regulatory practices. It does so in order to reduce, but by no means eliminate, risks to the investors who will finance this largest private construction project in history.

We are acting under strict deadlines, as a result of the expedited procedures established by the 1976 act. We have nevertheless established an extensive record. The committees aggressively sought the views of a wide variety of interests—State governments, utility commissions, industry, labor, consumer and other groups—both on the sponsors' original request and the President's package. We held 7 days of hearings and heard 63 witnesses from 52 organizations. We not only heard from project sponsors and supporters but expressly sought to hear from those who might oppose the pipeline or believe there may be an alternative way to build it or have access to Alaskan gas. No one who sought to testify was denied.

From this extensive record, I believe key points emerge:

First, it is highly unlikely, if not impossible, for the project to move forward next year, and perhaps for the indefinite future, without these waivers. Delay, of course, would be expensive, with 1 year's postponement of construction costing investors, and eventually gas consumers, an estimated \$3 billion more.

Second, there are not now or likely to be soon other means of getting substantial supplies of Alaskan gas to the lower 48—certainly none that will be cheaper for gas users. In particular our hearings examined various options for converting the gas to methanol, and none appeared feasible.

Third, there are conflicting claims about the economic viability of the pipeline. The range of estimated economic benefits to the Nation was broad. On balance, if you believe world oil prices are likely to continue to rise, you would probably agree with those who see this pipeline as a major economic plus for consumers. If you expect oil prices to remain level or drop, you would probably question the project's economic viability.

Fourth, and perhaps the telling factor in my own decision, the economic viability of the project will still be determined in the marketplace—as we intended when we passed ANGTA in 1976, and as we fully intend in supporting this waiver proposal. Although these waivers reduce the investors' risk somewhat, there should be no doubt of the substantial commitment that must be made by the sponsoring pipeline companies, the producers, and the financial institutions that will loan the needed money. For the consumers to begin to have to pay for the pipeline before gas is received—as the pre-billing waiver theoretically allows—

these private businessmen are going to have to determine that the pipeline is going to be completed—on time—and that the gas will be marketable, so that they can justify committing billions of their own money. In other words, there is still a market test of the worth of the project.

Fifth, when and if the project passes the market test and locates private sources to put the \$40 billion dollars into constructing the line, there are several major hurdles it must yet cross. Our decision on this waiver is not the final Federal review of the project by any means. The Federal Energy Regulatory Commission, which must certify that a pipeline project is in the public convenience and necessity and that its proposed tariff, including any proposed billing commencement provision, is just and reasonable, must do so for this project as for any other. The waiver does not exempt this project from any of the standards that must normally be applied by FERC, and it is quite possible that the case made to the FERC concerning the economics of the project or the marketability of its delivered gas will not be strong enough to win FERC approval.

After the FERC's initial approval is won, there is an opportunity for court review. Assuming the project successfully negotiates that, the construction of the pipeline remains subject not only to the FERC disallowance of imprudent costs, but also to the oversight of the Office of the Federal Inspector for the Alaska Natural Gas Pipeline, a Federal watchdog office specifically set up by Congress to protect the consumer's interest in this project as it is constructed. The Federal inspector will be vigilant against cost overruns, must approve spending and building decisions, and must assist the project to save the time and deal with the problems that have caused cost overruns on other energy projects in the past. So while today's decision on the waiver is a crucial step in this process, it is by no means the last.

A sixth point to emerge from the hearings, or rather to be conspicuous by its absence, was any testimony from any witness suggesting that there is a viable legislative alternative to the waivers we are considering. Some Members have suggested that the waivers may not result in the necessary private financing, and they may prove right. But if the pipeline is too risky to investors even after the waiver is accepted, it is hard to conceive of an alternative which makes the project less risky to investors without also making it more risky to consumers.

Our vote tomorrow on this resolution will be in a sense another step on a road our Government is already traveling. From the passage of ANGTA by Congress in 1976 through the U.S. signature on an agreement with Canada pledging to "facilitate expeditious construction of the pipeline and seek all required legislative au-

thority to remove any impediments" and the decision on the Alcan Highway route made by President Carter and ratified by Congress in 1977, and the joint congressional resolution in 1980 declaring that the project remains "an essential part of securing this Nation's energy future" and that it would be given "the highest level of congressional support for its expeditious construction and completion" to President Reagan's assurances to Canada in Ottawa this year, the U.S. Government has repeatedly showed its support for completion of this pipeline. As a result of these actions, and of confidence that the entire pipeline will be built, the Canadians have already constructed part of their segment of the pipeline. Gas is already flowing through this line to California, and will flow through the eastern leg to the Midwest within a few months.

The Canadian Government has committed itself fully to reliance on our national commitment. The Energy Minister has conceded to the opposition in Parliament that if the United States did not live up to its word on the pipeline construction, "It would be the greatest breach of faith committed by the United States on Canada in the last 200 years." Ian Watson, another Member of Parliament, stated:

If the American Congress cannot be trusted on this by the Canadian Government and the Canadian Parliament, I am afraid it will never be trusted again, and the Americans are well aware of this . . . the relationship between Canada and the United States will change permanently . . .

In short, our relations with Canada—our closest neighbor and ally and an important energy supplier—are to some extent at stake in this vote.

Finally, I would stress that my own decision to support the waiver package was not made easily. I personally had reservations about two waivers in particular—the pre-billing and regulatory certainty provisions—and I believe that it might have been possible to improve them. But, as you know, we do not now have the option of amending the President's proposal, and I have concluded that the flaws and risks of the waivers do not outweigh the almost certain result of their rejection; that is, failure to build the pipeline and bring Alaskan gas to the consumers.

In 1977, in Indiana and many other States, we had a major shortage of natural gas that closed our schools and factories, leaving thousands out of work or on part-time schedules. It taught us all a lesson about how costly the absence of adequate gas supplies can be. In making a decision on this resolution, we must weigh this risk of gas shortages, and the costs such shortages impose on everyone, against the risks the waiver may cause gas consumers to bear.

I also remember very well the desire for energy independence that stirred

us as our citizens suffered the effects of the oil embargo and Iranian revolution. Now we have an opportunity to keep alive one of the major hopes for energy independence we cited so often then. To the extent we do not have Alaskan gas when we need it, the pressure will be increased on us to accept gas supplies from Algeria or other sources that may be both more costly and more risky.

Have the facts about our energy dependence and its risks really changed so radically in 2 years that we can justify saying no to this huge resource of domestic energy, available to us with a largely proven technology? I do not think so.

I am voting for this waiver package not because I think it is free of any problems. It is not. But in my mind the promise of the pipeline is sufficient to outweigh the problems with the waivers, and you cannot have one without the other.

Mr. Chairman, nobody pretends this is not a tough decision. It is complicated. It is difficult and it does involve risk to the consumers; but make no mistake about it, failure to go forward involves major risks to American consumers. The absence of energy supplies has been extremely costly to the American economy and to our national security. If we want to have in the future a secure supply of energy necessary for a vigorous economy, necessary for a strong national defense, we must be willing to make tough judgments and to make bold decisions, and the time to do that is right now.

Mr. CORCORAN. Mr. Chairman, I yield myself 1 minute.

Mr. Chairman, one of the issues in this debate is the question of need, as I indicated earlier. Our friend, the gentleman from Indiana, has pointed to the fact that we have had curtailments in terms of gas usage, particularly in this last decade; but the situation has changed and it is on that basis that we ought to make our decision on this pending waiver package.

I would call to the attention of my colleagues numerous documents and analyses which support the notion that the growth in gas supplies is far different looking ahead to the next decade than we experienced in the last one. In fact, the U.S. Geological Survey recently showed that its earlier evaluation of 484 trillion cubic feet as of 1975 is no longer accurate. In February this year the U.S. Geological Survey pointed out that the mean estimate is now 594 trillion cubic feet of gas.

I could go on and on, and for those who would depend for their information on the Reader's Digest, I have with me the recent article entitled, "Bonanza! America Strikes Gas."

We do have the supplies, Mr. Chairman, and I would say that those who argue we need the gas down from

Prudhoe Bay beginning in 1986 in order to supplement what we have and what we now are developing are simply ignoring the facts.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to the gentleman from Colorado (Mr. BROWN).

Mr. BROWN of Colorado. Mr. Chairman, this measure would add a gas conditioning plant to the pipeline project. In essence, we are taking a major enterprise out of the private sector and putting it and operating it as a public utility.

Now, I am one who would like to see this project completed and I am one who would like to see additional measures of gas and other oil reserves for this country; but I must tell you, this package is poorly framed. I believe it is a mistake. It is a mistake because it diminishes free enterprise. It is a mistake because the plant is inconsistent with our traditional concept of a public utility, and it is a mistake because it will remove a strong incentive for efficient management of the project.

I urge the rejection of this measure.

Mr. UDALL. Mr. Chairman, I yield 1 minute to the gentleman from California (Mr. DANNEMEYER).

Mr. DANNEMEYER. Mr. Chairman, I thank the gentleman for yielding.

As a member of the subcommittee that considered this, I was deeply concerned whether or not the adoption of this waiver package would militate against the No. 1 option this country has to establish energy independence, and that is to deregulate the price of natural gas.

I am satisfied that the adoption of this waiver package will not work against that policy objective. For that reason, I have concluded definitely it is in the public interest to approve this waiver package.

We are going to get about 5 percent of our supply from this pipeline when it is completed, and the melding price which that would cause from that 5 percent with the 95 percent of the gas that is available in the lower 48 is going to produce a price that is going to make this gas competitive with other sources of natural gas in our country.

We should never overlook the fact that no matter what we say here today, there is no Federal money involved in this project at all. We are merely modifying the law so that the backers of the project can go back to the banking community and determine if they can find the financing. I think we should do it.

Mr. SHARP. Mr. Chairman, I yield 3 minutes to the distinguished chairman of the Committee on Energy and Commerce, the gentleman from Michigan (Mr. DINGELL).

(Mr. DINGELL asked and was given permission to revise and extend his remarks.)

Mr. DINGELL. Mr. Chairman, I rise in support of House Joint Resolution

341, which would approve a waiver of certain laws to facilitate the construction of the Alaska Natural Gas Transportation System (ANGTS) pursuant to the provisions of the Alaska Natural Gas Transportation Act of 1976 (ANGTA).

The Committee on Energy and Commerce, with its sister committee, the Committee on Interior and Insular Affairs, has followed the development of the ANGTS project closely over the past 5 years. The distinguished chairman of the Subcommittee on Fossil and Synthetic Fuels, the gentleman from Indiana (Mr. SHARP) has provided great leadership in this matter. The Committee on Energy and Commerce played its appropriate role throughout this past year in the preparation of the waiver package. It held extensive hearings on the package submitted by the President, heard all the witnesses who asked to be heard, and solicited testimony to insure a complete record.

It is a measure of the thoroughness with which the committee studied the matter that every single argument now advanced by the opposition to the project is drawn from analyses and reports prepared by the committee staff. I must say the arguments against are compelling, but they are not sufficiently compelling. The committee considered all these arguments and voted 27 to 14 to approve the waiver package.

NEED FOR THE GAS

Conventional reserves in the lower 48 are declining. Prudhoe Bay represents more than 10 percent of proven U.S. reserves. Alaskan gas transported through ANGTS would be the equivalent of 400,000 barrels of oil per day, or total current imports from Libya.

ANGTS is the only means currently available to deliver Alaskan gas to the lower 48.

JUSTIFICATION FOR WAIVER PACKAGE

Beginning with the enactment of the Alaskan Natural Gas Transportation Act in 1976, the Congress and the Executive have repeatedly restated the commitment to facilitating private construction of the pipeline:

Alaskan Natural Gas Transportation Act.	Oct. 22, 1976.
Transit Pipeline Treaty (with Canada).	July 3, 1977.
Agreement on Principles (with Canada).	Sept. 20, 1977.
President's decision.	Nov. 8, 1977.
Northern Pipeline Act (Canada).	Apr. 12, 1978.
Senate Concurrent Resolution 104.	June 27, 1980.
President's letter to Prime Minister.	July 18, 1980.

ANGTS cannot be privately financed without the approval of this waiver package.

It may be that even with this package, it will not be possible to arrange private financing for ANGTS, but this package represents a good faith effort

to facilitate such financing and discharge our national commitments. If it fails to achieve its goal, the Nation has no further responsibility to pursue the private financing goal.

JUSTIFICATION FOR PRE-BILLING

Pre-billing will only cover the debt and operating expenses of the sponsors, not their equity in the project, thus they have every reason to pursue construction and avoid a circumstance in which prebilling would be triggered.

Pre-billing can occur only under most unusual and unlikely circumstances. It can only occur if one of three essential parts of the system—the processing plant, the Alaskan pipeline segment or the Canadian segment—has been completed and one or both of the other segments is uncompleted after a date to be determined by the Federal Energy Regulatory Commission (FERC).

FERC has full discretion as to whether to allow pre-billing and what amount may be pre-billed. It also has congressional mandate to apply pre-billing only to prudent expenditures.

Pre-billing will cease when the unfinished segments of the line are completed and the line goes into operation. Since the sponsors will be unable to collect rate of return while the pipeline is uncompleted and not in operation it is very unlikely that the sponsors would arrange the financing necessary to commence construction, build enough of the pipeline to trigger the prebilling mechanism and then not pursue the line to completion and operation.

The committee has directed FERC to see that consumers, who are assuming additional risks through the pre-billing provisions, are granted benefits commensurate with those risks by reducing the rate of return for sponsors and their financial backers proportionately to the reduction in the risk they are assuming.

DECONTROL OF NATURAL GAS

It is the judgment of the Committee on Energy and Commerce that the deregulation of Prudhoe Bay natural gas will deprive consumers of any economic benefits and shall be opposed.

USE OF AMERICAN STEEL

John McMillan, chairman of the board of partners sponsoring ANGTS, stated in a letter to the committee that he "intended to purchase and use, on a priority basis, American materials to the maximum extent feasible and practicable."

The committee intends to exercise continuing oversight to assure that that commitment is fulfilled.

PRODUCER PARTICIPATION

The waiver package does permit producers to participate in the project, but FERC may not agree to producer participation which is inconsistent with antitrust laws, restricts access of nonowner shippers, or restricts expansion of the capacity of the system.

The committee reluctantly accepted limited participation by producers as

an essential element in developing a financeable package. It would look with disfavor on any additional change that would give Alaskan gas producers either individually or as a group majority ownership of the project.

REGULATORY CERTAINTY

The financial markets indicated an unwillingness to undertake the financing of the project unless they were assured of the terms governing the recovery of debt. Once FERC has issued its final certificate of convenience and necessity, it can only change the terms for such recovery upon request of the sponsors.

FERC can, however, disallow collection of "imprudently incurred" costs and can change the terms regarding the recovery of equity in the project, that is to say, the profit that the sponsors will be allowed to earn.

FUTURE FEDERAL AID OR OTHER ASSISTANCE

The administration has stated that it would submit no additional waiver or legislative requests in regard to this project.

It is the determination of this committee that enactment of the current waiver package fulfills the commitment to facilitate private development of this project and that no further action would be appropriate or desirable.

Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. The gentleman from Arizona (Mr. UDALL) has 8 minutes remaining, the gentleman from Indiana (Mr. SHARP) has 11 minutes remaining, and the gentleman from Illinois (Mr. CORCORAN) has 21 minutes remaining.

Mr. CORCORAN. Mr. Chairman, I yield myself 1 minute.

Mr. Chairman, I would just like to call to the attention of the House the comments contained in a memorandum from the distinguished chairman of the Committee on Energy and Commerce (Mr. DINGELL) to the members of that committee. In this memorandum to which he referred earlier in his observations there is a good deal more involved in the prebilling than simply the contingent liability involving interest and carrying charges. As a matter of fact, on page 14, the author of the memorandum points out this would include "debt service, principal, taxes, and operating expenses, which represents about 80 percent of the full cost of service."

In addition to that, in this memorandum there is reference to the involvement of the Canadian leg of the pipeline. And in that particular case there is also the potential liability that the consumers representing 60 percent of the gas consumers in this country would face with respect to the Canadian section. In that case, not only do we have all of these other elements, but we also have a return on equity factor which U.S. consumers will be paying to Canadian sponsors of this pipeline project.

Mr. Chairman, I yield 3 minutes to the gentleman from Iowa (Mr. TAUKE).

(Mr. TAUKE asked and was given permission to revise and extend his remarks.)

Mr. TAUKE. Mr. Chairman, first of all, we need to understand why we are here today. We are here today because the Alaska natural gas pipeline has basically failed the market test. That is why we are here in the first place.

Now, the question before us is not the one that the proponents of this measure are propounding. They are suggesting to us that the issue we face is this: Should we or should we not build the Alaska natural gas pipeline. That is not the issue. The issue is, rather, who will bear the risk of financing the Alaska natural gas pipeline.

Now, under the provision that is before us, we are calling upon the consumers of natural gas and, ultimately in my judgement, the Federal Government, to provide the financing and bear the risk for the construction of this pipeline.

I would suggest to my colleagues that there are two other alternatives: The State of Alaska, which stands to profit very substantially from this pipeline; and the producers of the natural gas. And those we are not asking in this case to bear a substantially increased portion of the risk.

Now, what is the risk?

The risk, ladies and gentlemen, is basically this: As we look at the decontrol of natural gas, and we build in the cost of the construction of this pipeline, we are going to be talking about gas that will be selling for \$13 to \$20 per Mcf at the time it flows in 1987. Gas priced at that level could very well be noncompetitive, could not compete effectively with alternative sources of energy, including imported oil. Industries in this country are going to be in a position where they will be able to switch away from high-priced natural gas and go to alternative sources of energy. Since they constitute 40 percent of the consumers, that means that the remaining 60 percent of the consumers, primarily residential customers, will be forced not only to pay this high cost for the gas they receive, but then be forced to bear the total burden of the cost of the capital structure for delivering that gas.

Mr. BEDELL. Mr. Chairman, will the gentleman yield?

Mr. TAUKE. I yield to the gentleman from Iowa.

(Mr. BEDELL asked and was given permission to revise and extend his remarks.)

Mr. BEDELL. Mr. Chairman, I want to commend the gentleman for his statement.

Mr. Chairman, I rise in opposition to the proposed waivers of law for the Alaska natural gas transportation system (ANGTS). I want to make clear, however, that my opposition to

these proposed waivers in no way reflects my opposition to the concept of transporting Alaskan natural gas to the lower 48 States. Indeed, I fully understand that the Prudhoe Bay area contains a tremendous amount of proven natural gas reserves—27 trillion cubic feet—that it holds the promise of containing much more—possibly 100 trillion cubic feet—and that access to these reserves appears critical to assuring a secure energy future for the United States.

Yet, I do not believe that the obvious merits of obtaining Alaskan natural gas requires that we approve any means of financing the transportation system without first asking if the proposed financing scheme could be improved upon. In my opinion, the financing package before us certainly could be improved, especially by seeking an alternative to the prebidding provision.

One of the major reasons for the approval of the Alaska natural gas transportation system in 1977 was the pledge by its sponsors that the system could be privately financed. In addition, the proponents of ANGTS claimed that the project could be completed at a cost of approximately \$3 billion. Today, we are told that in fact the project cannot be privately financed and that the estimated cost is well over \$50 billion.

Under the waiver provision allowing for prebidding, potential Alaskan natural gas consumers could be charged for costs associated with pipeline construction, operation, and debt financing prior to the completion of the entire pipeline system and before they receive any gas. Furthermore, although these charges could commence before the pipeline is completed, there is no guarantee that once billing begins that the pipeline will even be completed or that the natural gas which will flow through it will be marketable at a competitive price. Indeed, there is general agreement that the cost of the gas will be at least \$15 to \$18 per 1,000 cubic feet, and that the impact of accelerated or full decontrol of natural gas—a very uncertain factor at this point—could affect the economics of the project to a great degree.

Thus, there is the very real possibility that the potential consumers of the gas could be left holding the bill for the full cost of a pipeline which was abandoned short of completion or left idle because the gas which was supposed to flow through it was found to be unmarketable.

In a letter I received from the Iowa State Commerce Commission, the members of the commission stated that the effect of the prebidding provision is "to shift the risk of the project from investors to present consumers with no assurance that they will ever receive any gas from the system. The reluctance of the financial community to invest sufficient funds in the project without the waiver package is an indication of its speculative nature."

In expressing their concern about the waiver package, the commissioners noted that the burden of the project's failure would "fall heavily on those 'lowans' who are currently served by a partner in the ANGTS project, and concluded by adding that "the risk they are being asked to assume is far out of proportion to the total benefits they will receive, if and when the system is completed."

Mr. Chairman, I too find it rather inconsistent that the proponents of the waiver package have contended that, on the one hand, the pipeline venture is so risky without approval of the prebidding provision that private capital cannot be secured, while on the other hand claiming that the risk is extremely small that consumers will have to be billed prematurely, or for more than about an additional \$20 for 1 year. If in fact the pipeline is very likely to be completed on schedule and under budget, and the gas will be sold at competitive rates, then potential investors or financiers should be able to recognize the soundness of the project and be willing to lend it their support.

As one who has stated over the years that there is a role for our Federal Government to play in helping to assure our Nation's future energy supplies, I do not believe that we should simply abandon the idea of obtaining access to Alaskan natural gas reserves after disapproving this waiver proposal. Rather, if it is deemed that the availability of Alaskan natural gas is critical to securing our energy future—and the evidence points to that conclusion—then the U.S. Government should consider its possible role in guaranteeing the completion of the pipeline.

I urge the House to reject these proposed waivers and direct immediate and serious attention to looking at other alternatives for assuring access to Alaskan natural gas.

Mr. TAUKE. Mr. Chairman, I believe the residential consumers who cannot switch, therefore, will be forced to pay an extremely high cost for natural gas.

Now, some Members have suggested, "Well, this is OK. There will be no more waivers. The Federal Government is not being asked to participate." I suggest to my colleagues that they should not buy that argument, because when that extremely high cost for natural gas hits consumers, I submit to my colleagues that the Members of this Congress will be stumbling over one another to jump to the aid of consumers by having the Federal Government bail out this project ultimately.

I suggest to the Members that this is a vote on which we must be very careful. We must be careful that we do not transfer too high a cost, too much risk, to the consumers. We must be careful that we do not paint ourselves into a position where the Federal Government has to bail us out down the line.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to the gentleman from Missouri (Mr. VOLKMER).

Mr. VOLKMER. Mr. Chairman, I wish to join with those in opposition to this legislation on these waivers, as one from a State where several years ago we had the construction-work-in-progress-idea approach, and we overwhelmingly, the whole State, by a vote of the people, overwhelmingly defeated it, for a similar purpose as this.

I think it has been said here before by others, this is one of the biggest potential ripoffs of the people of this country, is a true statement. I do not think it is an exaggeration at all.

I believe that the idea to make people pay for something they will never benefit from by imposition by the Government is just as bad as taxing people for something they will never receive a benefit from. What we are doing by act of Congress is giving FERC the power to tax and to use those tax moneys basically consumer, taxpayer, people having money, take that money and use it for private enterprise. I think it is the biggest ripoff, and I join others in opposition to it.

Mr. SHARP. Mr. Chairman, I yield 2 minutes to the gentleman from Washington (Mr. SWIFT).

(Mr. SWIFT asked and was given permission to revise and extend his remarks.)

Mr. SWIFT. Mr. Chairman, I would like to enter into a brief colloquy with the gentleman from Indiana (Mr. SHARP), the chairman of the subcommittee.

It is fairly clear, and it has been convincing to me, that Congress on two occasions, and at least two Presidents of the United States, have made commitments with regard to the Alaska natural gas pipeline to the Canadian Government. While some of the waivers in this package trouble me, it seems to me that those commitments are the overriding reason that I must support this legislation.

But it also seems to me that we should make very clear to our Canadian neighbors that there is a point beyond which that commitment does not go, and certainly it is my feeling it should not extend at some future date to any kind of bailout, loan guarantees, or something of that nature.

I would appreciate the chairman's comments in that regard.

Mr. SHARP. If the gentleman will yield, the gentleman states, I think quite accurately, that this fulfills the obligations involved in any commitments that the U.S. Government has made or any representations made to the Canadian Government and the Canadian people with respect to this pipeline. The Canadian government and the American Government have always agreed that the construction and success of this project would depend on the question of whether or not it could attract private financing.

The prebidding waiver satisfies this commitment with respect to the Canadian portion of the project in my estimation. We have also received testimony from the President's representatives, and we have received indications from the Canadian Government through the State Department that this does represent a complete discharge of the commitment, and no one can come back later and tell us that we are required by it to shell out taxpayers' dollars.

Mr. UDALL. Mr. Chairman, will the gentleman yield?

Mr. SWIFT. I yield to the gentleman from Arizona.

Mr. UDALL. Mr. Chairman, I want to associate myself with that, and I want to nail it down.

This is not a Government guarantee. This is not a loan guarantee. And it is not a precedent for one. You are going to have trouble with me if they come back with anything along those lines.

Mr. SHARP. Recouping my time, not only does this fulfill the obligations to Canada, but I share the gentleman's feeling. If this waiver proposal passes and the project does not attract private financing, we go back to the drawing boards. We do not start from the waiver and add to it if this project is not able to attract the private capital.

Mr. UDALL. There will not be any temptation to go back, if this falls apart. I think we have gone as far as we can.

Mr. SWIFT. I want to thank the chairman of the subcommittee and the chairman of the full Committee on the Interior for digging such a marvelously deep hole.

Mr. CORCORAN. Mr. Chairman, I yield myself 1 minute.

Mr. Chairman, I am delighted to hear that some of our colleagues have decided to draw a line and say, "No more." I just wish they would have acted a little bit sooner. I wish they had the same concern for their own gas customers as they do for the Canadians.

I think our job is to represent the people here, from the United States, not from Canada.

With respect to those commitments in principle between President Carter and the Government of Canada, between President Reagan and the Government of Canada, the fact is that there never was any specificity about what was the obligation, about whether or not we would have to go into this kind of prebidding arrangement, or whether or not we would have to put the blinders on the 50 State regulatory agencies so that they could never have the opportunity, as they ordinarily do, to review the tariffs involved after a project has been started, after the gas has begun to flow, and to protect the public interest. That is why, while it may be facile for some of my colleagues to comment at this point in the debate on this concern about these particular problems, I think that what

we should look at is the obligation that we have as Members of the U.S. Congress to take action which protects our people as a first priority. And the obligation we have is to make sure that no major hurdle to the construction of the pipeline would be the problem; however through this waiver package, which cannot be amended, we would go far beyond the original intent of such procedures to guarantee that in the event there is a default on any of the construction loans our citizens would have to pay off the debt. This is unprecedented and should be rejected by this House of Representatives.

Mr. Chairman, I yield 1 minute to the gentleman from Iowa (Mr. LEACH).

Mr. LEACH of Iowa. Mr. Chairman, I would first like to congratulate the leadership of the gentleman from Illinois on this very profound issue.

Simply put, there is real question whether consumers should be expected to carry the burden of corporate risks when, whatever the project's outcome, their only gain is likely to be skyrocketing utility bills. A free-enterprise society implies risk-taking by the entrepreneur, not the consumer. If Congress grants these waivers demanded by the energy industry, a novel precedent will be established. Consumers will be charged for gas they do not and may never receive. If these waivers are approved, incentives to hold down pipeline construction costs will be reduced, as will incentives to keep down the price of natural gas produced in the lower 48 States.

The transfer of wealth as well as people from energy-consuming to energy-producing States will be accelerated. In addition, the cost of production of products as diverse as corn, tractors, and backhoes will go up, thus undercutting America's competitive trade position abroad.

Approval of this waiver package is a classic special-interest issue which Congress has no business sanctioning. I urge its rejection.

Mr. UDALL. Mr. Chairman, I yield 2 minutes to the gentleman from Montana (Mr. WILLIAMS).

Mr. WILLIAMS of Montana. I thank the gentleman for yielding.

Mr. Chairman, we had a good hearing before the Committee on the Interior on this waiver request, and the vote in that committee was 32 to 9 in favor of the resolution. I tell my colleagues here in the House that I do not think there were any of the 32 members, including myself, who voted for this that really liked the waivers, but we did in the final analysis appreciate the reason for the requesting of the waivers.

Further, we know that this country either today or tomorrow or on December 8, 1987, will have a desperate need for Alaska natural gas. We know that without the waivers, this pipeline will either not be built or, as is more likely in my judgment, will eventually be built and will be more expensive on

the consumers in that far distant day than would the result of the granting of these waivers now be on those same consumers.

If we scuttle this, we are breaking our word to our good and respected neighbors to the north, the Canadians.

Finally, if this House turns this down, if our Committee on the Interior would have turned it down, or the Committee on Energy and Commerce, then we would have been doing what the President and the Senate have refused to do, and that is, break our agreements with the Canadians and scuttle this project.

So I urge us to go ahead. But I urge one other thing on my colleagues here in the House.

Inasmuch as I really do not like these waivers, but do appreciate the necessity of them, I would urge caution on the Members of this House and the members of the appropriate committees.

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When pipeline companies next come to us and ask for the OK, the legislative OK to build their pipelines, we ought to tie them down tightly so that this foot-in-the-door financing will stop.

Mr. SHARP. Mr. Chairman, I yield 1 minute to the gentleman from North Carolina (Mr. JOHNSTON).

Mr. JOHNSTON. Mr. Chairman, I have always regarded the relationship between employer and employee as a very sacred one, but in 1974 I was faced with a decision to lay off a couple of hundred people because we did not have the gas to run the plant.

Now, price is an inconvenience, but the absence of gas is a disaster.

Most importantly, we seem to be arguing the question of urgency today. Well, unfortunately the question of urgency is beyond the control of the Congress of the United States. It is in the hands of what a lot of us refer to as "a bunch of crazies" in the Middle East, and it is time that we recognize we are never going to be in trouble because we have too much gas, but the converse can be terribly, terribly, disappointing.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to the gentlewoman from Illinois (Mrs. MARTIN).

(Mrs. MARTIN of Illinois asked and was given permission to revise and extend her remarks.)

Mrs. MARTIN of Illinois. Mr. Chairman, no one would deny the urgency or the need for the Middle West, the East, or the South to have a supply of gas. But earlier this year many of us voted for a tax bill, a tax bill that we said gave true relief and would indeed begin to extend the entrepreneurial spirit and allow risk. We voted to cut back the rate of growth in Federal spending because we said it is inappropriate for the Government to be as involved as it is in the private sector.

To do these two things and then to look at this and say that in this case we will involve ourselves—because that is in effect what we are doing—is in error.

Mr. Chairman, given the cost of constructing this pipeline, certain waivers may be necessary, but the consortium building this pipeline is asking for more than the means to complete the project. The Congress today is being asked to subsidize this venture through a closet tax on gas users, while still assuring the consortium a profitable return. Gas consumers in my district could have their gas bill raised by as much as \$1.50 per month to generate the \$37 billion in consumer subsidies the consortium may seek.

In 1976, when the Congress first passed the Alaska Natural Gas Transportation Act, it was wisely decided that the pipeline should be built through private financing. Now we are being asked to open the door for future Government subsidization of this project. Prebidding is the first step toward direct Federal subsidies. If this pipeline should fail to be completed or be unable to deliver gas at a marketable price, the Federal Government will be under pressure to engage in a bailout to save the investment that was forced upon gas consumers.

Anyway you cut the cake, the prebidding in these waivers is nothing more than a tax on gas consumers to subsidize the energy companies. As we all know, the energy companies have not been standing in line in bankruptcy court lately. Asking gas consumers to finance their undertakings can only be termed as a rip-off.

We can waive laws to allow the energy companies to build this pipeline; and if the line is completed and can deliver natural gas at a marketable price, these companies will be able to bill the consumers who receive the gas and still make a profit. I will work to see this pipeline constructed and will support waivers to allow private financing. Forcing gas consumers to support this project financially, to assume the risk of this endeavor, is not private financing and is not worthy of passage by this body.

Mr. Chairman, if we do indeed need this gas—and indeed my State does—I would point out that the gas companies know it, and they can build the pipeline and then bill for the gas. It is inappropriate and wrong to go at this along the route that the committee has proposed, and I think we should all be voting in opposition to it.

The CHAIRMAN. The Chairman desires to inform the gentleman from Arizona (Mr. UDALL) that he has 7 minutes remaining, the gentleman from Indiana (Mr. SHARP) that he has 5 minutes remaining, and the gentleman from Illinois (Mr. CONCORAN) that he has 13 minutes remaining.

The Chair recognizes the gentleman from Arizona (Mr. UDALL).

Mr. UDALL. Mr. Chairman, I yield 2 minutes to the gentleman from Alaska (Mr. YOUNG).

Mr. SHARP. Mr. Chairman, I yield 1 minute to the gentleman from Alaska (Mr. YOUNG).

The CHAIRMAN. The gentleman from Alaska (Mr. YOUNG) is recognized for 3 minutes.

(Mr. YOUNG of Alaska asked and was given permission to revise and extend his remarks.)

Mr. STANGELAND. Mr. Chairman, will the gentleman yield?

Mr. YOUNG of Alaska. I yield to the gentleman from Minnesota.

(Mr. STANGELAND asked and was given permission to revise and extend his remarks.)

Mr. STANGELAND. Mr. Chairman, I would like to express my support for this resolution. At the present time our Nation remains dangerously dependent on costly and historically unstable foreign energy sources. Completion of the Alaska natural gas pipeline system will aid efforts to increase production from domestic energy sources and reaffirm our commitment to greater energy independence, thus strengthening our national security.

One of the reported sticking points of the resolution's proposed waiver of legal obstacles to private financing of the pipeline is the potential effect on natural gas consumers. Opponents of the waiver argue that the consumer is going to have to shoulder the cost burden if private financing is approved. In my opinion this is a significant distortion of the facts.

First, the earliest possible date that the average residential consumer could begin to participate in the project's support would be November of 1986. That is the earliest date which could be set by the Federal Energy Regulatory Commission for completion and operation of the whole pipeline system. And even the setting of that date would not automatically enable distributors to bill consumers. Billing could begin prior to actual deliveries of gas from the system only after one or more project segments are actually complete and ready for operation. If, as expected, all three project segments are completed on schedule, no advance billing would take place.

Delay in completion of the project is unlikely thanks to extensive preconstruction engineering and design efforts in coordination with Federal regulatory authorities. In the unlikely event that some delay does occur, the effect on the average residential consumer's monthly gas bill would be limited to a range of from 32 cents to \$1.78.

Still it is a fair question to ask why the consumer should carry any potential cost burden. What does the consumer get out of this project, if anything? What he gets is insurance against a much more serious risk than that of a slightly raised gas bill—that is the risk of a repeat of the gas shortages which occurred during the mid-

1970's. The Alaska pipeline project will give natural gas consumers of the lower 48 States access to approximately 13 percent of total U.S. domestic gas reserves. Not only will this new access reduce the risk of future gas shortages, and our dependence on foreign energy sources, it will also help create new jobs for U.S. workers.

A vote in favor of this resolution, then, Mr. Chairman, is a vote for a more secure energy future, a vote for increased national security, and a vote for increased employment for our citizens. I urge my colleagues to vote a resounding "yes" for its passage.

Mr. LAGOMARSINO. Mr. Chairman, will the gentleman yield?

Mr. YOUNG of Alaska. I yield to the gentleman from California.

(Mr. LAGOMARSINO asked and was given permission to revise and extend his remarks.)

Mr. LAGOMARSINO. Mr. Chairman, I rise in support of House Joint Resolution 341 which approves the waiver of law to remove various regulatory obstacles to private financing of the Alaska natural gas transportation system, an important national energy project. There are compelling reasons to support the President's proposed waiver package which has implications on both domestic and foreign policy.

Natural gas is a very important factor in our national effort to reduce imports of foreign oil. Once the pipeline is completed, we will have access to the natural gas of Prudhoe Bay, Alaska, which contains the largest known reserves of natural gas in the United States. We still import more than 5 million barrels per day of crude oil and petroleum products. Therefore, we are still vulnerable to uncontrollable events in unstable regions of the world which presently supply our oil. By 1985, total U.S. gas supplies could be increased to allow displacement of over 2 million barrels of oil per day. The Alaska gas pipeline will have an initial capacity of 2 billion cubic feet of gas per day, and can be expanded to move as much as 3.2 billion cubic feet per day. This will displace nearly 400,000 barrels per day of imported oil, a savings of nearly \$7 billion per year as well as a major reduction in our foreign petroleum dependence. Domestic natural gas supplies are very important in the near future if we are to displace foreign oil and make the United States more independent of OPEC.

As a member of the Foreign Affairs Committee, I would like to point out that the approval of the proposed waiver of law would also fulfill important U.S. commitments to Canada. In 1977, the United States and Canada signed a bilateral agreement under which both Governments pledged to facilitate expeditious and efficient construction of the pipeline and to seek all required legislative authority to remove any delays or impediments thereto. You may remember President Carter's letter to Prime Minister Tru-

deau in full support of the project, and also a special congressional resolution confirming that this pipeline enjoys the highest level of congressional support for its expeditious construction and completion. This administration, confirmed by President Reagan's telegram to Prime Minister Trudeau prior to his announcement in support of a waiver package, also believes this project is an important contribution to the energy security of North America, and is a symbol of United States-Canadian ability to work together cooperatively in the energy area for the benefit of both.

Canadian Government approval for the construction of, and export of Canadian gas through, the previously constructed portions of the Alaska natural gas pipeline was given in reliance on these commitments that the entire ANGTS project would be completed and that the Canadian sponsors would be permitted to commence billing for their segment of the pipeline upon its separate completion. This latter commitment was particularly important to Canada in view of the fact that the principal consumers of the Alaskan gas will be U.S. households and commercial industrial users.

Failure to meet these commitments by rejecting or failing to act on the waiver of law proposed by President Reagan could have serious repercussions on United States-Canadian relations in energy as well as other fields. Not only would it cast doubt on the reliability of U.S. international commitments, but also would be perceived abroad as signaling a weakening in American resolve to reduce our energy vulnerability.

Again, I urge my colleagues to vote in favor of the waiver package.

Mr. YOUNG of Alaska. Mr. Chairman, I thank the gentleman from California (Mr. LAGOMARSINO).

First, Mr. Chairman, I would like to compliment the gentleman from Indiana (Mr. SHARP) for his fine work on the subcommittee, and I wish to compliment the chairman of the full committee, the gentleman from Michigan (Mr. DINGELL), and the chairman of the Committee on Interior and Insular Affairs, the gentleman from Arizona (Mr. UDALL).

The Merits of this package of waivers has been heard far and wide and in depth. Let us face facts. I say to my good friends that I have heard much about the consumer side of this issue. However, this is a consumer-oriented package of waivers. In return for bearing a small financial risk, consumers will benefit by receiving secure and economic source of U.S. fuel.

If we go back to the record of 1960, we see that on this same floor many of the same philosophies were expounded. Members were saying, "Let's help the consumers and lift the embargo on imported oil because this will help the consumers."

We saw what happened, and the people who are watching this program

saw what happened. We immediately went from \$1.74 to \$13.74 for a barrel of oil in 2 months. Eventually, we went to \$40 a barrel for crude oil. And I can tell my good friends that the same thing can happen to us in the natural gas field. If Congress does not act to increase supplies of American Natural Gas.

Yes, we have heard that there is a surplus of gas now. I say there is no surplus of gas. Gas can take the place of oil and can reduce our dangerous dependence on imported oil. Alaska has the gas, and we want to deliver it to the United States. It was not Alaska's decision to have it go through Canada. The pipeline route was the decision of the Congress and President Carter. There was a commitment at the time to the Canadians that we would build an interstate international line of supply of gas to the Midwest, the West, and the east coast.

This is what this package of waivers does. It gives the opportunity for the marketplace to finance the line. Approval of the waiver will allow private financial negotiations to continue. Private financing will complete this pipeline that will provide to the American people—and I say this without any reservation—120 years of supply of gas.

There is a new report by the National Petroleum Council that the estimated reserves on the Arctic Slope alone are 109 trillion cubic feet of natural gas. Think about that for a moment. That is four times the size of the Prudhoe Bay Reserve, which is the largest ever discovered in North America. The report also estimates there is 143 billion barrels of oil in Alaska.

We have the resources in Alaska. Alaskans are willing to participate in helping this Nation become energy independent. But I can tell the Members that if this waiver package does not pass, there will be no Alcan pipeline built today, tomorrow, or ever. The gas will be utilized, but it could well be delivered by LNG tankers to foreign markets. If Members from Midwestern States want to insure that Alaskan gas is shipped by pipeline to the Midwest, I recommend voting in favor of House Joint Resolution 341.

Now, we have looked at this package of waivers throughout the committee process. Each committee has come down on the side that private industry should have the opportunity to build this pipeline.

If, by some chance, so-called consumer advocates were to defeat this package, the consumers of natural gas and oil will suffer. Consumers will pay, pay, and pay again as that unsettled Mideast situation continues. There is too much trouble in that part of the world and too great of a chance that foreign suppliers could raise energy prices for this Congress to continue the Nation's gamble on the continued supply of foreign oil.

Mr. Chairman, prebidding is truly a red herring. When compared to the benefits which this pipeline could

bring to all Americans. For this reason, I urge my colleagues to approve this waiver proposal and vote in favor of House Joint Resolution 341.

Mr. CORCORAN. Mr. Chairman, I yield such time as he may consume to the gentleman from Wyoming (Mr. CHENEY).

(Mr. CHENEY asked and was given permission to revise and extend his remarks.)

Mr. CHENEY. Mr. Chairman, I intend to vote for House Joint Resolution 341, the President's waiver package to permit construction of the Alaska natural gas transportation system—ANGTS. I urge my colleagues to do the same.

Approval of the waiver provisions requested by the President on October 15 is crucial if private financing is to be developed to build this essential link between the enormous natural gas reserves of Alaska, and consumers in the lower 48 States.

The waiver has been reviewed at length in both the Senate and the House. Both the House Interior Committee and the Energy and Commerce Committee held extensive hearings and examined in great detail all of the ramifications of the waiver request. Both committees voted overwhelmingly to approve the waiver package. The proposal has received similar favorable review in the Senate, which has already voted to approve it.

We are talking about huge amounts of natural gas which need to be made available to U.S. consumers. The pipeline will link consumers to Alaskan reserves estimated to exceed 100 trillion cubic feet. The initial capacity of the pipeline will render unnecessary the importation of an estimated 400,000 barrels per day of foreign oil. The pipeline could be expanded to replace as much as 600,000 barrels per day. Moreover, construction of the pipeline will create as many as 16,000 jobs for American workers and make available millions of dollars in private contracts for U.S. industry.

Approval of the waiver also will put the United States in the position of fulfilling commitments made by Congress and two Presidents to Canada. The United States and Canada are parties to a bilateral agreement under which both Governments pledged to remove any delays or impediments to the expeditious completion of the pipeline. This commitment has been reaffirmed by the Reagan administration and by the Congress in a special resolution stating that the pipeline "enjoys the highest level of congressional support for its expeditious construction and completion."

In short, the waiver proposal is necessary if the private sector is to be in a position to put together the necessary financing for construction of the pipeline. I hope it will be approved overwhelmingly by the House.

Mr. CORCORAN. Mr. Chairman, I yield 2 minutes to the gentleman from

Indiana (Mr. COATS), a member of the committee.

Mr. COATS. Mr. Chairman, a lot of good reasons have been detailed today as to why we should support this waiver package. I think there are probably two prevailing reasons in my mind.

This perhaps represents the last chance to get the vast and valuable resources of natural gas from Alaska down to the lower 48 through private financing. Make no mistake about it, I think most experts would agree that at some point in this country's future we are going to want to use that natural gas in Alaska, but most of the people who have testified and the financial people who have testified before our committee indicated that if we are going to do it through private financing and not through taxpayer financing, through public debt or guarantees, we are going to have to do it now through waivers.

Second, I think another point that is very important is that this touches on our national security. A number of people again testified before our committee indicating that if OPEC shut down, it is going to have a devastating economic effect not only on the United States but on all of Western Europe. More than one President has indicated that our only option at that point would be military intervention.

I think it is compelling that we go after these domestic resources to give us one more option to OPEC oil, one more option and consideration to deal with in terms of the potential of OPEC blackmail that we have been facing, and one more option to respond to Colonel Qadhafi's Libyan oil connection.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to myself.

Mr. Chairman, there has throughout the debate been the attempt to describe particularly the prebilling waiver as a proposal that would make sure that there was private financing as opposed to something that would be taxpayer supported.

I would submit this overlooks what in fact prebilling does. In fact, what has happened is that the free market has rejected this particular financing proposal. The banks have looked at it, four of the largest banks in the United States, if not the world, and they have concluded that on a private financing basis they will not lend one penny to this project. They have said to the sponsors that if you do not get from the Congress and the Federal Government the authority to make the consumers of the gas, if indeed they ever get the gas, provide the collateral on this loan, then we will not support it. Only with the consumers as collateral on the credit will we put private money in this project.

This is far different from the ordinary way in which commercial ventures ought to proceed and by no stretch of the imagination can we call this a free-market solution to the fi-

nancing for the Alaska natural gas pipeline project.

Mr. Chairman, I am pleased to yield 1 minute to the gentlewoman from Illinois (Mrs. COLLINS).

(Mrs. COLLINS of Illinois asked and was given permission to revise and extend her remarks.)

Mrs. COLLINS of Illinois. Mr. Chairman, I rise in opposition to this package.

In every respect this proposal is a betrayal of commitments made to the Congress and to the American people when the project was approved by Congress in 1977. It asks that consumers assume a burden of risk that no self-respecting banker will undertake. It does this without any guarantee that the gas will ever be delivered to consumers or that the price will be economical.

Just yesterday I chaired a field hearing of the Fossil and Synthetic Fuel Subcommittee on the impact of Federal energy assistance to low-income people in the Chicago, Ill. area. There I heard a lot of very sad stories from people in a city where 75 percent of their heating fuel comes from gas. Many of those people are hardship cases, many are not, but all of them are concerned about the high cost of gas to heat their homes and to use in other forms in their homes.

We also had people from the Department of Energy at our hearing who said it was an awful thing that people had to pay so much in order to be comfortable and that people who are ill faced the added hardship of high energy costs to have their houses cooled by electricity, and so forth. These consumers simply cannot be asked to bear the burden for the cost of this pipeline project.

It seems to me that those of us who are in Congress are faced with a very real responsibility and I have therefore labored hard over this package of waivers for the Alaska gas pipeline in an effort to be as open-minded as possible on an issue of critical concern to the people of this Nation.

Unlike some of my colleagues who convinced that the waiver package was a bad deal because it looked like a bad deal, shut the door on the pipeline sponsors, I have tried to remain objective throughout this debate. After looking long and hard at two sides of this issue—the impact on consumers on the one hand and the impact on jobs on the other I am now convinced that this waiver package is not in the best interests of the American people.

I am fully aware of the argument that Alaskan gas will add to our Nation's supplies and thereby help to hold down the price. However, this, too, is an uncertain proposition for Alaskan gas is expensive and will remain so and, may therefore, add as much to cost as it will to supply.

This is assuming that Alaskan gas will be marketable at all—which it may not be.

Defenders of the prebilling provision claim that the risks of noncompletion or unmarketable gas are very low. If the risks are as small as they claim, why then do not the lenders assume the risks themselves in return for the enormous proceeds they will receive on repayment for their loans? It is, Mr. Chairman, because the lenders have no faith in the economic viability of this project that we are being presented with this waiver package in the first place.

Even with this unacceptable prebilling provision included, this waiver package fails to even accomplish the goal of assuring financing for the project, which is its ostensible purpose. Should this resolution be approved, the financial community tells us, several important issues would still remain to be negotiated, and perhaps other waivers requested before the necessary funding would be granted.

Mr. Chairman, we are told that it is only as a last resort that the consumer is being asked to assume the financial burden of this costly project—that all other sources of capital have been exhausted. I wish the committee had taken a closer look at the financial contribution of the State of Alaska to the pipeline which so far stands at zero.

This is unfair, considering that Alaska stands to gain \$20 billion in royalties from the sale of the gas. That comes to about \$40,000 for each resident of a State which even now exempts its residents from paying income tax. This means that, in effect, consumers in Illinois and other gas-importing States are paying the income taxes for consumers in oil and gas producing States. We are in danger of becoming a nation divided between energy haves and have nots, between hard-pressed consumers and a small band of OPEC-like producers, raking in billions in taxes on their oil, gas, and coal. It seems to me that one condition for the granting of these waivers should be an upfront investment by the State of Alaska equal at least to the risk being asked of consumers.

Mr. Chairman, there is a final issue over which I have agonized before reaching a conclusion on this waiver package. This is the contention made by the pipeline sponsors that significant numbers of jobs would be jeopardized—particularly in our Nation's depressed steel industry—should this pipeline project be derailed or delayed as a result of the defeat of this waiver package. It was only because of this consideration that I abstained when the committee voted out this resolution on November 19. In the interim, I have had a chance to look at this issue more closely and I am distressed to report that the optimistic projections of jobs that were made to me have not been substantiated by commitments on the part of the pipeline sponsors to the steel industry. Although I appreciate the sponsors' sincere intention to

use American steel as much as possible—in the construction of the pipeline, decisions already made regarding the pipe diameter to be used and the method of financing—supplier credit—means that foreign steel companies would have a substantial advantage over U.S. firms in bidding for pipeline materials. Under these circumstances, I can see why the pipeline sponsors are unable to give the steel industry a commitment. But without such a commitment, I cannot find a good reason to support this waiver package.

I, therefore, urge my colleagues to join me in opposition to this waiver package and in support of an effort to develop a more equitable approach to financing the Alaskan pipeline.

Mr. CORCORAN. Mr. Chairman, I yield 2 minutes to the gentleman from Oregon (Mr. WEAVER).

Mr. WEAVER. Mr. Chairman, first of all, the companies involved will have very little of their own capital in this venture. Investment tax credits and other depreciation allowances, with front-end loading on payments, will make sure that they receive their capital almost immediately and the consumer, therefore, will be bearing the full risk.

I say, let us make the free enterprise system work. Take all the fetters off and let the oil companies and the pipeline companies finance the venture entirely on their own, pledge their gas and oil reserves, and let them charge what they will for the gas, but let them bill it and sell it for what the market will pay.

There is no hurry to pass this legislation. The three senior vice presidents of the companies involved, Exxon, Arco, and Standard Oil of Ohio, have said they were reinjecting the gas into the field now and could do so indefinitely without loss.

There are alternatives as well. Building a methanol plant on barges at Prudhoe Bay and shipping the liquid methanol along the existing gas or oil pipeline would be one very good alternative that should be seriously considered.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to the gentleman from Illinois (Mr. O'BRIEN).

Mr. O'BRIEN. Mr. Chairman, I thank the gentleman for yielding me this time.

Mr. Chairman, it seems to me that in the wake of receiving hundreds of letters from my constituents relative to deregulation and apprehension over increases in their gas bills, what we are doing here is asking the consumer, without his consent and without any referendum to assume a risk that the oil companies and the financing institutions are not willing to assume. I think that is just bad law.

Mr. CORCORAN. Mr. Chairman, I yield 1 minute to the gentleman from Maryland (Mr. MITCHELL).

(Mr. MITCHELL of Maryland asked and was given permission to revise and extend his remarks.)

Mr. MITCHELL of Maryland. Mr. Chairman, I will try to be as brief as I can.

Mr. Chairman, if we tried to put this kind of a bill through the Baltimore City Council, the proponents of that bill would be run out of town on a rail. It is the most blatant anticonsumer bill I have seen in my 10 years or 11 years in the Congress, and yet somehow now we are going to manage to slide it on through.

I see that the majority leader is here, and I will leave before he speaks because I am aware of his persuasive powers.

This is a bad bill, and I say to the gentleman, "I am not even going to listen to you today, Mr. Majority Leader."

The other part of the problem is that the House is antiaffirmative action there, but there was an affirmative action program in this bill. I want the Members to read my remarks about how cleverly these companies are giving the impression that they are complying with affirmative action for minority businesses and are really boiling it altogether. What they are doing is setting up a list of those who have made contacts, and then they screen out those who have made contact, matching companies with capabilities against offers, but the net effect is that they will reduce the opportunities by 80 percent for minority businesses to participate.

Mr. Chairman, let us kill this turkey, please. Let us vote it down.

Mr. Chairman, today, I must rise in opposition to House Joint Resolution 341, waivers to the Alaska Natural Gas Transportation Act of 1976. My grave reservations about the measure before us can be divided into two areas: First, the consumer impact; and, second, the lack of adequate affirmative action programs for minority entrepreneurs.

The current administration has asked us to tighten our belts. As Federal programs are being cut we are being told that the worst is yet to come. Indeed, for once, I agree with the administration. Unemployment is moving upward from 8 percent. Investment in new housing is at a post-World War II low, putting the housing sector in a depression. The number of business failures in the United States has reached alarming levels; failures so far in 1981 are 42 percent higher than a comparable period in 1980, more than double the number in 1979, and more than 2½ times higher than in 1978. If the present trend continues, the number of failures recorded by Dun & Bradstreet will be the second highest since WWII. Net farm income in inflation adjusted dollars will be approximately \$7 billion this year according to the U.S. Department of Agriculture, the second year below \$10 billion and the worst 2 years since the Great Depression. Likewise, consumer energy expenditures as a percent of all consumption have increased nearly 2 percent since 1978. In 1978,

7.9 percent of every consumer dollar was spent on energy and by 1980 this had increased to 9.8 percent. Despite these economic knives being slung at the consumers, the oil companies and the present administration are asking the buying public to assume the financial burden for a \$4.3 billion gas conditioning plant for the natural gas pipeline project. According to one source, if the waivers are approved, residential consumers would pay more than \$150 a year in increased gas bills starting in 1982. Mr. Chairman, this is a charge for a facility and service currently not in use and may not even be available by its projected 1987 completion date. While this is appalling, it should also be noted that if the pipeline project is abandoned, consumers will still be required to pay off the debt over a 20-year period.

If we take the worst case scenario that consumers would agree to assume such a risky burden, it should be realized that a percentage of their expenses would not even be used to purchase supplies from American companies. The Alaska gas natural pipeline project is using steel pipes that not "one steel mill in the United States can make." How then can we move this country back to economic sufficiency and stability if the American dollar is not being spent on American products owned and produced in America?

Mr. Chairman, my opposition to House Joint Resolution 341 is founded on yet another element of deception by the gas pipeline companies and the present administration. In my 11 years in Congress, I have been a strong supporter of increasing public and private sector business opportunities for minority entrepreneurs. I was appalled with the level of minority business participation in the Alaskan oil pipeline project. Thus in 1976, I sought and received assurances from the natural gas pipeline companies and the administration that a yeoman's effort would be made to increase business opportunities for minorities, female and small business owners. Based on these assurances, I supported the 1976 legislation for the Alaska natural gas pipeline project.

I commend the administration and the pipeline company executives for their ability to utilize the correct phraseology to exhibit compliance with the affirmative action requirements of section 17 of the Alaska Natural Gas Transportation Act and condition 11 of the President's decision. Unfortunately, however, in recent months, I have received numerous complaints from minority entrepreneurs who have been unsuccessful in their bid to secure contracting opportunities with the gas pipeline companies. After a careful examination of the gas pipeline companies affirmative action plans, I can certainly understand these complaints. Section 34.8(c)(3) of the regulations imple-

menting the Alaska Natural Gas Transportation Act, provides that the sponsors should consider the availability and capability of existing minority and female businesses in each procurement and contracting area. I submit that the sponsors have interpreted this requirement too narrowly. For example, the companies have utilized an "applicant flow" approach to ascertain contracting opportunities for minority business entrepreneurs (MBE's) and female business entrepreneurs (FBE's). Simply stated, "applicant flow" is based on the number of MBE and FBE firms expressing an interest in contracting opportunities. From this, the suppliers match potential procurement opportunities. After completing this stage, a goal is created. Thus, instead of MBE's receiving 10 percent of the total project cost (\$40 billion) they are receiving 10 percent of a much lesser figure. For example, the projected cost of the Alaska segment in 1980 dollars is \$7.05 billion, yet 32 percent of this figure has been excluded as having no opportunities for MBE's and FBE's. In a similar context, the certified cost of the northern border (prebuild) project is nearly \$1.092 billion. The company has determined that nearly \$893,525 should not be included in the base project cost for purposes of MBE/FBE goal determination. The contractable opportunities for MBE's and FBE's on the project, therefore, total approximately \$200 million. The company has set a goal of 10 percent of this \$200 million or \$20 million for MBE participation. Mr. Chairman, this process is untenable and inconsistent with the mandate of providing for the maximum practicable opportunity for MBE/FBE participation as required in 43 CFR 34.8(c)(3)(i). Instead of summarily concluding that MBE/FBE entrepreneurs cannot perform certain contracting functions, the gas pipeline companies should be exploring innovative joint venturing concepts to expand MBE/FBE participation. Until such efforts are made, the percentage of awards of MBE's/FBE's that are presently being hailed as achievements, over and above the actual goals for such businesses, are no more than craftily conceived diversion strategies.

Mr. Chairman, earlier I stated some hard facts on the condition of this Nation's economy. The administration would like private industry to rally to the cause and rescue us from this quagmire. I, too, believe that the private business sector must begin to assume a more meaningful role in stabilizing our falling economy. I know that MBE's/FBE's are ready to do their share; however, their dreams cannot be fulfilled until barriers as I have just discussed are removed. Mr. Speaker, it is for these reasons that I urge my colleagues to vote against House Joint Resolution 341.

Mr. UDALL. Mr. Chairman, I yield 1 minute to the gentleman from Ohio (Mr. SEIBERLING).

(Mr. SEIBERLING asked and was given permission to revise and extend his remarks.)

Mr. SEIBERLING. Mr. Chairman, first I would like to point out that there is an error in the dissenting views on page 35 of the committee report. It should read "1987 dollars" instead of "1978 dollars." As the author of the dissenting views, I figured that I had better correct that.

□ 1445

I rise in opposition to House Joint Resolution 341 which waives the statutory provisions of the Alaska Natural Gas Transportation Act.

I think probably everything has been said before. But let me just point out a couple of things about this bill. There is absolutely nothing in these waivers that assures that 1 cubic foot of natural gas will ever move through that pipeline or that the necessary financing will ever be obtained. We have no assurance from the sponsors that they are going to be able to raise this money, even if these waivers are approved. So we ought to put on them now the conditions that will meet the objections that have been raised, the principal ones being, of course, that the consumers are going to pay an astronomical opening cost for gas, and they have to pay it even if no gas is delivered under the conditions of these waivers.

Mr. Chairman, I rise in opposition to House Joint Resolution 341, which waives statutory provisions of the Alaska Natural Gas Transportation Act.

The waiver package has been prepared by pipeline sponsors and proposed by the administration on the claim that it is the only way to assure private financing to complete the pipeline. Private financing was one of the conditions to the project imposed by President Carter's decision in 1977 to permitting, and granting rights-of-way and other authorizations for its construction and completion.

Two other conditions to the project—that the gas conditioning plant not be a part of the project and that producers may not hold an equity share in the project—will go by the board if we approve this package. There is no assurance from the producers or sponsors of the pipeline that the condition of private financing will not be the next requirement to be waived. There is no guarantee that even with the approval of this waiver package that the necessary financing will be provided, or that the project will be completed as scheduled without any additional costs to the consumers or the taxpayers.

As one of the few members of the Interior Committee who sat through virtually every presentation by witnesses in the hearings held on this waiver package, I was shocked at the escalation of costs experienced in the project since Congress authorized the route in 1977. The original projection

of costs at \$13 billion has now escalated to \$59 billion, including debt financing. This increase far exceeds the rate of inflation, yet project sponsors were at a loss to explain the source of the unforeseen and unplanned for cost increases that were not accounted for in the sponsors' original cost estimates. Had we known in 1977 what we know now about the costs of this project—which is the most expensive energy development project of its kind—I doubt very much that we would have approved the pipeline as the preferred way to transport the energy represented by our Alaskan gas reserves to the lower 48.

In these circumstances the Congress should be reevaluating the project and determining whether there are other feasible and more economical methods of bringing Alaska natural gas to the Lower 48. Instead find ourselves with our backs to the wall, hearing the parties who sold us the original plan argue that without this waiver package, there will be no way to develop Alaskan gas reserves for energy-short areas.

In fact, the hearings revealed a number of different options that are technically and economically feasible. One option, for example, proposes converting North Slope gas to methanol which could be delivered through the oil pipeline in the form of a premium liquid transportation fuel for less cost than the natural gas and with a lower loss of resource. Other alternatives have also been proposed which merit further consideration. But we have no opportunity to look beyond the proposal presented to us today.

Even more misleading is the implication that passage of the waiver package today assures the completion of the pipeline. In fact, there is nothing to guarantee that the Federal Energy Regulatory Commission will approve the sponsors' financing proposals, upon which the waiver package is based, or that the financing institutions will agree to lend funds even if FERC does certify the financing scheme—and I would reiterate that there is absolutely no guarantee that the Congress will not hear again from the pipeline sponsors to tell us that they need additional Federal assurances, in the form of loan guarantees or more direct assistance, to assure that the pipeline will be completed.

As it is, the consumers of natural gas have been enlisted by the pipeline sponsors to share the risk in the project. Under the pre-billing provision in this package, consumers of natural gas—primarily those in the Midwest and on the west coast—could be billed for completed portions of the pipeline even if the project as a whole was not completed on a date certain, as set by FERC. The rate consumers would pay would be sufficient to cover producer debt and operation costs, and under the waiver package, the costs of the gas-conditioning plant which adds an-

other \$6 billion to the overall costs of the project.

Since the escalation of the cost will increase the price for delivered gas to the extent that it may not be marketable—\$17.50 Mcf in 1978 dollars, delivery date 1978—consumers who are unable to switch to other types of energy will have to take the gas at that price. According to a Congressional Research Service study, the impact on industrial consumers would aggravate the problem for residential consumers since—

Most companies would either pass the increased cost to its customers through product price increases or more likely in many cases switch to a cheaper source of energy such as residual oil. If massive switching occurs in the industrial sector, then the average monthly cost to consumers in the residential and commercial sectors could skyrocket because the industrial sector was going to bear 50 percent of the consumer liability.

The prebilling provision makes consumers unwilling partners in the pipeline, paying higher costs without receiving any interest in or benefit from the pipeline other than the promise of receiving Alaska natural gas upon the pipeline's completion at extraordinarily high prices. The waivers do not require, as they should, that in return for being allowed to obtain equity ownership in the pipeline, they contribute their profits on gas at the wellhead to the extent necessary to keep the price of delivered gas competitive with other energy resources. Although the House Interior Committee report suggests to FERC that consumers' interest be considered in any final certificate that may be approved on the financing proposal, the nature of the procedure we are operating under in considering this package prevents us from putting conditions or requirements on producers or sponsors to assure timely completion of this project, and delivery of Alaska natural gas at reasonable and competitive prices.

Since we can only vote "yes" or "no," I urge my colleagues to vote "no." If we defeat this waiver package, then the Congress may spell out the conditions and limitations it wants on any waivers and invite sponsors and proponents to return with a package that assures delivery of this valuable national energy resource at reasonable cost to consumers.

Mr. CORCORAN. Mr. Chairman, I yield 2 minutes to the gentleman from California (Mr. MILLER).

(Mr. MILLER of California asked and was given permission to revise and extend his remarks.)

Mr. MILLER of California. Mr. Chairman, I think the problem with this legislation is that we are being a little bit dishonest with the citizens of this country. You can tell that when politicians start inventing new words.

When the administration and the majority leader in the Senate got into a bind earlier this year and found they had to raise taxes, they talked about "revenue enhancement in out years."

They thought that would fool the people in this country.

When we found out that construction work in progress is not popular with utility ratepayers, we now talk about "prebilling." When we found out that loan guarantees and taxpayer subsidies for the free enterprise system were not popular, we have invented "consumer underwriting."

The fact of the matter is that the Congress is mandating a new tax on the people of this country. At the same time, when we are about to have a \$30 billion tax decrease in July of next year, we are coming along and taking perhaps \$23 billion out of the pockets of the consumers of this country in this unwise legislation. When the Congress mandates that kind of action, that is a tax by any other name.

The point here is that there is another alternative, and I think the gentleman from Illinois (Mr. CORCORAN) should be commended for bringing this matter to the floor of the Congress. That is that the free market system, and it can work, but the special interests would just prefer it not to work.

The State of Alaska can put up additional revenues. The State of Alaska would just prefer not to put up additional revenues. That is certainly their right.

So what we have done is to turn to the consumers and mandate that they pay a cost, if this package goes through, because other people would prefer not to. We can deregulate the price of Alaska gas and the producers could have that gas and have the entire project. They are getting a 50-percent rate of return. In 2 years they will have their risk out of this project. In 4 years the risk of the pipeline companies will be out of this project.

But the consumers' risk, goes on for a 20-year period of time. I think it is very important we be up front with the consumers of this country and tell them exactly what we are doing. Let us quit inventing misleading phrases so that we will be more comfortable doing something we know is wrong.

I would like to insert several letters from the chairman of the California Public Utilities Commission, an editorial he wrote for today's Los Angeles Times, and an editorial from today's New York Times. This material emphasizes my point that this is a bad package of waivers which shifts all of the risk to the consumers and leaves all of the benefits with the owners of the pipeline. I urge my colleagues to defeat this resolution.

PUBLIC UTILITIES COMMISSION,
STATE OF CALIFORNIA,

San Francisco, August 12, 1981.

Hon. PHILLIP SHARP,

Chairman, Subcommittee on Fossil and Synthetic Fuels of the Committee on Energy and Commerce, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN SHARP: Thank you for your letters of July 10 and July 31, inviting our comments on the financial waiver pack-

age for the Alaska Natural Gas Transportation System (ANGTS). As you point out in your letter, California is directly impacted by this project. This week, the California Public Utilities Commission approved the purchase of Canadian gas transported through the so-called "Western Leg Pre-build" portion of the ANGTS. The purchase of this gas is a very real sacrifice on the part of California ratepayers as the gas is not required to meet high priority needs, yet, it will cost over \$7 per Mcf. This is a price that cannot be absorbed by low priority customers with cheaper alternate fuel options. California distribution companies expect to purchase 20 percent of the Prudhoe Bay when the ANGTS is completed. Hence, the California ratepayers will bear a significant portion of the ANGTS costs.

The California Public Utilities Commission considered the matter of ANGTS sponsors' requests for certain waivers at its conference of August 4, 1981. This letter reports to you the position of the Commission on the various waivers requested.

The request from the ANGTS sponsors that the billing commencement date for the project be modified to provide for billing as each "segment" of the project is completed is unacceptable to this Commission. Our members have quite strong feelings on this issue. There are, of course, the obvious problems, as yet unresolved, of the delineation of a "segment" and of the procedures in the event of project failure. Prebilling also presents the problem of one group of ratepayers paying today for gas which, if it comes at all, will only be used by another set of ratepayers possibly a decade from now. The primary question, however, is the proper sharing of risk of noncompletion of the ANGTS. If those in the private financial markets believe the project is too risky to constitute a prudent investment, Congress cannot, in good conscience, transfer this risk to the prospective purchasers of Prudhoe Bay gas. If, in fact, the ANGTS cannot be privately financed, and if the Congress nevertheless concludes that project should be built for national security reasons, then the entire nation should share in the risk of non-completion of this project. Rather than certain ratepayers bearing the noncompletion risk through involuntary advance payments, I suggest that the project debt under those circumstances be guaranteed by the United States government. I recognize that there are philosophical objections to this concept. However, it can hardly be said that prebilling the ratepayers constitutes a reliance on market forces to determine the feasibility of the project.

Our Commission objects to several of the remaining waiver conditions, which while less onerous, also warrant comment. The request to waive Sections 4, 5, 7, and 18 of the Natural Gas Act so that the Federal Energy Regulatory Commission would be precluded from questioning any future debt or operating expenses is a poor precedent and an unnecessary impediment to the regulatory process. It is a violation of the due process rights of those who may pay these expenses. The concern of the sponsors that the form of tariff not be modified over the life of the project can be addressed without foregoing the right of ratepayers to challenge an unreasonable expense claim.

It is the Commission's opinion that the inclusion of the gas conditioning plant in the approved transportation system violates the pricing concept enunciated in the Natural Gas Policy Act which established wellhead prices for pipeline quality gas. If Congress deems it necessary to charge the ratepayers for the conditioning plant then consideration must be given to their receiving a more

equitable share of the value of the natural gas liquids extracted from the plant.

It is apparent that, because of the cost of the ANGTS, Prudhoe Bay gas can only be marketed on a rolled-in basis. Rolled-in pricing is not, however, the panacea some would suggest. Congress must take the additional step and make an effort to determine if Prudhoe Bay gas priced at \$15 to \$20 per Mcf in 1987 can be absorbed into a natural gas market that will be subsequently deregulated. The risk that rolled-in pricing might bring the average system price of many distribution companies above the price of alternate fuel must be added to the risk inherent in a modified billing commencement date when all of the sponsors' requested waivers are considered by Congress.

Certainly this Commission must consider this risk carefully. It will be difficult, if not impossible, for this Commission to authorize purchase of the gas by our distributing utilities should price or supply conditions make that gas unmarketable.

I look forward to your hearings of this matter.

Sincerely yours,

JOHN E. BRYSON,
President.

PUBLIC UTILITIES COMMISSION,

STATE OF CALIFORNIA,

San Francisco, November 5, 1981.

Hon. PHILLIP SHARP,

Chairman, Subcommittee on Fossil and Synthetic Fuels of the Committee on Energy and Commerce, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN SHARP: On August 12, 1981, I wrote to you on behalf of the California Public Utilities Commission expressing this Commission's opposition to the request of the sponsors of the Alaska Natural Gas Transportation System (ANGTS) for certain waivers from the conditions incorporated in the approval for construction of the ANGTS. In particular, this Commission opposed the sponsor's billing commencement date waiver because of the risk of non-completion of the project that waiver places upon the gas consumer.

After reviewing the waiver package sent to Congress by President Reagan and the recent testimony presented before your committee on these waivers, the California Public Utilities Commission has concluded that the waivers should not be approved.

This position is based upon three interrelated factors. First, the billing commencement date waiver as proposed by the President, while more limited than the similar waiver proposed by the project sponsors, still does not comport with the spirit of private sector financing. If it is clear that the ANGTS cannot come to fruition on its own merits in the private sector market place and the project is determined to be in the national security interest, then we again call for federal loan guarantees. The taxpayers of the country all share in the benefits of a secure energy supply of this magnitude and should share in the project risks.

Second, the testimony before your committee made it abundantly clear that the waiver package before Congress, far from being the final step necessary to bringing the ANGTS to a reality, is only a beginning. The project sponsors, the producers and the banking community must negotiate the formulation of a financing plan. Witnesses from the banking community have indicated that acceptable debt assumption arrangements by the project sponsors and producers might be necessary in addition to a pre-completion billing commencement date. In many cases, the portion of debt of the

ANGTS attributable to individual sponsors is several times their total assets. It is likely that the sponsors will have to return to Congress at a later time for additional waivers. Neither Congress nor those charged with protecting the interests of the consumer should be required to consider these waivers on a piece-meal basis. The project sponsors must be made to determine the actual requirements of private sector financing and present those requirements to Congress in total so that an informed judgment can be made on the viability of the project.

Finally, the question of the marketability of the North Slope gas transported through the ANGTS is clearly an issue that has not been adequately studied. If the gas is not marketable, the waiver package becomes immaterial. The producers, the banking community witnesses and the representatives of the Federal Energy Regulatory Commission have all indicated that studies of the ANGTS gas supply with and without deregulation of natural gas prices must be made prior to final approval of the Alaska pipeline. The determination of marketability should also be made prior to Congressional approval of any waiver package for the ANGTS.

Sincerely yours,

JOHN E. BRYSON,
President.

[From the Los Angeles Times, Dec. 8, 1981]
TAXING CALIFORNIANS FOR A RISKY PIPELINE

(By John E. Bryson)

At the request of the coalition of oil companies, pipelines and utilities proposing to build the new Alaska natural-gas pipeline, President Reagan has asked Congress to waive certain legal conditions governing the project.

If Congress acquiesces—the Senate has already done so and the House is expected to vote this week—the result will be to shift much of the economic risk of this "largest privately financed construction project in history" to California's gas and electricity consumers.

The Alaska Natural Gas Transportation System, as the project is known, is designed to bring the rich deposits of natural gas on Alaska's North Slope south. Twenty percent of the supply is to be allocated to California.

The current project was selected in 1977 by President Jimmy Carter over two alternative proposals, in large part on the ground that this project was to be entirely privately financed. And, in fact, Reagan, not long after taking office, proclaimed his Administration's support for the pipeline only if it met the test of the marketplace by being built with private capital and without government support. Instead, however, the requested waivers are designed to protect the pipeline sponsors from normal marketplace risks.

The central question that is posed by the waiver package is who will bear the economic risks associated with the possibility that the project, to be built under extraordinarily difficult conditions in Alaska, is not completed or is delayed beyond the 1987 estimated completion date. Those are, of course, economic risks undertaken by the sponsors of any construction project. It is precisely those risks that force prospective project lenders to scrutinize the projects carefully and that drive project managers to exercise rigorous cost controls.

Under the waiver package, however, the economic risks of delay or noncompletion would be shifted away from the companies that are sponsoring the pipeline, and would be imposed on the customers of the utilities that will ultimately receive the gas. This

mandated risk-assumption is an indirect and disguised means of providing government support, but the result is substantially the same as more direct means would be. It differs from direct government subsidies principally in that only the customers of certain utilities are stuck with the risk, and in that the financial risk is open-ended, rather than being limited to a defined amount.

In fact, the pipeline project is, from another perspective, substantially more economically risky today than it was when proposed in 1977. At that time, all domestic gas prices were controlled, and the nation and California faced severe gas shortages. In 1978, however, Congress passed the Natural Gas Policy Act, which was intended to allow natural-gas prices to increase to market levels by 1985. And now the Reagan Administration is contemplating accelerated natural-gas price decontrol. As a result, natural-gas prices are going up, and current supplies meet and exceed demand.

The significance of these developments is that in 1987, when the Alaskan gas is scheduled to arrive, there is likely to be a much more ample supply than was previously contemplated, and no low-priced gas to offset the very high price of Alaskan gas. Thus, the utilities may not be able to "roll in" the Alaskan gas price to an overall gas utility rate that consumers will accept. If the price of natural gas exceeds that of oil, large consumers will simply substitute oil, leaving only those without the capability to switch, largely residential customers, to bear the total fixed costs of the natural-gas distribution system.

Market prices for oil and natural gas in 1987 are very difficult to predict, varying as they will with changes in supply, federal law and international conditions. But current estimates for the cost of Alaskan gas underscore concern as to its economic competitiveness.

The California Public Utilities Commission staff estimates that at a \$40-billion total project cost, the Alaskan gas will cost \$15.41 per million BTUs, assuming the project is completed in 1987. This compares with a projected average cost of gas to California utilities at that date of \$9.07 per million BTUs. Depending on oil prices, this means that every California residential consumer would pay an extra \$72 to \$125 annually for the Alaskan gas.

The premium that California gas consumers pay for the Alaskan gas over the cost of other supply sources is, in effect, a tax. There may in fact be a valid argument for assessing such a tax. Access to the Alaskan natural gas would reduce U.S. dependence on foreign sources of both oil and gas. That dependence is a vulnerability affecting U.S. national security. Thus, it is entirely appropriate that Congress consider whether the national-security value of the Alaskan gas merits government support. But that question should be debated directly for what it is.

And, if the national-security interest justifies government support then the associated costs should be borne by all the nation's taxpayers, not just by Californians and other natural-gas consumers who happen to be along the pipeline's distribution route.

[From the New York Times, Dec. 8, 1981]

THE BIGGEST 'PRIVATE' PROJECT EVER

It could turn out to be the biggest private construction project in history; it is already one of the biggest Congressional lobbying efforts.

A consortium of energy corporations wants to build a 4,800-mile pipeline to bring Alaskan natural gas to the lower 48 states.

Congress approved the project four years ago on the assurance that private industry could do the job without further help from Government or natural gas users.

But now the consortium wants key provisions of the law waived, most notably the rules for recovering construction costs. To gain access to financial markets, the consortium argues, it must have permission to pass costs on to consumers long before the natural gas begins to flow.

The Senate agreed to these demands last month by a lopsided 75-19 margin. Now an army of lobbyists is pressuring the House to follow suit. We hope House members have the courage to hold the pipeline builders to their promise.

The Alaskan Arctic holds about 26 trillion cubic feet of natural gas, more than a tenth of America's proven reserves. But getting that gas to consumers is no small task. A pipeline linking the North Slope with California and the Midwest would cost an estimated \$40 billion.

The Northwest Energy consortium's construction plan was chosen over competing proposals in 1977. But the consortium has been unable to find the private investors it originally thought would be willing to finance the project. So, with Reagan Administration support, Northwest wants Congress to waive key provisions of the 1977 law.

One of the requested waivers, to permit oil companies that own the natural gas also to own a piece of the pipeline, seems reasonable. Both the wellhead price of the gas and the pipeline transport cost are regulated; ordinary antitrust considerations don't really apply.

But the core issue is who should bear the loss if the project proves uneconomical.

One worry is that construction delays will add tens of billions to the final cost. That is just what happened to the Alaska oil pipeline. Another worry is that by the time the pipeline is finished, the gas would be so costly no one would want to buy it. Even with no construction cost overruns, the delivered cost of the gas in 1987 will be equivalent to oil at \$120 a barrel, more than three times the present rate.

That explains why Northwest wants customers to start paying not when the gas starts to flow but when construction is supposed to be finished—perhaps years earlier. And it explains why the consortium wants Congress to include a multibillion-dollar plant needed to prepare the raw gas for transmission as part of the project.

Some amount of the financial risk might appropriately be borne by those who stand to benefit from the Alaskan gas. But the proposed waivers would go much further, effectively converting the pipeline into a "cost-plus" enterprise. It is hard to see why all the risk should fall on consumers.

Should the Alaska natural gas pipeline be built? The prize is tempting, but the price is daunting. If the people who know energy markets best—the oil companies and the financial institutions that back them—aren't willing to take a chance, then why should the public?

Mr. SHARP. Mr. Chairman, I yield myself 1 minute.

(Mr. SHARP asked and was given permission to revise and extend his remarks.)

Mr. SHARP. Mr. Chairman, we are operating under very limited time here and people have raised a number of very significant questions. I would urge my colleagues to read the committee report and the additional materials that I will now ask unanimous

consent to place in the RECORD, which is a list of 12 questions that people have asked about this project, as well as answers to those questions.

TWELVE QUESTIONS AND ANSWERS ON THE WAIVER PROPOSAL, HOUSE JOINT RESOLUTION 341

1. *Doesn't the waiver proposal lock consumers into multi-billion dollar payments whether or not the line is ever completed?*

No. The pre-billing provision of the waiver proposal gives the Federal Energy Regulatory Commission the discretionary power to allow companies planning to move gas through the project to begin billing gas customers (1) only after a date selected by the FERC as reasonable for completion of the entire system (probably 1987), (2) only after full completion and testing of one or two or three basic segments of the line, (3) only for the debt service and related costs on the U.S. segments of the project, (4) only after billions of dollars of the sponsors' own risk capital has been invested without return until project completion, and (5) only for those costs prudently incurred and actually paid. All such payments serve to reduce the cost of service for the segment on which they occur, so that consumers would pay less after the line is completed.

The average residential U.S. gas consumer, should the project fail after completion of the two most expensive segments (the absolute worst case), would pay an average of only \$11.20 per year (1982 dollars) during the twenty years required to discharge the debt in full—less than one dollar per month. Because the conditioning plant is currently excluded from the system, and President Carter's decision permits billing upon system completion, current law hypothetically allows the same result. (The figure of \$150 per year per consumer starting in 1982 printed in the Washington Post has no basis in fact whatsoever.)

2. *Is it true that the oil companies will receive a 50% rate of return on their investment in this project?*

No, that is simply not true. The oil companies, like the other participants, will receive a rate of return which is regulated by the FERC and estimated to be about 17%. The memorandum that calculated the oft-cited 50% figure required two heroic and inappropriate assumptions in order to stretch to such an alarming figure. First, it assumed that all proceeds to producers from wellhead sales of their natural gas to be shipped through the pipeline should be considered profit on their pipeline investment, reasoning that without the pipeline the producers could not get any value for the gas. Second, it assumed that there were zero costs for developing this gas production, that all development costs for the gas should be deemed to have been covered by oil revenues.

3. *Is it true that there won't be any American steel used on this huge project?*

No, there have already been hundreds of thousands of tons of American steel purchased and there will clearly be much more. Two thirds of the steel already used has been American; more than a million tons, or 60% of the remaining steel to be purchased, is very likely to be American.

The only large portion not currently likely to be American is the pipeline steel for the Alaska segment, which no American company can currently manufacture. But the pipeline sponsors are attempting to help upgrade an American plant so that the difficult Arctic-grade specifications can be met with American pipe. If it can be done, this pipe, like the other steel needs, would be subject to the sponsors' public pledge to "purchase and use, on a priority basis, American-produced material to the maxi-

mum extent feasible and practicable, consistent with the requirements imposed upon us by the regulatory authorities."

4. *Why hasn't the State of Alaska invested in this pipeline, since they have so much money from oil revenues?*

The State of Alaska is currently considering taking such a highly unusual step. Investing public revenues in a private profit-making venture is not a step a state can take lightly, however great the state's own interest. The State of Alaska is aware that it represents one of the few remaining major sources of funding or credit which could assist to close the \$10 billion gap in unfunded security for construction loans which will exist even if the waiver is approved.

5. *Won't the gas delivered by this project be impossible to sell because of its high price?*

The key variable is the price of foreign oil, which will determine the competitiveness of Alaskan gas. If oil prices rise as fast in the 80's as they did in the 70's, the gas produced from the pipeline may be a bargain even in its first years, when it is much higher-priced than it will be later.

In 1980 dollars, its first year price is estimated to be as high as \$9.00 per Mcf, less than some deregulated high-cost gas has already sold for. (It should be noted that some much higher estimates have been heard in hearings and debate, but these are in 1987 dollars and assume high rates of inflation and interest.) Its average price in 1980 dollars over the twenty-year payback period of the investment will be between \$4.50 and \$5.00, which compares favorably with foreign oil at today's prices. The more oil prices rise, the more attractive this gas price will be.

If necessary, the actual prices passed through to consumers can be adjusted to be closer to this average through various regulatory and financing devices, and this will be done: the companies involved have no desire for an empty pipeline. The consumers, on the other hand, will profit from a full one economically, as well as in their continued access to nature's cleanest fuel.

6. *Why can't anyone guarantee that passage of the waiver will guarantee financing and construction of the pipeline?*

The pipeline has always been planned as a private sector project. The only effective ways to guarantee financing and construction of the project would be through Federal government or consumer guarantees, which the waiver proposal does not provide and which the sponsors do not seek. That the basic decision of whether to go or not go with this project is still that of the private financial markets is proven by the very fact that there are no guarantees that passage of the waiver proposal assures construction.

It is also proof of the fact that the waiver does not provide consumer guarantees, as some have alleged—if it did, financing and construction would be guaranteed. Instead, the testimony from financial experts and bankers is that the waiver proposal clears away some otherwise insuperable obstacles to private financing, and that they believe that there is a good chance of financing the project, but that the private capital market alone will make the key decision on the worth of this project, as it should, and as Congress has always intended.

7. *Why should the project include the natural gas conditioning plant that the original decision required the producers to build?*

The conditioning plant will perform functions necessary for transportation of the natural gas—separation of the carbon dioxide, chilling, compression, and removal of those liquids which would block the pipe-

line. The value of any liquids removed is fully credited to the project and thus to reducing consumers' costs.

If the plant were not included in the system, and producers were willing to construct it, current law would allow the costs for performing these functions to be added to the wellhead prices of gas, so consumers would pay them anyway. But the producers were not willing to pay the full costs of a facility that was required for a system they could not legally participate in.

8. *Are't the legal protections for consumers based on the Natural Gas Act stripped away by the waiver proposal?*

The answer to this is an emphatic no. All the regulatory discretion that the FERC has initially in considering a new pipeline remains, and so does all the regulatory power that the FERC exercises during operation, with the sole exception that the FERC cannot change the tariff in a manner that impairs collection of sufficient revenues to meet the actual costs of the project's debt, taxes, and operation and maintenance expenses. The FERC has never changed a tariff in such a way, and probably never would, but concedes that it could, and the lenders of \$21 billion are understandably reluctant to depend on the indefinite consistency of future Federal regulators even when that consistency is supported by commonsense.

9. *Isn't this huge project, the most expensive ever built, certain to suffer a major cost overrun?*

This project is very unlikely to experience a significant overrun as a result of detailed and complete cost estimates, verified more than once. Millions of dollars were spent on precise design and engineering work. The Federal Inspector's Office will check spending and building practices closely, and FERC will exclude any imprudent expenditures from the rate base. Expectable as well as highly unusual contingencies were all costed-out and accounted for within the project financing plan.

In addition, the rate of return mechanism has a special feature which rewards the builders for finishing under the estimated costs, and penalizes them for coming in over costs. Finally, the sponsors are attempting to finance privately a \$3 billion overrun fund, if all other protections fail. All of these factors combine to make an overrun that could lead to pressure for additional consumer assistance extremely unlikely.

10. *Can't we defeat the waiver package and still keep the project alive by passing legislation?*

The legislative option is a last-minute proposal designed to defeat the waiver package without appearing to prevent construction of the pipeline.

Legislation clearly cannot be passed in the remaining days of this session, nor within the first few months of next year. In fact, no consensus exists, or is likely to develop, on the content of such legislation. Even if it does develop, next year's construction season would be lost, and \$3 billion or more added to the project's cost.

Those suggesting a legislative alternative claim that passage of the waiver package may still not be sufficient to result in private financing of the pipeline. But it is difficult to understand how legislation could increase the incentive to private investors by reducing their risk without at the same time increasing the risk to gas consumers or to taxpayers.

No legislative option was considered during the lengthy discussions prior to submission of the waiver package; no witness during the Subcommittee's lengthy hearings suggested that a legislative solution would be timely; and legislation cannot be

passed in time to prevent the \$3 billion in extra cost to consumers that would be incurred by loss of the coming construction season.

11. *Isn't there some way to satisfy our commitments to the Canadians other than by passing the waiver proposal?*

Probably not. The waiver proposal has been presented by the Administration as the concrete fulfillment of our national commitment to Canada to clear away the obstacles to private financing of the line and to provide Canadian participants full security for their advance investments in our behalf. It is a full discharge of that commitment, even if the project cannot then find the private funds it requires. Congress joined in this commitment with a concurrent resolution passed in July 1980, for the explicit purpose of assuring the Canadians that they could trust us and authorize the pre-build.

Canada has relied on our national commitment to authorize the advance building of a section of the line, which is now complete, and to authorize greater gas exports. The government did so despite the assertions of the opposition party that the U.S. would renege and never build the portion of the project to Alaska. The Canadian Energy Minister has said that for us to fail now to clear the way for private financing of the remainder of this project "would be the greatest breach of faith committed by the United States on Canada in the last 200 years". Since we would be deluded to think that a legislative alternative can be put together in time to save this project, there is no reason Canada should think so either. Given the potential for political exploitation that such a failure on our part would create in Canada, adding momentum to nationalist and anti-American feelings already causing us problems, it might well be decades before an overland pipeline through Canada would be politically possible, should the current waiver proposal be defeated.

12. *Won't the sponsors of this project come back again for more shifting of the risk of this investment to consumers if the current waiver package fails to attract financing?*

The Administration and key Congressional participants in this process have made it absolutely clear to the sponsors that there is no interest in additional substantive waivers which deal with project economics. I would personally be unwilling to support any waiver proposal which sought to provide further shift of financial risks to consumers, and I doubt that President Reagan would change his mind and propose it.

CONSUMER PROTECTIONS

The waiver proposal does not adversely affect consumer protections for the following reasons:

1. The FERC retains discretion to decide upon what conditions it will issue final certificates of public convenience and necessity under the Natural Gas Act authorizing the construction and operation of the ANGTS. Before issuing such certificates the FERC must examine the financing plan, the project tariffs, marketing and marketability studies, and cost of service studies. The FERC must satisfy itself that the project will be economically viable, that Alaskan gas will be marketable, that the financing plan and conforming tariffs are in the national and public interest, and that issuance of the certificates are not inconsistent with the standards of Section 7 of the Gas Act.

2. The FERC also must find that the initial ANGTS tariffs are just and reasonable under the statutory standards imposed by Section 4 of the Natural Gas Act.

3. Interested parties, including consumers and state public utility commissions, have the right to participate fully in any proceedings where the FERC considers the matters referenced above.

4. The FERC, after consulting with the Justice Department, must find that any agreement providing for a producer ownership interest in the Alaskan facilities of the ANGTS does not have any anticompetitive impacts. This finding must be consistent with ANGTA, the Natural Gas Act, and all antitrust laws.

5. The FERC must review and approve the contracts for the purchase of Prudhoe Bay natural gas.

6. The Federal Inspector will supervise construction to safeguard against inefficient or wasteful practices that could result in cost overruns and to help assure that the entire project is completed on time.

7. The Office of the Federal Inspector will coordinate with its Canadian counterpart, the Northern Pipeline Agency, to help ensure that the U.S. and Canadian facilities are completed at the same time.

8. The Federal Inspector will review the prudence of the ANGTS construction costs.

9. Billing for a segment cannot commence until after that segment is completed and the target date established by the FERC as the most likely date for the completion of the entire system has passed. Establishment of the target date will ensure that the sponsors do not deliberately complete one or two segments in advance of the other(s) in order to invoke billing commencement as soon as possible. Federal Inspector certification that a segment is complete ensures that an independent entity will certify that segment is complete.

10. Once the ANGTS becomes operational, the sponsors will be subject to the FERC's full jurisdiction under the Natural Gas Act, except that the FERC cannot take any action that would impair repayment of project debt or prohibit shippers from collecting such charges. The FERC otherwise retains the authority both to review ANGTS rates, either on its own or at the request of consumers or state public utility commissions, and the authority over any future rate increases filed by the sponsors, which increases must be found to be just and reasonable under the standards of the Natural Gas Act.

These are in addition to other consumer protections that are provided by law or are implicit in the operation of Federal regulatory and oversight agencies.

SUMMARY OF WAIVER PROPOSAL

The provisions of the waiver proposal can be summarized as follows:

1. It permits Alaska gas producers to participate in ownership of the Alaska pipeline segment and gas conditioning plant segment, provided that any agreement on producer participation may be approved by F.E.R.C. only after consideration of advice from the Attorney General and upon a finding by F.E.R.C. 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 for nonowner shippers or restrictions on capacity expansion.

2. It includes the gas conditioning plant in the approved transportation system and in the final certificate to be issued for the system; and waives application of Section 5, Condition IV-2 of the President's Decision to the gas conditioning plant.

3. It allows F.E.R.C. to 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 gas through the system; permits recovery of the full cost of service for the pipeline in Canada to commence upon completion and testing; and permits recovery of the actual operation and maintenance expenses, actual current taxes and amounts to service debt for the Alaska pipeline segment and gas conditioning segment.

4. It waives Section 7(c)(1)(B) of the Gas Act to the extent it can be construed to require the use of formal evidentiary hearings in proceedings related to applications for certificates authorizing the construction or operation of any segment of the approved system, provided that F.E.R.C. is not precluded from the use of formal hearings if it thinks they are necessary.

5. It waives Sections 4, 5, 7 and 16 of the Gas Act to the extent such sections would allow F.E.R.C. to change the provisions of any final rule or order approving (a) any tariff in any manner that would impair recovery of actual operation and maintenance expenses, actual current taxes, and amount needed to service debt, or (b) the recovery by purchasers of Alaska gas of all costs related to transportation of such gas pursuant to an approved tariff.

6. It permits Alaskan Northwest or its successor and any shipper of Alaska gas through the Alaska pipeline segment to be deemed a "natural gas company."

7. It waives Section 3 of the Natural Gas Act as it would apply to Alaska natural gas transported through the Alaska segment to the extent that any authorization would otherwise be required for (a) the exportation of Alaska gas to Canada (to the extent such gas is replaced by Canada downstream from the export), (b) the importation of gas from Canada (to the extent it is replaced by exports to Canada) and (c) the exportation from Alaska into Canada and importation from Canada into the lower 48 states of the U.S. of Alaska gas. Section 103 of the Energy Policy and Conservation Act would similarly be waived.

THE RELATIONSHIP OF THE WAIVER PROPOSAL TO PRESENT LAW

The proposed waiver of law is submitted by President Reagan in accordance with section 8(g) of the Alaskan Natural Gas Transportation Act of 1976 (ANGTA). That section provides that the President may propose waiver of any provision of law that he finds necessary to permit expeditious construction and initial operation of the approved transportation system selected in accordance with ANGTA.

The waiver proposal contains several parts, each of which waives the application of a specific element of the law (Natural Gas Act, Energy Policy and Conservation Act, and the Joint Resolution Incorporating President Carter's Original Decision under ANGTA) governing the construction and initial operation of the pipeline.

The effects of the waiver of law are limited in the language of the proposed waiver by detailed conditions on its use. Any part of the present law not specifically and explicitly waived by the proposal would remain in full force and effect with regard to this project. The waiver would have no effect whatsoever on the law as it applies to projects other than the approved transportation system for Alaska natural gas.

In addition to the limitations on the waiver proposal which are included in its text, and the clarification provided by the synopsis of the proposal provided by the President, any ambiguities or questions of interpretation or limitation of effect have

been answered by report language which should authoritatively guide later court review.

In accordance with ANGTA, the waiver proposal submitted by the President is not subject to amendment, but must be approved or rejected as submitted.

POINT OF ORDER

Mr. OTTINGER. Point of order, Mr. Chairman.

The CHAIRMAN. The gentleman will state his point of order.

Mr. OTTINGER. It is not proper in the Committee of the Whole to put in extraneous matter.

The CHAIRMAN. The Chair was about to rule that the gentleman would have to get that permission in the House.

Mr. SHARP. Mr. Chairman, let me just say I will be adding materials to the RECORD I trust in the House of Representatives, which I think will help to clarify for people some of the details that are being raised here today.

I think it is very important for us to remember that consumers in my own State and consumers, as the gentleman from North Carolina (Mr. JOHNSTON) pointed out, have paid dearly when this country has not been able to provide adequate supplies of energy. People have been out of work. People have seen their prices rise dramatically.

None of these decisions are cost-free, whether you are for this project or you are against this project. We need to make sure that in deciding this today that we weigh both the downside costs as well as the up-side costs of being for this project.

The best protection American consumers will ever have is having a surplus of energy supplies. That has always been the best in terms of being able to do the economic things we want, and also in terms of keeping energy costs down.

Mr. UDALL. Mr. Chairman, I yield 3 minutes to the gentleman from Texas (Mr. WRIGHT).

Mr. SHARP. Mr. Chairman, I yield 3 additional minutes to the gentleman from Texas (Mr. WRIGHT).

The CHAIRMAN. The gentleman from Texas (Mr. WRIGHT) is recognized for 6 minutes.

Mr. WRIGHT. Mr. Chairman, I can scarcely believe that I have been hearing some of the things I have been listening to here on this House floor today. Sometimes I wonder how short our memories can be.

Twice in the last decade American consumers have been brought to their knees, literally forced to wait in mile-long lines, and have seen the gasoline prices doubled and, indeed, tripled because of our continued reliance upon foreign sources of energy and because of our unwillingness to do those hard things necessary to make this country of ours energy independent again.

This year, even in spite of all of the things we have done which have reduced the volume of our imports, we still are bleeding through the pores to

the tune of \$78 billion for foreign imported energy. Is that any service to the consumer?

The gravest disservice that we have performed to the American consumer has been through our dilatory tactics in not coming to grips with the necessity to make America energy independent again. Now we have one opportunity to do that, take one big step in that direction. This project will go a long way to replacing foreign energy supplies by making more of our own available to American consumers. Yet we sit around here and quibble in petty puerility about who is going to pay for it.

Of course, we know who is going to pay for it. If we do not have the gas, the American consumers are going to pay for that. Who is going to get the benefit of it? The Arabs and the other oil-producing nations.

At a time when some of our people are suggesting that we ought to cut off purchases from Libya as a means of demonstrating our disapproval of that government and its attitudes, let me raise this question: As brave as that sounds and as proper as the action might be under the circumstances, where do you propose that we get the energy to supplant that which we would no longer buy from Libya? This Alaskan source of our own natural gas reserve will supplant the energy equivalent of a little better than three-quarters of the amount that we are purchasing daily from Libya. Yet we sit here almost unbelievably as we quail and wonder aloud whether to do those things that can make it possible for private industry, not the Government, but private industry to perform the tasks that this country so desperately needs done in the interest of our consumers, in the interest of our national defense, in the interest of our production, in the interest of American jobs, and in the interest of America's supremacy in the world. We sit here and wonder and quarrel, and nit-pick about the price of gas to the consumers. Let me tell you, the price of gas to the consumers will inevitably be higher and higher and higher as our supplies are lesser, and our reserves are lesser and lesser and lesser.

The Russians are not stopping. They are spending government money to build approximately as long a pipeline from Siberia for the purpose of serving Western Europe, to make Western Europe more dependent upon the Soviet Union. Yet we sit here and hesitate.

Where is our resolve? We marched up this hill after each of those last two crises and vowed to do what is necessary to make the United States energy independent again. Where has that resolve gone?

My colleagues, this is one way that we can strike a blow for energy independence for the United States. We can make available to the American people American resources, and it

is not going to cost the Government much of anything.

Delay will cost much more. It will cost more to America. It will cost more to the consumers. It will cost more to American production. It will cost more to American jobs. It will cost more to the American economy if we delay. Therefore, delay is the enemy of the consumer. Action is our duty today.

Mr. DINGELL. Mr. Chairman, will the gentleman yield?

Mr. WRIGHT. I yield to the gentleman from Michigan (Mr. DINGELL).

Mr. DINGELL. I thank the gentleman for yielding.

If there is delay, the cost to the consumer of delivery of this gas will skyrocket beyond belief. If the project cannot be constructed, the probability is that it will be found out and there will be no cost to the consumer. But delay is going to cost the consumers monstrous amounts of money.

Mr. WRIGHT. I thank the gentleman for that comment. I am reminded of what happened in 1941 when the Japanese cut off our supplies of natural rubber. We needed rubber if we were to win that struggle. We are in a struggle no less certain today than we were then. Though it is not a military struggle, it is a struggle for our survival as a people. It is the struggle for energy independence.

That day Franklin Roosevelt called Bernard Baruch and Bill Jeffers together and he said we must develop a synthetic rubber industry in this country. Nobody knew how to do it. But they did not sit around waiting and putting off action and quarreling about whether it was going to cost too much. They knew the need for it and they did it. And 3½ years later, when American and allied troops rolled into Berlin, we rolled on rubber tires made by a synthetic American rubber industry. And yes, I guess some people made some money off of it. I hope they did. But the American people gained victory from it.

That is what we will gain if we act resolutely today.

Mr. CORCORAN. Mr. Chairman, I yield 2 minutes to the distinguished gentleman from New York (Mr. ORTINGER).

(Mr. ORTINGER asked and was given permission to revise and extend his remarks.)

Mr. ORTINGER. Mr. Chairman, you have just heard the eloquent rhetoric of the gentleman from Texas (Mr. WRIGHT). The question, however, is not whether we shall get the gas or not. There are other ways to get this resource, and I would go into that if we had a reasonable amount of time to debate this. The arguments against these waivers have been made eloquently by the gentleman from Illinois (Mr. CORCORAN), who has done just a fine job in this matter.

The fact of the matter is that the oil companies have used the energy crisis time and time and time again as an excuse to profiteer at the expense of

the American people. The oil companies have gotten themselves absolved just recently in the tax bill from a large portion of the windfall profits tax. They have special provisions in the tax laws for royalty owners. They already get tax subsidies of something like \$6 billion a year through depletion allowances, foreign tax credits, intangible drilling costs and other special provisions. Now they come to us on a project that they deem to be uneconomic to finance themselves, and say deceptively that they do not want a Federal guarantee. We have been told by the good gentleman from Arizona (Mr. UDALL) and the gentleman from Indiana (Mr. SHARP) that they will not ask the Federal taxpayers to finance this project. Instead they support a consumer guarantee, and that is what you have here. You have a consumer guarantee.

These consumers, however, are the very same people as the taxpayers. It is the poor and middle-income people of this country that are going to be asked to finance the oil companies despite the record profits they have made. Do my colleagues know that 98 percent of the profit increases in the past 2 years consist of the oil companies' increases in profits, and that 40 percent of the entire manufacturing profits in the United States go into the hands of the oil companies?

We have here a situation in which they are unwilling to finance one of their direct responsibilities, a \$4.5 billion processing plant.

They lay out on the books of the consumers. In point of fact, every single one of the people who has a financial interest in this project has been unwilling to put up the money. The oil companies are not willing to finance this project. The State of Alaska which stands to gain \$20 billion from this project is not willing to put up their money for this project.

It is the American consumer that is being stuck with this. It is just outrageous.

At the subcommittee markup of this resolution there were many eloquent statements concerning this waiver package.

Subcommittee members spoke about the unfairness of placing a substantial portion of the risk of noncompletion of the pipeline onto consumers through prebidding provisions. They spoke about the unnecessary shifting of the costs of the gas processing plant from the producers to the pipeline and its ratepayers. They spoke of the inequity of permitting producers to earn a 50-percent rate of return and other pipeline sponsors a 25-percent rate of return, according to the excellent committee staff analysis.

And those were the remarks of the supporters of the waivers.

The fact is that a large majority of this Congress knows that these waivers go too far. We know that prebidding places an enormous risk upon consum-

ers. If it did not, the banks would not care about it.

We know that there is no justification for including the \$5 billion processing plant in the pipeline's cost, when it should be the producers' responsibility.

We know that it is not right that the State of Alaska, which will receive royalties on the natural gas, has failed to commit a nickel to finance this project.

So why is there any question over these waivers? The answer is simply that some fear that a vote on the waivers is a vote on the pipeline. Indeed, we have been told by some that a negative vote is somehow reneging on our commitments to go forward on the project.

But that fear is unjustified. There is too much at stake for all involved for the project to be abruptly terminated. Furthermore, there is no assurance that even if we pass these waivers, the sponsors would not ask for more.

These waivers of law were not handed down from high and written in stone. They are the product of hard bargaining among the producers, pipelines, and the banks. And when none of them volunteered to take certain risks, or pay certain costs, provisions were written to shift these costs and risks to consumers—the one interest not represented at the bargaining table.

It is now our responsibility to act as their bargaining agent, and reject this package. I know we can do better.

This is another example of the administration's attempt to shield big money projects from the tests of the market. Prebidding permits banks to lend money they would not otherwise risk, because consumers will be forced to pay. This same kind of market insulation also occurred in the WPPSS plants in the Pacific Northwest where terrible overruns occurred. I would like to insert a CRS comparison between the financing of these two projects:

CONGRESSIONAL RESEARCH SERVICE

Washington, D.C., November 30, 1981.

To: Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations.

From: Carl E. Behrens, Specialist in Energy Policy, Environment and Natural Resources Policy Division.

Subject: WPPSS and ANGTS: Similarities in funding.

This memo is in response to your request for a discussion of increased costs and delays in large construction projects that may result when those who invest in or build the project are not immediately affected by such increases. In particular, you asked whether the delays and cost overruns in the 5-unit nuclear construction project of the Washington Public Power Supply System (WPPSS)—which have recently led to an agonizing reappraisal of that massive undertaking—carry a cautionary message for the proposed Alaska Natural Gas Transportation System (ANGTS).

The ANGTS waiver package now before the Congress (S.J. Res. 115, H.J. Res. 341) does include provisions which are similar.

with some important exceptions, to the financing arrangements of the WPPSS project. To the extent that these arrangements have contributed to cost and delay problems at WPPSS, there is a potential that they might similarly affect the ANGTS project.

In ways that are detailed below, the WPPSS Board, which is responsible for financing, scheduling and contracting for the project, has been protected to a considerable degree from the short-term effects of its decisions. The result of this protection may have been that warning signals were not acted upon until the viability of the entire project was jeopardized.

The WPPSS experience indicates that large, capital-intensive projects have a potential for serious financial crisis when management decisions are not subject to timely review. Caution suggests that such projects be provided with careful oversight, and perhaps formal review authority, by entities which will eventually be responsible for the costs of the project.

Before discussing the similarities between the WPPSS project and the ANGTS waiver package, the differences should be mentioned. The technologies (nuclear versus gas pipeline), the location (Pacific Northwest versus North Central Canada), and the builders (a public utility consortium versus private gas utilities and oil companies) are all different. More important, perhaps, is the fact that the return on the equity investment in the ANGTS project will be higher if costs are kept under control ("incentive rate of return")—a feature that is not present in the complicated financing of the WPPSS nuclear project.

With these differences in mind, it is still possible to draw a parallel between the ANGTS waiver provision—that the costs of the project will be passed through to gas consumers before it is completed, or even if it is not finished—and several features of the WPPSS project.

It is a generally accepted conclusion that zeal in cost control is strongly affected by whether the person responsible for making decisions must pay their costs directly and fully. This phenomenon can be observed in a wide range of economic behavior, from business lunches and individual metering of electric power consumption to elective surgery and automatic fuel adjustment clauses. Among the features of both the WPPSS system and the ANGTS waiver package that tend to separate the decision-makers from the costs of their decisions are:

1. **Pass-Through of Costs.** Under the "net billing" arrangement between WPPSS and the Bonneville Power Administration for Units 1, 2 and most of 3, BPA has agreed to buy power produced by those units, and subtract the cost of the nuclear operation from its charges to WPPSS utilities for the power it supplies to them. Since BPA's rates to the WPPSS utilities are based on low-cost Federal hydropower, BPA is essentially responsible for the full cost of those nuclear units. BPA has not agreed to net billing for Units 4 and 5; until recently, however, there was a general assumption that it would need to buy the output of those plants as well, to meet the growing demand for power in the region. Even if this is not the case, the cost of Units 4 and 5 will be spread among the the 80-odd utilities that make up WPPSS, all of whom depend on the rather isolated Board to control costs and enforce schedules on contractors.

A similar system will exist if the waiver package is approved. The ANGTS costs will be effectively guaranteed by the consumer, if the pipeline is finished.

2. **Rolled-In Costs.** In the case of both the ANGTS project and the WPPSS nuclear plants, the cost of the product will be

merged into the price of a larger pool of lower-cost resources, and sold to a very large number of consumers. The result is that the effect on individual consumers of even very large cost overruns will be greatly diluted, thus minimizing potential reaction.

3. **Take or Pay Contracts.** For for the WPPSS nuclear units, the costs of the projects will be passed through whether or not the project is completed. For ANGTS (under the waiver package), costs of segments of the project can be passed through to consumers before gas begins to flow.

All of these factors can have a strong negative effect on the efficiency of managing a major, capital-intensive project. Their importance as causes of the cost increases and delays, however, has been disputed.

One review of the critical situation at WPPSS has concluded that "WPPSS mismanagement has been the most significant cause of cost overruns and delays" that have sent the estimated cost of the 5 plants from \$6.6 billion to \$23.8 billion and delayed the scheduled start-up of the units by many months. It claimed that WPPSS management was responsible for inappropriate contracting, nonenforcement of contract terms, acceptance of delays by contractors, and inefficient and costly financing methods.¹ On the other hand, WPPSS management has argued that regulatory requirements and strikes have been major factors in the delays, which in turn have contributed to the major part of the cost increases, because of the high cost of capital. Nevertheless, the fact that the Supply System management could pass through the costs of the project to consumers, through the net billing arrangement, is a prominent feature of the crisis that has developed: a crisis that has left in doubt the completion of at least a major portion of the 5-unit system.

The most dangerous aspect of such arrangements appears to be the possibility that warning signals may not be acted upon until the viability of the entire project is jeopardized. In the case of WPPSS Units 1-3, Bonneville Power Administration was essentially committed to pay for the costs of the project, but did not have clear oversight of the management decisions by the WPPSS Board. It was only in the crisis of financing Units 4 and 5, when the availability of municipal bond money for the entire State of Washington was called into question, that vigorous management changes were adopted by WPPSS.

If a parallel can be drawn with the ANGTS project, it is that oversight and review authority by those responsible for bearing the costs of a large project may be an important ingredient in insuring its efficient and successful completion. The form such an oversight and executive review function might take needs further discussion. The major factor to be considered appears to be supplying enough authority to an entity with a direct interest in keeping costs under control, while preserving flexibility for the pipeline construction management to make timely and efficient decisions.

It is clear that these extraordinary procedures under which we are operating—1 hour of debate, no amendments—were never intended for this kind of sweeping waiver package.

Let us not be hustled by the take-it-or-leave-it hurry-up procedures we are operating under. The waiver package should be defeated.

¹ Washington State Senate Committee on Energy and Utilities. Causes of cost overruns and schedule delays on the five WPPSS nuclear power plants. (Olympia) March 1, 1981.

I would also like to share with my colleagues an editorial from today's New York Times and an editorial from the November 23 Christian Science Monitor both of which oppose waiver package:

[From the New York Times, Dec. 3, 1981]

THE BIGGEST "PRIVATE" PROJECT EVER

It could turn out to be the biggest private construction project in history; it is already one of the biggest Congressional lobbying efforts.

A consortium of energy corporations wants to build a 4,800-mile pipeline to bring Alaskan natural gas to the lower 48 states. Congress approved the project four years ago on the assurance that private industry could do the job without further help from Government or natural gas users.

But now the consortium wants key provisions of the law waived, most notably the rules for recovering construction costs. To gain access to financial markets, the consortium argues, it must have permission to pass costs on to consumers long before the natural gas begins to flow.

The Senate agreed to these demands last month by a lopsided 75-19 margin. Now an army of lobbyists is pressuring the House to follow suit. We hope House members have the courage to hold the pipeline builders to their promise.

The Alaskan Arctic holds about 26 trillion cubic feet of natural gas, more than a tenth of America's proven reserves. But getting that gas to consumers is no small task. A pipeline linking the North Slope with California and the Midwest would cost an estimated \$40 billion.

The Northwest Energy consortium's construction plan was chosen over competing proposals in 1977. But the consortium has been unable to find the private investors it originally thought would be willing to finance the project. So, with Reagan Administration support, Northwest wants Congress to waive key provisions of the 1977 law.

One of the requested waivers, to permit oil companies that own the natural gas also to own a piece of the pipeline, seems reasonable. Both the wellhead price of the gas and the pipeline transport cost are regulated; ordinary antitrust considerations don't really apply.

But the core issue is who should bear the loss if the project proves uneconomical.

One worry is that construction delays will add tens of billions to the final cost. That is just what happened to the Alaska oil pipeline. Another worry is that by the time the pipeline is finished, the gas would be so costly no one would want to buy it. Even with no construction cost overruns, the delivered cost of the gas in 1987 will be equivalent to oil at \$120 a barrel, more than three times the present rate.

That explains why Northwest wants customers to start paying not when the gas starts to flow but when construction is supposed to be finished—perhaps years earlier. And it explains why the consortium wants Congress to include a multibillion-dollar plant needed to prepare the raw gas for transmission as part of the project.

Some amount of the financial risk might appropriately be borne by those who stand to benefit from the Alaskan gas. But the proposed waivers would go much further, effectively converting the pipeline into a "cost-plus" enterprise. It is hard to see why all the risk should fall on consumers.

Should the Alaska natural gas pipeline be built? The prize is tempting, but the price is daunting. If the people who know energy

markets best—the oil companies and the financial institutions that back them—aren't willing to take a chance, then why should the public?

(From the Christian Science Monitor, Nov. 23, 1981)

BUT WHY SHOULD CUSTOMERS PAY FOR THE PIPELINE IN ADVANCE?

Whether deregulated or not, natural gas will have to be produced in sufficient quantity to play its part in the energy equation. But gas customers should not be expected to bear the risks of expensive new ventures by having to pay for them even if never completed.

This view was supported by Congress and the Carter administration when clearance was given for John McMillan's pipeline firm to build a line bringing Alaska's plentiful natural gas to the rest of the country. Now Mr. McMillan is seeking various waivers, including one that would permit customers to be billed if a single segment is constructed even though no gas flows and the project remains unfinished. The Reagan administration is going along with this proposed inequity, and so far three congressional committees have done so, too.

Congress as a whole ought to stand firm against the reported strenuous lobbying and stay with the original terms for private financing without consumer risk-sharing. Otherwise it is not hard to imagine the burden gradually being shifted to all taxpayers with requests for federal loan guarantees and then perhaps loans themselves.

For estimates on the costliest private construction project in history have already risen from \$10 billion in 1977 to \$40 billion or \$50 billion now. Interest rates are high. Bankers are reluctant to take the risk of financing. Thus the effort to spread it to consumers, who can hardly help wondering if the pipeline is such a good idea when apparently it does not sell itself in the financial marketplace.

Ironically, the prospect of total decontrol of gas prices has been cited as a threat to the pipeline's economics. Even at \$10 billion it was supposed to deliver gas at such high cost that it would be allowed to be blended for pricing purposes with low-priced controlled gas. That low-priced pool and its cushioning effect would presumably be eliminated if gas prices shoot up as expected under decontrol.

An acceptable environmental plan was eventually arrived at for the pipeline. Its economics must continue to be carefully scrutinized.

Electricity consumers in various states are all too familiar with being asked to pay costs of work in progress—or even canceled. The pipeline should not ask customers to pay, until they can turn on the gas.

□ 1500

Mr. UDALL, Mr. Chairman, I yield 30 seconds to my friend, the gentleman from Alaska (Mr. YOUNG).

Mr. YOUNG of Alaska, Mr. Chairman, I would like to clarify one thing. Alaska's name has been taken in vain on this project. The State of Alaska is looking into financial participation in this project. To do so, the State must be sure of the conditions under which it is being asked to invest. One condition is congressional action on this waiver package. Alaska is the only State that I know of that provides energy to the lower 48 that has been asked to participate in the construction of a pipeline. So Alaska, as I said,

wants to help; but if you do not approve this waiver package, there will be no help from Alaska. It will go LNG.

Mr. UDALL, Mr. Chairman, I yield 30 seconds to the gentleman from California (Mr. ROUSSELOT).

Mr. ROUSSELOT, Mr. Chairman, in 1976 Congress, in all of its infinite wisdom, established a law which authorized the President to select a route and contractor for the Alaska Natural Gas Transportation System and to impose certain regulatory conditions. This time, however, a mechanism was also included in the law to waive the regulatory provisions should they be found by the President to impair expeditious project completion. This is what President Reagan has done, and we are here today to give our stamp of approval to his actions.

Slightly over 100 years ago Americans mocked and ridiculed Secretary of State Seward for purchasing Alaska from the Russians. That buy may have turned out to be one of the answers to America's present energy problems. Alaska has proven gas reserves that total 26 trillion cubic feet—15 percent of all American reserves. Present estimates are that possible reserves could reach over 200 million cubic feet. With a decline in natural gas availability projected for 1990, failure to make this large reserve available to Americans could result in both an increase in the cost of energy and an increase in our dependence on foreign energy supplies.

Close to one-third of this project has been completed—including the southern Canadian portion. The private sector, which is now expected to help the Government with the national economic recovery, is ready and willing to begin its share of the project. But the waivers are needed first to provide the framework which permits the sponsors to pursue private financing with a greater chance of success.

According to Southern California Gas & Electric, the cost of this project for each consumer family in my district will be under \$30 a year. That is, \$4 for the conditioning plant, \$10 for the Alaska segment of the line, and \$12 for our cost of the Canadian segment. This price rate will fluctuate somewhat between States. Mr. Chairman, this means that for a mere 10 cents a day, my constituents can invest in:

First, decreasing our dependence on foreign energy sources;

Second, provide jobs for thousands of Americans in States where the line is to be constructed; and

Third, insure an area of cooperation and good will between the United States and our neighbor to the north, Canada.

Can anyone here think of a better investment for half the price of a candy bar?

The private sector is counting on us, so is Alaska and Canada, and so are the present and future energy consum-

ers of this Nation. House Joint Resolution 341 passed the other body on a vote of 75 to 19, and it passed our own Interior and Commerce Committees with bipartisan support by comfortable margins. I will vote in favor of the waivers—and I urge my colleagues to do likewise while keeping this thought in mind: is it not nice when so much good can be accomplished just by waiving some of Washington's regulations?

Mr. CORCORAN, Mr. Chairman, I yield 30 seconds to the gentleman from Michigan (Mr. KILDEE).

Mr. KILDEE, Mr. Chairman, I oppose this waiver.

The consumers are being asked to assume a risk which the bankers are not willing to assume.

A spokesman for the industry recently said, "The banks want both belts and suspenders for this one."

Now, the customers will be paying for this line even before they get gas, if they ever get gas. Now, this waiver format does not give this body the opportunity to attach any conditions to this. Vote no and we could come back with some conditions for it.

Mr. CORCORAN, Mr. Chairman, I yield the balance of my time to the gentleman from Iowa (Mr. HARKIN) with our apologies that we do not have any more time, which I tried to get earlier.

The CHAIRMAN. The gentleman from Iowa (Mr. HARKIN) is recognized for 30 seconds.

Mr. HARKIN. One hour of debate on an excise tax that is going to cost the American taxpayers \$37 billion. One hour to debate that. Tomorrow we will take 10 hours to debate a silly foreign aid bill.

What is happening in the House of Representatives? As the gentleman from California (Mr. MILLER) said, we are getting wrapped up in all of this kind of rhetoric. It all boils down to this: You vote for this bill and you are voting for an excise tax, a \$37 billion excise tax on the backs of the American consumers.

There is one difference: It is not going to the Government; it is going to the oil companies.

Do not be held hostage by Saudi Arabia, and do not be held hostage by the oil companies either.

● Mr. BROWN of Ohio, Mr. Chairman, in the report on House Joint Resolution 341, issued by the Committee on Energy and Commerce, the gentleman from North Carolina and I wrote separate views. In these remarks, we explain the process by which the text of the waiver was developed. It was a process that began on a note of "consensus building"—but ended, unfortunately, without a consensus. Having entered the negotiations with the hope of supporting the result, I have come to the conclusion that I cannot.

I will vote against the joint resolution on the waiver package. I do, how-

ever, support the construction of the Alaskan natural gas pipeline as in the national interest.

The vote on the waiver package is, not, in fact, a vote on the project. We have already had that vote—in 1977 we made that choice and I supported it. In 1980, we reaffirmed that choice by adopting a sense of the Congress resolution. I supported that resolution as well.

The waiver package is an entirely different matter, and it is not in the national interest. The waiver package has been described as necessary to insure the financing of the project. But look closer.

Whether or not the project actually receives financing is a decision which bankers will make, not the Congress through this waiver package.

But what Congress will in fact decide, if we approve the waiver package, is the following:

Customers of the participating pipelines will absolve the sponsors of all liability for all debt on any segment or segments, once completed and tested.

Do customers necessarily receive gas? No. Do customers necessarily receive a totally complete pipeline? No. Customers do, however, receive a bill, so long as two events occur—

One, enough time passes that the "date certain" established by FERC pursuant to this waiver package as the projected completion date does occur. In other words, time must continue.

Two, any one of the three segments is completed and tested by or after that "date certain".

Therefore, customers of the participating pipelines will, solely by operation of the waiver package, that is, Federal law—be placed in the position of accepting the contingent liability for both the timely construction of the project and whether or not all three segments are ever completed.

What do the oil companies get under the "new deal" of the waiver package which they did not get before the waiver package?

They get an equity participation for having agreed to make loans to the pipeline consortium. They get something for their money, as they should.

What do the participating pipelines get under the "new deal" of the waiver package which they did not get before the waiver package?

They get the absolute assurance that, whatever the cost of the system turns out to be, they can pass that cost on to their customers—without necessarily delivering gas. And the pipelines receive an important change in regulation: the Federal Energy Regulatory Commission, established to regulate pipelines, will have no legal authority to amend or alter the pass-through of the costs if the waiver package is adopted. Additionally, there is a great deal of dispute over how much, if any, real authority remains to the State regulatory commissions to regulate the costs.

What do the banks get under the "new deal" of the waiver package which they did not get before the waiver package?

They get a far more creditworthy borrower as the pipeline consortium is backed by the customers of the participating pipelines. The pipeline consortium, even with the participation of major oil companies as partners, are not creditworthy enough. There is doubt as to whether even shifting the contingent liability to the customers by operation of Federal law will make them sufficiently worthy to acquire financing.

So, we see that each party—pipelines, oil companies, and bankers—received a benefit from the waiver package. The customers received no benefit solely due to the waiver package, but rather gave benefits.

The saddest fact is that the customers of the participating pipelines have not the foggiest idea about what their Government may be about to do with their money. Moreover, there is no assurance that the waiver package will result in the project being financed.

The waiver package need not have been drafted as it was. Had it conferred a benefit in exchange for the benefit given, I was prepared to support a change in law necessary to build a project in the national interest.

Unfortunately, the entire process of constructing the waiver package has been so one sided that I cannot endorse the package which resulted.

At this point, Mr. Chairman, I include in the RECORD a letter my colleague, the gentleman from North Carolina (Mr. BROYHILL) and I sent to the President on September 23.

COMMITTEE ON ENERGY AND COMMERCE,
Washington, D.C. September 23, 1981.

THE PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: On June 17, the partnership designated to construct and operate the Alaskan Natural Gas Transportation System requested that you recommend to the Congress several waivers of the law controlling the financing and regulation of the pipeline. Later in June, the Chairman of your Cabinet Council on Natural Resources and Environment, James G. Watt, graciously asked us, along with several of our colleagues, to work together in reviewing the various proposed waivers.

We share your commitment to moving ahead with this pipeline under private financing as the surest method to bring over 26 trillion cubic feet of natural gas to market in the lower 48 states. We have long agreed that this project is in the national interest and that its delay will add to its cost.

However, we are concerned that the project will not be "privately financed" if the waiver requests proposed by the sponsors are recommended by you and accepted by the Congress. Rather than securing the financing for the project's construction based on its value as the sole transporter of the Nation's single largest natural gas find, the sponsors are requesting a waiver of existing law to allow "pre-billing" the consumers in the lower 48 States prior to the project's completion and, in fact, whether or not, the project is ever completed. This proposed

waiver would transfer the risk of noncompletion of the project to the consumers. Removing the risk to the entrepreneurs and transferring it to the consumers also removes, in our judgment, the necessary element for the project to be fairly termed as having "private" financing.

As we have stated several times before, we draw a distinction between the risk of delay and the risk of noncompletion. With a project of this historic size, some delay could be understandable. We are willing to discuss a variety of ways to reduce the eventual cost of the project by arranging some method by which the costs of delay can be borne during any construction delays.

We are unalterably and unequivocally opposed, however, to any waiver requests which would operate to transfer the risk of noncompletion to the consumer.

Under the general guidance of Secretary Watt, we have met several times with our colleagues in the House and in the Senate on this matter. We only wish we could report to you that we have reached a common understanding and a common position. Despite good faith efforts, we have been unable to do so.

We write this letter to you to share our thoughts, and to reaffirm our effort to continue working to reach a consensus on this most important project.

Sincerely,

CLARENCE J. BROWN,

Ranking Minority Member, Subcommittee on Fossil and Synthetic Fuels.

JAMES T. BROYHILL,

Ranking Minority Member,

Committee on Energy and Commerce. ●

● Mr. UDALL. Mr. Chairman, the waiver for the Alaska gas pipeline project, before us as House Joint Resolution 341, is a troubling issue on which people I respect can disagree. I am supporting the package today, however, and I urge my colleagues to support it, because the risks we take by approving the waivers is very small compared to the risk we take in rejecting it.

There is a great deal of agreement, even between supporters and opponents of the waiver package, as to the most problematic issues the package presents. First, if the waivers are passed, American consumers will bear a certain amount of the financial risk involved in a private-sector project. It is a fact that this project was approved by the Congress and President Carter explicitly with the understanding that no consumer risk or financial backing would be required. We are disappointed that the costs for the project have skyrocketed to a point where the approved financial package is no longer viable. But I think it is time, even for longstanding consumer advocates like myself, to take a new look at some creative financing approaches for expensive private projects, as we found we have had to swallow changes in order to continue financing of family homes.

This consumer financing scheme is about as cautious and low risk as anything I think we could come up with. That was not true of the proposal first brought to us by the project's sponsors and the banks. They had requested what is known as "construction-work-

in-progress" billing. Consumers would have been paying money up front on the project during the years when risks were highest and benefits were furthest away. After months of discussion and negotiation, the sponsors agreed to reduce their request to the one before us today. Consumers are under no risk at all during the early and riskiest project years. Consumers will only begin paying on a tariff if at least one of three major segments is complete, but never before about 1987, by which time all three are highly likely to be ready to ship gas. If any one or two segments is completed and being charged to consumers, chances are very high that the rest of the pipeline will come on line soon afterward.

Because of the protections built into this billing procedure, consumers bear only a very limited kind of risk that they will have to pay only a certain increment of pipeline costs early. The chance of total project failure exists, but it is not substantial once it is over one-third constructed. Project benefits are not only substantial, but potentially tremendous.

The amount of gas to be gained through this project is in fact so enormous and vital that it can be argued that there is no reason to put consumers at risk at all. Opponents of the waiver package can say that alternative projects and alternative financing schemes do exist, and that we should pull out of even this limited public role and see what materializes in its place.

I agree that the potential represented by the possible hundreds of trillions of cubic feet of gas in the North Slope area will not be denied. If this project flops, the gas will get down here somehow, some time, in some form or another. But I submit, first, that however expensive gas from this pipeline will be, gas brought down under a different project will not be cheaper, and may be substantially more expensive. Alternatives to a pipeline have included submarine tankers under the polar icecap, and construction of liquefied natural gas terminals in Alaska and on the coast of California. Such proposals strike me as quixotic and uncertain enough to make this system look pretty solid.

If all else failed, I imagine that the owners of the gas would find some way to finance a conventional pipeline. If history is our teacher, they might be back here seeking Federal loan guarantees, which I hope we will deny. More likely, the gas producers would become controlling owners of the pipeline and put up the staggering equity required, since Exxon and other major oil companies are the only imaginable sources of these amounts of credit outside of wealthy governments. Ironically, on of the objections to this waiver proposal is that it allows the gas producers to have a minority, noncontrolling equity interest in the project in return for their putting up some of the money needed. I submit that in

terms of our antitrust concerns we are better off with this waiver package than without it.

I want to say a word about the importance of this proposal to our relations with Canada. We have had rocky relations with that country over time, but we always try to stick together because our economic security interests are of the greatest mutual consequence. The Canadians have cooperated with us consistently on this project, which is in their interest as well as ours, giving the full attention and support of their national and local governments to work out the necessary rights of way. In addressing some of the same kinds of financing problems that the U.S. sponsors have confronted, the Canadian National Energy Board had to approve an unusual tariff for the pipeline in order for the project to go forward. The President of the United States, then President Carter, subsequently wrote to Prime Minister Trudeau pledging that he would seek the assistance of Congress and in other ways help assure that the tariff was carried through in this country. I believe we now have a responsibility in the Congress to act consistently with that commitment, made by one President, and reinforced by his successor when President Reagan proposed these waivers.

This waiver package is not a guarantee for the project or its financiers. The burden of risk still lies with the equity investors. The bankers and other lenders will be drawn from hundreds of institutions throughout the world. This project will be competing for funds with a pipeline in Europe being backed totally by Western European governments. Its sponsors will be seeking credit from lenders with little understanding of or familiarity with this kind of project, and with no particular patriotic reason for putting their money here rather than into a lower risk, faster return enterprise. From their perspective, lack of congressional support for the limited proposal before us today would have to speak poorly for the wisdom of investment in this pipeline. If the Alaska natural gas transportation system does not go forward, let it not be because the Congress failed to pledge some limited support on the part of American consumers and some extra certainty in the regulatory process. Let the primary decision for this project remain where it belongs, in the private sector.

For these reasons, I urge my colleagues to pass this waiver package. It is innovative, and it supports the project we envisioned when we enacted the Alaska Natural Gas Transportation Act. The project sponsors have come to us for assistance under a process anticipated by the act. With this package, we will fulfill our pledges to carry through the act and our commitments to Canada. And we will over the long term provide for American consumers a supply of natural gas that will many

times over repay them for the participation required from them today. ●

● Mr. MARKEY. Mr. Chairman, I rise today to state my opposition to House Joint Resolution 341, Alaska natural gas transportation system (ANGTS) waivers. I support the delivery of Alaskan natural gas to consumers in the lower 48 States via a trans-Canadian pipeline. I believe this must be achieved as quickly and economically as possible. However, if that goal is shared by a majority of my colleagues, as I believe it is, this package is not the answer.

The Congress has been sent a set of waivers of law which are purportedly necessary to expedite completion of the ANGTS project. In fact, the waivers are nothing more than a subsidy to the oil companies, pipeline sponsors, banks, and the State of Alaska at the expense of the American consumer. This fact is not at all surprising, since these groups have been the formulators of the waiver package. The American consumers—industries, commercial establishments, residences, and utilities—were not sitting at the bargaining table when this package of waivers was written. If the people who claim to know the energy markets best—the oil companies and the financial institutions that back them—are not willing to take a chance, then why should the public?

The waiver package simply goes too far in placing the consumer at risk for the potential delay or failure to complete the pipeline. The reasons why the waivers are inappropriate can be summarized as follows:

Under the "pre-billing" waivers, consumers could be saddled with paying tens of billions of dollars of the sponsors' debts, even if they receive no natural gas.

Under the provisions of the gas processing plant waivers, consumers will pick up the cost of the \$4.5 billion plant in the pipeline tariff, although there is no guarantee that the value of natural gas liquids which are recovered will go to the benefit of consumers.

Consumers will be bearing the risk that the pipeline can market its natural gas—a true risk given the fact that the gas is estimated to cost \$13.25 per Mcf in 1987 (\$11.40 in 1982 dollars) and that the committee staff of the Energy and Commerce Committee found that the project will be "marginally non-economic."

The financial arrangements are so generous that if the project is successful, according to the committee staff's analysis, the sponsors will receive a 25-percent return on investment, and the producers will receive a 50-percent on their investment.

The choice of pipe size for the Alaskan and Canadian segments of ANGTS means that virtually all the steel used will come from non-American source.

The State of Alaska will receive over \$20 billion from the sale of natural gas—equaling over \$40,000 per Alaskan—while it has failed to commit 1 cent to the project.

There has never been a commitment to Canada to accept this package of waivers.

There are better alternatives to this set of waivers, and the Congress has a responsibility to enact them.

If the sponsors and Alaskan gas producers had evidenced more willingness to take risks—they have not—if the sponsors would promise to build the pipeline if this waiver package is approved—they have not—and if the sponsors would promise never to come back for more waivers or for financial support—they have not—the waiver package would be more acceptable. Even if the sponsors would promise to buy American steel for the U.S. portions of the pipeline—they have not—I would be more favorably disposed toward the package. However, the failure of the waiver package to address these concerns contributes to my conclusion that getting the natural gas out of Alaska for American consumers can be done faster and better by means other than adoption of this waiver package.

In conclusion, Mr. Chairman, I point out that while the American consumers look to us to spare no effort in procuring the added supplies of natural gas from Alaska as promptly as possible, they also look to us to protect their pocketbooks from unfair encroachments. Neither our Canadian friends nor the American consumer will be well served, if we merely add our seal of approval to a package that does not guarantee the capital to construct the pipeline and does not bind the sponsors to construct the pipeline. Therefore, Mr. Chairman, I urge my colleagues to join me in voting "no" on House Joint Resolution 341.

• Mr. GAYDOS. Mr. Chairman, if this package of waivers for the remaining leg of the Alcan natural gas pipeline could be amended, at this point I would be offering a buy American provision to apply the terms of the project agreement to our Canadian neighbors in the same ways and in the same spirit and for the same purpose that they have used on us.

Boy, did they use it.

On us.

But the package cannot be amended. And the builders have pledged that American steelmakers will get a fair shake as suppliers of the required 1 million tons of steel are chosen.

By the way, Mr. Chairman, 1 million tons of steel equals 5,000 steelmaking jobs.

Nevertheless, our Canadian friends—and they are truly good neighbors in many ways—and some of our steel-dumping and tariff-invoking partners in world trade need to be forcefully told that Uncle Sucker is waking up.

Dumping—the practice of selling steel here below costs—by our Europe-

an partners is at unprecedented levels and 80,000 Americans are out of work, or on short weeks, because of it.

And if it begins to appear the assuring party and the assured parties had different understandings of the assurances, as was the case with our Canadian neighbors, the steel caucus and its 150 members will be back with something concrete.

For this reason I want to spread before the House and in the public record a discussion of the phrase "generally competitive terms"—that phrase is from the Canadian agreement—and some background on world steel conditions.

This pipeline, which these waivers are meant to bring about, is not an isolated piece of business.

It is one of the weights that daily is placed on a scale that will determine whether the workers and basic industries of the United States rise or fall.

Attitudes shown by this Congress in building the remaining portion of the pipeline will affect the whole of our industry and all of our workers.

Designed to tap 26 trillion cubic feet of our gas in Alaska and transport it here, the pipeline will have the potential of reducing oil consumption by 3.5 million barrels.

It is an important energy project.

But it is as important in what it says about trade and market accessibility and attitudes as it is to energy.

Administration to administration, Congress to Congress, this Nation has followed the classic and pure economic theories of openness while our partners have peppered the writ of free trade with asterisks and footnotes.

Our economy is taking on a truly classic look as a result.

The classic ruins of Pompei come to mind first.

In both cases an outside force dumped devastation on a people who were thriving.

In the case of the ancient city, it was volcanic ash.

In our case, it is steel.

But "dump" is the key word in either case.

At 4,800 miles, the Alcan pipeline is longer than the longest river in the world, the Nile.

It is a river of steel spanning major portions of the North American Continent to deliver natural gas to the west coast and the industrial heartland.

Still to be built is the 731-mile Alaskan portion and the things necessary to make it work: 1 million tons of steel, 5,000 steelworkers jobs. Major mileage also remains in the lower 48.

Nothing that big takes place in a vacuum, particularly when world steel conditions are as bad as they are today.

Conditions are so bad that our trading partners in the European Community—most of them nationalized or heavily subsidized—and our Canadian neighbors, who have an exceptionally understanding government, are flooding our big and rich market with steel

to keep their mills running even at great losses.

Mr. Chairman, dumped steel accounted for about 25 percent of apparent U.S. supply in August.

In September, it was 20 percent.

In October—the most recent month for which figures are available—it was an estimated 22 percent.

For the year to date, it is about 18 percent.

Our Canadian partners spewed forth 16 percent of this flood that is threatening to drown the hoped-for reinvestment and reindustrialization.

Their shipments here are up about 35 percent this year.

We got from them 2.6 million tons, a little over 12,500 steelworking jobs lost to them.

The deluge of European imports, which corresponds directly with economic sluggishness in Europe, means that 60,000 American steelworkers are not working; they are laid off.

Another 20,000 are on short workweeks.

Kaiser Steel has announced it will quit making steel altogether.

And most of the remaining companies are so pressed they cannot gather the capital to modernize and become more efficient.

Why am I so critical of the Canadians in all of this, Mr. Chairman?

Well, the Canadian book of free trade and comparative advantage is so spotted with asterisks and footnotes that it looks as if it was seasoned on the floor of Mr. Trudeau's chicken coop.

Now, Mr. Chairman, I will give the House an enlargement of a couple of those asterisks and draw the focus down to the Alcan pipeline, which is our business today.

Canada has for years followed a policy called "Canadization" in its dealings with the world.

Explained simply, Canadization means the government will do anything it can to strengthen and expand Canadian industry and to keep Canadians working.

Mr. Trudeau's new government is pledged to use government procurement as a major instrument to stimulate industrial development, according to a recent study of Canadian practices done for the American Iron and Steel Institute.

The study found—and I quote it:

The Canadian Government is centrally involved in decisions for public and private projects . . . with major capital improvements in the Canadian economy such as the construction of pipelines, power generation facilities and mining projects.

That is right, Mr. Chairman, they said pipelines, and that is the footnote on which I will focus—the Alcan pipeline, which is before us today.

First, the Governments of Canada and the United States agreed this pipeline would be built on generally competitive terms. That meant that companies in each would have a shot

at business in the other—absent asterisks.

But the first asterisk behind the phrase "generally competitive" was the National Energy Board of Canada, and the required certificate for construction and operation.

The Board is specifically authorized under Canadian law to regard Canadian content as a relevant consideration in award of the certificate.

They requested such information from the three groups interested in the pipeline.

The winner promised 85 percent Canadian content.

And the National Energy Board's certificate was conditioned on delivery of 85 percent Canadian content.

Then there is the matter of pipe.

Experts tell me the Canadians make pipe by wrapping strips of steel in a spiral, much in the fashion used on cardboard to construct the core-tubes of toilet paper.

The spiral welds do not handle high pressure well, they say, so a larger diameter pipe was required to move the desired volume of gas—56-inch pipe to be precise.

And only the Canadians make this 56-inch pipe. Mark that asterisk 2.

So U.S. companies, which do make high-pressure pipe in diameters up to 48 inches, were shut out of about half the business on the Canadian half of this Nile River of steel.

Canadization handled the remainder—the parts requiring pipe of lesser diameter—more directly.

The Canadians place a 15-percent duty on our pipe, and they simply refused to waive it, and the charge made us uncompetitive.

By the way, our duty on Canadian pipe is 2.2 percent. Mark that asterisk 3.

We had assurances from the Canadians for competition.

We just did not define what kind of competition.

We thought it was to be competition between producers.

Remaining to be built is the 731 miles in Alaska, and not one inch, not one valve, should be Canadian.

Neither should that 1 million tons, those 5,000 jobs, be built of steel sold below cost by nationalized and subsidized European steelmakers who want to milk our economy to avoid unemployment in theirs.

There are provisions in the waiver package that I do not like personally, but the Senate has approved it.

If American consumers—workers and manufacturers and businesses—are to be asked to make prepayment on this important energy project, certainly these billions of dollars ought not to be sent to the subsidized and state-owned counting houses of the dumping European nations.

About 40 percent of the eastern leg of this Nile-length project went to Japanese and Italian steelmakers.

Generally the Italian steel industry enjoys heavy government support.

Our producers can make pipe in the proper sizes and grades, I am assured.

Furthermore, these waivers are meant to attract private investment, which has been standoffish.

We need to get moving on the pipeline because having the energy is like having the money in the bank. And we need the orders.

Therefore, I support these waivers even though there are provisions I do not like.

However, if the waivers do not attract investment and if a Federal loan guarantee is required, be assured that a buy American provision will be offered.

We will borrow the Canadian definition of "generally competitive."

You see, if you want other nations to understand you, you have to speak their language.

Mr. UDALL. Mr. Chairman, I move that the Committee do now rise and report the joint resolution back to the House, with the recommendation that the joint resolution do pass.

The CHAIRMAN. The question is on the motion offered by the gentleman from Arizona (Mr. UDALL).

The question was taken; and the Chairman announced that the ayes appeared to have it.

Mr. CORCORAN. Mr. Chairman, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will advise the gentleman that the motion is not in order in the Committee of the Whole.

Mr. CORCORAN. Mr. Chairman, I withdraw my motion.

Mr. OTTINGER. Mr. Chairman, I ask for the yeas and nays.

The CHAIRMAN. The gentleman asks for a recorded vote.

Mr. OTTINGER. Mr. Chairman, I demand a recorded vote, and pending that, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count for a quorum.

Mr. CORCORAN. Mr. Chairman, I withdraw my motion.

The CHAIRMAN. Does the gentleman from New York (Mr. OTTINGER) insist upon his point of order?

PARLIAMENTARY INQUIRY

Mr. OTTINGER. Mr. Chairman, I have a parliamentary inquiry.

The CHAIRMAN. The gentleman will state it.

Mr. OTTINGER. Mr. Chairman, if we do not establish a record vote at this time, will there be an opportunity in the House to get a record vote?

The CHAIRMAN. That is a decision for the Speaker to make at the proper time.

Mr. OTTINGER. Mr. Chairman, my question is: Do we have to establish the requirement for a record vote at this time?

The CHAIRMAN. The vote on final passage of the joint resolution is to be postponed until tomorrow. At that

time, the gentleman will have an opportunity to request a recorded vote.

Mr. OTTINGER. Mr. Chairman, I withdraw my demand.

The CHAIRMAN. The gentleman withdraws his demand.

The motion offered by the gentleman from Arizona (Mr. UDALL) is agreed to.

Accordingly the Committee rose; and the Speaker, having resumed the Chair, Mr. FUQUA, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the joint resolution (H.J. Res. 341) providing for a waiver of law pursuant to the Alaskan Natural Gas Transportation Act, had directed him to report the joint resolution back to the House, with the recommendation that the joint resolution do pass.

The SPEAKER. Without objection, the previous question is ordered.

There was no objection.

The SPEAKER. The question is on the engrossment and third reading of the joint resolution.

The joint resolution was ordered to be engrossed and read a third time, and was read a third time.

The SPEAKER. The question is on the passage of the joint resolution.

Mr. UDALL. Mr. Speaker, to keep a commitment I made to some of the opponents, I ask unanimous consent that further proceedings on this vote on final passage be continued until the day after tomorrow, Thursday, December 10.

The SPEAKER. Is there objection to the request of the gentleman from Arizona?

Mr. YOUNG of Alaska. Mr. Speaker, I object.

The SPEAKER. Objection is heard.

The question is on the passage of the joint resolution.

The question was taken; and the Speaker announced that the ayes appeared to have it.

Mr. CORCORAN. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The SPEAKER. Pursuant to clause 5 of rule I, further proceedings on this question will be postponed.

The vote will be taken tomorrow, Wednesday, December 9, 1981.

Mr. OTTINGER. Mr. Speaker, I ask unanimous consent that when this is considered tomorrow, there be 10 minutes allotted for debated immediately prior to the vote, 5 minutes to be allotted to the proponents and 5 minutes allotted to the opponents.

My reason for doing this is that there was no opportunity for Members who may be voting tomorrow, who are not here, to hear the principal arguments, and I think, in fairness, at least 5 minutes on each side ought to be allotted.

Mr. JOHNSTON. Mr. Chairman, I object.

The SPEAKER. Objection is heard.

GENERAL LEAVE

Mr. UDALL. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks on the debate on House Joint Resolution 341 just concluded, and that the Members have the right to include extraneous matter, such as the tables mentioned by the gentleman from Indiana (Mr. SHARP).

The SPEAKER. Is there objection to the request of the gentleman from Arizona?

There was no objection.

PARLIAMENTARY INQUIRY

Mr. YOUNG of Alaska. Mr. Speaker, I have a parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. YOUNG of Alaska. Mr. Speaker, referring to the vote tomorrow on the pipeline package waiver, is there any time certain on that, or will that be the first order of business?

The SPEAKER. Under the rules, it will be the first order of business.

Mr. YOUNG of Alaska. I thank the Chair.

CONFERENCE REPORT ON H.R. 3455, MILITARY CONSTRUCTION AUTHORIZATION ACT, 1982

Mr. BRINKLEY. Mr. Speaker, pursuant to the order of the House on December 7, 1981, I call up the conference report on the bill (H.R. 3455) to authorize certain construction at military installations for fiscal year 1982, and for other purposes, and ask unanimous consent that the statement of the managers be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

The Clerk read the statement.

(For conference and statement, see proceedings of the House of December 7, 1981.)

Mr. BRINKLEY (during the reading). Mr. Speaker, I ask unanimous consent that the statement be considered as read.

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

The SPEAKER. The gentleman from Georgia (Mr. BRINKLEY) will be recognized for 30 minutes, and the gentleman from Virginia (Mr. TRIBLE) will be recognized for 30 minutes.

The Chair recognizes the gentleman from Georgia (Mr. BRINKLEY).

Mr. BRINKLEY. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, on June 4, the House passed H.R. 3455, the Military Construction Authorization Act for fiscal year 1982. As passed, the bill provided

\$6,987,497,000 for military construction and military family housing.

On November 5, 1981, the Senate considered the legislation, amended it by striking all language after the enacting clause and wrote a new bill. As passed by the Senate, H.R. 3455 provided new construction authority in the total amount of \$6,489,403,000.

As a result of the conference on Friday, November 20, between the House and Senate on the differences in H.R. 3455, the conferees agreed to an adjusted total of \$6,546,810,000.

This compromise is identical to the total amount requested by the Department of Defense in its adjusted request of October 9. It is \$440,687,000 below the House figure and \$57,407,000 above the Senate figure.

In all, there were over 200 differences between the House bill and the Senate amendment. The conference committee was able to resolve all of them. They involved adjustments to particular construction projects, respective House and Senate project and policy initiatives, and modification of certain authorities under which the military construction and family housing programs operate. I will not go into detail because House Report 97-362, the conference report on H.R. 3455, which appeared in the CONGRESSIONAL RECORD on Monday, December 7, 1981, explains the actions of the conference.

In reaching agreement, the conferees realize that a number of worthwhile projects have not been authorized for one reason or another. As the conference report notes, these projects are viewed as deserving top priority in the fiscal year 1983 military construction budget request.

As the Members know, however, the administration lowered its request for military construction. This action was taken after the House passed its bill. In conference, therefore, it was not possible to authorize all of the projects contained in both bills and remain within the administration's amended request of October 9. Faced with these budgetary constraints, the conferees sought to authorize as many high priority projects as possible that contribute to military readiness and modernization and to the well-being of U.S. military personnel and their families, both at home and abroad.

Turning to the action of the conference committee, I want to outline briefly the total authorization provided for various major construction items for the Department of Defense and military services:

(In millions)	
Operational and training facilities.....	\$1,153.1
Maintenance and production.....	505.0
Health care, housing, and community facilities.....	660.0
Energy conservation, pollution abatement, and occupational safety.....	250.8
NATO related construction, including infrastructure.....	885.0
Domestic family housing construction.....	110.1

Rapid Deployment Force construction.....	497.2
Guard and Reserve forces.....	230.0

With regard to the general provisions, there are several items in the conference report that I want to call to the attention of the Members:

First, community impact assistance. The conferees agreed to extend, modify and streamline the existing assistance program for areas affected by the east coast Trident submarine base construction program.

Second, Buy American. The conferees agreed to extend the application of the Buy American concept to the construction of facilities in support of the Rapid Deployment Force, including Diego Garcia. Recognizing that some latitude is required, the conferees agreed to permit contracting authorities certain flexibility in the construction contracts. However, the purpose of the provision is to enable U.S. firms to do as much of the work as possible since the United States is shouldering the total cost of the RDF effort; and

Third, standardization of military timber harvesting receipts. The conferees agreed to the provision that entitles States and local governments to receive 25 percent of net timber harvesting receipts from military installations for public school and public road purposes. This action is consistent with existing law as it applies to national forest lands. The provision is identical to the bill passed by the House on November 4 under suspension of the rules.

Mr. Speaker, this briefly summarizes the major actions of the conference. Time does not permit greater detailing but the conferees believe that the bill agreed to in conference is one that should meet the construction needs of the Military Establishment during fiscal year 1982. Therefore, Mr. Speaker, I urge adoption of the conference report on H.R. 3455.

□ 1515

Mr. TRIBLE. Mr. Speaker, I yield myself such time as I may consume.

(Mr. TRIBLE asked and was given permission to revise and extend his remarks.)

Mr. TRIBLE. Mr. Speaker, I wish to join my colleague from Georgia in support of the conference report on H.R. 3455, the Military Construction Authorization Act, 1982.

From a budgetary point of view, it is important to note that the conference settled on a total authorization figure which is exactly the amount requested by the administration. Within this total figure, adjustments in the individual services' construction requests were made by both the House and Senate. Wherever possible, the conference accepted those changes, recognizing they are necessary to improve the readiness and morale of our military forces. In short, it was a good give-and-take on the part of both Houses for