

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1066 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82 /

the back page

Anchorage Daily News

Friday, October 16, 1981

a-16

Hearings likely to decide fate of gas line

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Congressional leaders began to make plans Thursday for an all-star lineup of witnesses to appear during three weeks of hearings to weigh several critical changes in the Alaska natural gas pipeline law — hearings that will probably decide whether the \$30 billion project is ever built.

The first session, scheduled Wednesday before a joint meeting of the House Interior and Energy committees, will include testimony from three members of the Reagan Cabinet: Energy Secretary James Edwards, Interior Secretary James Watt and Secretary of State Alexander Haig.

Also appearing on opening day will be John McMillan, the flamboyant chairman of the 12-partner pipeline consortium,

Alaskan Northwest Natural Gas Transportation Co.

Later hearings in the House, where opposition to the waivers is strongest, will include a veritable who's who of Alaska pipeline players — from Canadian gas line officials to Wall Street investors to international bankers to Alaska Gov. Jay Hammond.

The hearings also will see appearances by what one Alaska congressional aide referred to Thursday as "the disloyal opposition" — opponents of the pipeline law changes. Among them will be leaders of consumer groups — Ralph Nader is rumored as a possible-though-unconfirmed witness — which are angered by the president's alleged concessions to pipeline sponsors at the expense of the American consumer.

One such proposed change, the so-called pre-billing waiver,

would allow the pipeline companies to begin billing gas consumers for the cost of the project as construction is proceeding and well before natural gas from Alaska's North Slope ever begins to flow to the Lower 48.

The pre-billing waiver has drawn criticism from several key leaders in Congress. It also has been criticized by various public utility commission leaders in the U.S., some of whom will testify.

California Public Utilities Commission Chief John Bryson, who is scheduled to testify, already has threatened to ban shipment of Alaska natural gas to California if the pre-billing waiver is approved.

The hearing preparations were set in motion Thursday after President Reagan formally submitted his waiver package to Congress, which ap-

peared in the form earlier reports had predicted. In addition to the pre-billing waiver, other major White House recommendations for changes in the pipeline law include:

- A waiver to allow North Slope oil and gas producers — principally Exxon, Atlantic Richfield and Sohio — to own a 30 percent share of the pipeline system.

- A waiver to permit the producers' \$4 billion North Slope gas conditioning plant to be considered part of the cost of the pipeline system.

In a letter accompanying the waivers to Congress, Reagan said it was "critical to the energy security of this country that the federal government not obstruct development of energy resources on the North Slope of Alaska."

He added that the waivers are designed to "clear away

governmental obstacles to proceeding with private financing of this important project."

The three members of Alaska's congressional delegation lauded the president's action. "I'm confident that the provisions included in the president's waiver package will enable the pipeline consortium to attract the necessary private funding while maintaining the rights of consumers," Sen. Frank Murkowski said in a statement.

Congressman Don Young acknowledged the waiver request would face a "substantial hurdle" in the House. "I'm confident that once the American people and the Congress are fully aware of what this pipeline means to our energy supply and our national security, the waiver package will be approved," he said.

As a member of the House

Interior Committee, Young will be sitting as one of 82 members attending the joint House committee hearings on the pipeline.

Similar hearings on the Senate side, where opposition to the president's waiver package is less evident, will begin next Thursday before a joint meeting of the Senate Commerce and Energy committees. Both Murkowski and Alaska Sen. Ted Stevens are members of the committees.

Both houses of Congress must approve the pipeline waivers within 60 legislative days or the entire waiver package fails. It may not be amended from its present form.

Without the legal waivers, sponsors of the pipeline say, they will not be able to secure private financing for the project — potentially the most expensive privately funded project ever built by man.

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Gas pipeline waivers go to Senate, House

by Betty Mills
Times Washington Bureau

Washington — President Reagan formally submitted to Congress today a package of waivers to federal laws that hinder private financing of the Alaska natural gas pipeline.

The clock now begins ticking for congressional approval of the package, with both houses required to accept it within 60 days. Hearings open in the House Friday, and in the Senate next week, with Alaska Gov. Jay Hammond expected to lead the state fight for approval of the package.

The package must be approved by Congress in its entirety without amendment. Reagan submitted the waivers to Congress in virtually identical form to the package proposed last summer by the project's sponsors.

The most controversial waiver would allow consumers throughout the Lower 48 to be billed for the gas before the project is completed. Other elements of the waiver package include:

- Permission for the North Slope producers to hold an equity interest in the gas line project.

- Inclusion of the gas conditioning plant in the total cost of the project, now estimated at more than \$30 billion.

- Elimination of the requirement that a hearing be held by the Federal Energy Regulatory Commission on each segment of the project.

- Withdrawals of FERC's power to change the tariffs for the project once they are set.

In his brief message to Congress, Reagan said the Alaska gas line "is important not only in terms of its contribution to the energy security of North America. It is also a symbol of U.S.-Canadian ability to work together cooperatively in the energy area for the benefit of both countries and peoples." Reagan noted that the Alaska Highway route for the line was chosen by President Carter and

approved by Congress in 1977.

"There was a strong Congressional endorsement that the pipeline should be built if it could be privately financed," Reagan said. "That has been my consistent position since becoming president as communicated on numerous occasions to our good neighbors in Canada."

Reagan informed Canadian Prime Minister Pierre Trudeau last May of his intention to submit the waivers to Congress. The White House also called the Alaska delegation last week to say the waiver package was on its way, but the formal transmittal was delayed due to a six-day recess of Congress.

The waiver package has stirred strong opposition in the House, where leading energy experts such as Michigan Democrat John Dingell claim consumers should not be billed before the gas is actually flowing.

The road to approval is expected to be easier if the Senate, where the package has the strong support of Senate Energy Committee Chairman James McClure, R-Idaho, and Alaska Sens. Ted Stevens and Frank Murkowski.

The Energy Committee plans to hold hearings October 22, 23 and 26, and Hammond will be on hand to argue approval of the package.

Also scheduled to testify at the congressional hearings are representatives of the Energy, State and Interior departments, the project sponsors, and utilities.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU
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NEWS RELEASE



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HAMMOND TO TESTIFY IN FAVOR OF GASLINE WAIVER/FINANCING PACKAGE
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He said it is vital for the nation to find a means to get the 26 trillion cubic feet of natural gas from the North Slope to market. He said that gas could replace thousands of barrels of imported oil daily helping America in its effort to become energy independent.

Hammond will be meeting with several key Congressional leaders on the gasline waiver package during his stay in the nation's Capital.

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FOR IMMEDIATE RELEASE

JUNEAU--Alaska Governor Jay Hammond has announced plans to testify in support of Congressional passage of a package of amendments designed to aid financing of construction of the Alaska natural gas pipeline project.

Hammond said he will head back to Washington, D.C. next week to deliver two days of testimony in support of the package formally unveiled by the Reagan administration Thursday. Hammond will testify at hearings being held by the Senate Energy Committee starting at 10 a.m. on Thursday, Oct. 22 and before a House panel on Friday, Oct. 23.

"I will be testifying to urge Congress to find a means to permit our North Slope gas to finally reach market. Right now financing for a gas line project is totally dependent upon passage of the administration's 'waiver' package, for that reason I will urge passage of the package so that any impediments blocking financing will be removed so that Alaska gas can move to market," Hammond said.

MORE

Anch Daily News 10/20/81

Gas line waivers are central issue

Alaskans who have been watching and waiting for years for a pipeline to carry Prudhoe Bay natural gas to market know the project faces a watershed series of decisions during the next two months.

The future of the Alaska-Canada project — a bigger financial and engineering proposal than even the trans-Alaska oil line — now rests with the U.S. Congress. Within 60 days, members of both the House and Senate in Washington must agree to a package of waivers designed to open the door for financing — and thus construction — of the massive project.

The waivers address a variety of subjects, including equity ownership by gas producers, allowance of gas conditioning expenses in the rate base, and a critical question of charging some costs to consumers during the construction phase — before they are receiving North Slope gas. That advance charge issue is especially volatile, and is certain to generate considerable debate and opposition in the Congress.

But the entire package is vital to gas line construction hopes, officials and the Alaska congressional delegation assert. Veteran observer Sen. Henry Jackson of Washington, longtime chairman of the Senate Energy Committee and currently the ranking Democrat on that panel, agrees with that position. Although he has concerns about the precedent-setting nature of the package, he says, "I'm a realist. I want to see that pipeline built."

"If these waivers are not approved, the project most assuredly will not be built," Alaska Sen. Ted Stevens adds, and that seems to sum up the central issue of the coming debate. With energy concerns so evident in the United States these days, that simple statement ought to carry a lot of weight.

Push begins for gas line waiver package

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Energy Secretary James Edwards took the administration's plan to construct the multi-billion-dollar Alaska natural gas pipeline to Congress Wednesday, urging members of two House subcommittees to waive the law governing the project in an effort to attract private financing.

"It's clear the project can't be privately financed without

□ The price tag for proposed gas line ranges from \$8 billion to \$64 billion. Page A-3

the waiver proposal," Edwards said during testimony before a joint hearing of the Interior Subcommittee on Energy and Environment and the Energy Subcommittee on Fossil and Synthetic Fuels.

As proposed by President Reagan, the waivers of the

pipeline law would permit North Slope oil and gas producers to own a 30 percent share of the 4,800-mile-long system. In exchange, the producers would pay a proportionate share of the pipeline's up-front cost.

The waivers also would permit the sponsors to bill American gas consumers for finished portions of the system if the project is not completed by a given date or is never complet-

ed.

The second provision, the so-called pre-billing waiver, drew the most criticism during the three-hour meeting — the first of six pipeline hearings scheduled in the House.

"We're going to have to evaluate the proposal in terms of its fairness to the American consumer," Rep. Morris Udall, D-Ariz., and chairman of the House Interior Committee, warned Edwards.

Inch Daily News 10/22/81

Rep. Philip Sharp, D-Ind., and chairman of the Fossil and Synthetic Fuels Subcommittee, said he and other congressmen question whether the pipeline is still an economically sound venture.

"What's the risk of project failure, and why must that risk be assumed by the customers of the companies involved in the project?" Sharp asked.

In response, John McMillian, executive officer of Alaskan

Northwest Pipeline Company, the primary U.S. sponsor, said the Alaska pipeline still represents "the best energy buy you can make today."

He acknowledged, however, that "new realities" have forced the pipeline's estimated cost to rise from \$12 billion to \$23 billion in recent months — an estimate based on 1980 dollars.

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Push begins for gas line waiver package

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By the time the project is completed in 1987, McMillian added, its cost in actual "as spent dollars," allowing for inflation, is expected to be \$43 billion.

The new price, making the Alaska natural gas pipeline the most expensive privately funded project ever attempted in the U.S., has forced the project's sponsors to look to world money markets for their financing.

"The U.S. banking capacity can only provide \$4 billion," McMillian said. "Approximately 60 percent of the funds for the project will have to be derived overseas."

The waivers are intended to answer the conditions for fi-

nanancing set forth by the overseas bankers, he said.

Alaska Congressman Don Young, testifying as a witness at the beginning of the hearing, urged the committee leaders to allow the president's waiver package to be voted on by the full House. In order to be adopted, the waivers must be approved by both houses of Congress by Dec. 19.

Failing to do so, Young said, would probably jeopardize the recovery of Prudhoe Bay's estimated reserve of 26 trillion cubic feet of natural gas — the largest proven gas reserve in North America.

"The consumers, in the long run, will pay, pay and pay for the high cost of imported oil," Young said.

After he departed, members of the committee asked McMillian why the state of Alaska isn't helping to finance the pipeline. McMillian said he worked two years without success trying to convince Alaska Gov. Jay Hammond to participate in the pipeline financing.

"We would welcome their support. They're the greatest beneficiaries of this project," McMillian said.

Hammond is scheduled to testify in Senate hearings on the pipeline today and again on Friday as the hearings on the House side head into their third day.

McMillian said he is interested in hearing Hammond's latest response on Alaska financing of the pipeline.

Gas line funding may go to voters

Anch Daily News 10/6/81

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Alaska Gov. Jay Hammond said Friday he may place the question of whether the state should invest \$2 billion to \$3 billion in the financially strapped Alaska Natural Gas Pipeline System before the voters in the form of a special ballot.

"From what I know today," Hammond said, "I think it would be a good financial investment for the state. . . . In fact, we may be scrambling for participation if it's as good a deal as some people think."

Testifying before the Senate Energy Committee on Thursday, Hammond said he recently appointed a state task force to study the possible pipeline investment. In further testimony before two House subcommittees Friday, the governor reiterated the state's possible stake in the 4,800-mile-long system.

"I use three prime criteria: Is it environmentally sound? Does it pay its own way? Do the people want it?" Hammond said.

He said the proposed pipeline route was the only plan for transporting North Slope gas to the Lower 48 that was endorsed

by environmental groups. And it would more than pay its own way if Alaska receives the same 17½ percent return on a pipeline loan the banks have been offered, he said.

"But it will have to compete with other possible state energy investments," he added, such as plans for developing hydroelectric power plants.

During his testimony, Hammond attempted to downplay the benefits Alaska would receive from the construction of the \$43 billion gas system. During construction of the Trans Alaska Pipeline System in the mid-1970s, he said, less than half of the 20,000 jobs were accorded to state residents and he expects the same will be true for the 13,000 jobs on the gas pipeline.

In response to questioning, however, Hammond acknowledged the state stands to gain a one-eighth royalty share of approximately 22 trillion cubic feet of recoverable gas at Prudhoe Bay. He said he didn't know how much money that would mean for the state.

Rep. Dan Coats, R-Ind., however, used the back of an envelope to calculate the state's share of gas on the current market at \$5 billion.

City / State

•Entertainment
•Tell it to Bud

Gas line sponsors may need more financing

by Betty Mills
Times Washington Bureau

Washington — Backers of a package of waivers to insure private financing of the Alaska gas pipeline continued their drive for the measure on both sides of Capitol Hill today, amid indications that more financial support from the producers and sponsors may be needed.

Both the Senate and House Energy Committees heard from pipeline sponsors, North Slope producers and investors — all of whom support the waiver package. The waivers of federal law are necessary to obtain private financing for the project, estimated to cost more than \$30 billion.

In testimony in the Senate today, two influential financiers indicated a greater commitment of funds by the backers of the project may be necessary.

Peter M. Sacerdote, partner in Goldman, Sachs and Co., and Andrew G.C. Sage, managing director

of Lehman Brothers Kuhn Loeb Inc., said in a joint statement: "... We believe the project can be privately financed, but support by the sponsors and producers above the levels they have preliminarily indicated will be required. If this additional support is forthcoming, we believe there will be funds available on a worldwide basis sufficient to provide the debt financing for the project. After completion ... the credit of the project itself should, in our view, provide adequate assurance of debt service and the continuing pledge of corporate credit by the sponsoring companies and the producers should not be required."

The pipeline sponsors have invested \$550 million to date in the project. The sponsors and producers also agreed in June 1980 on a joint funding agreement for design and engineering costs of the project, with a 70-30 ownership split.

But at least one of the North

Slope producers nixed the idea of putting up any more money than already promised.

Frank E. Mosier, senior vice president of the Standard Oil Company of Ohio, which owns 25 percent of the gas at Prudhoe Bay, said, "We have indicated a willingness to take on a commitment of up to \$2.25 billion, which represents a share of the producers' overall 30 percent interest in the Alaskan segment of this project."

Mosier said Sohio's capital expenditures in the next five years are expected to be about \$20 billion, adding, "no other single project will carry with it an upfront commitment as large as \$2.25 billion. I want to emphasize that this commitment of \$2.25 billion is the upper limit of our participation."

And John G. McMillian, chairman of Northwest Alaskan Pipeline Co., repeated to the Senate committee that the project can be privately fi-

nanced.

"We believe with this waiver package and proper credit support ... we think we can privately finance it," McMillian said. He gestured to the 12 men sitting at the witness table with him, representing the pipeline sponsors and producers and said "they represent millions in assets."

One possible source of extra financing is the state of Alaska. Gov. Jay Hammond told the House Energy Committee today the state is "very much interested in participating if it is demonstrated this will be a plus rather than a minus. I can't make a commitment."

Hammond said he needs "the necessary public support and the approval of the legislature ... there are too many imponderables for me to make a commitment."

In an interview following the testimony, Hammond said he could give no timetable for a state decision on

possible financing.

"Obviously this legislative session has not seen the evidence ... to make the money available. Who knows where we'll be a year from now," Hammond said.

Robert Loeffler, the state's counsel here on the gas pipeline, pointed out that Alaskan officials have not been involved in the financing negotiations and thus "we have to catch up."

Hammond said, "If the financial community considers it a good deal, it is probably good for us. We might be scrambling for participation if this is as good a deal as it seems to

be."

The governor flew into Washington Wednesday night and was scheduled to leave for Seattle tonight. In addition to appearing before the Senate and House committees, he met individually with many members of each panel to solicit support for the waiver package.

"I am heartened after talking to the Senate," Hammond said. "And Phil Sharp (chairman of the House Fossil Fuels Subcommittee) seemed more receptive than we had been led to believe. But John Dingell (chairman of the House Energy Committee) is still very skeptical."

Stevens: state should aid gas line

Anch Times 10/24/81

by Sean Hansen
Times Writer

The State of Alaska should be prepared to guarantee part of the cost of building the proposed Alaska Highway natural gas pipeline, U.S. Sen. Ted Stevens, R-Alaska, said Friday.

"The oil companies have an equity interest and the state has a royalty interest in the value of the gas," Stevens said at a press conference. "We (the state) should participate in guaranteeing a portion of the construction costs."

Stevens' statement followed Friday's hearings before the House Energy Committee, which was told by Gov. Jay Hammond that Alaska is "very much interested in participating if it is demonstrated that this will be a plus rather than a minus."

Investment by the oil industry is a key element of a plan to get con-

struction of the pipeline under way, and the possibility of state participation has been suggested. President Reagan has proposed waivers of limitations which prohibit the oil industry from investing directly in the project.

Construction of the pipeline hinges on congressional support of Reagan's waiver proposal, Stevens said.

The pipeline "won't be started unless there is certainty that the project will be finished," Stevens said.

Stevens also addressed critics of another of the Reagan waivers, one which would allow utility companies to bill customers in advance for the cost of building the pipeline.

This waiver, if approved by Congress, would result in a hike in the cost of natural gas-generated electricity because it would allow investors in the pipeline to bill consumers

in advance for construction costs of the project, estimated to be as high as \$43 billion.

The advance billing proposal is patterned after the Canadian approach to resource development. Canada secured its investment by billing utility customers in advance while "in our country, consumers are billed only when the gas flows," Stevens said.

Canada has already completed much of its section of the pipeline and is using it to export natural gas to the Lower 48.

"Canada did its part," Stevens said. "It will be the worst single blow to Canadian-U.S. relations for us not to proceed on this project."

Stevens also addressed another issue of concern to investors in Alaskan resources — the export of the state's oil to foreign countries. The bill authorizing construction of the

trans-Alaska pipeline prohibits export of North Slope oil.

A new proposal would lift the export ban as part of a three-way swap in which Japan gets U.S. oil, Mexico gets Japanese goods and the U.S. gets Mexican oil. That proposal would cut down the transportation costs of oil, according to its supporters.

Stevens said "there will be substantial opposition to changing the transportation system" which delivers oil from Prudhoe Bay to Lower 48 consumers.

Stevens said it unlikely that oil from Prudhoe Bay will ever get to Japan but that petroleum from new Alaska fields might be sent abroad.

"I just can't see us being able to take that amendment out of the law now," Stevens said. "People distrust the reliability of the substitute oil that might come from Kuwait, Saudi

Arabia or anywhere else."

Stevens said he will work to ensure that future oil development projects don't come under an export ban.

"Production from these new areas should not be burdened with this prohibition against the export of oil," Stevens said. "I do think that we can prevent that same concept being applied to new oil from the Beaufort Sea."

On a separate subject, Stevens predicted a close vote in the Senate on Reagan's proposed sale of AWACS planes to Saudi Arabia.

"It might even be a situation similar to the Alaska pipeline vote — so that the vice president will cast a vote," Stevens said. Vice President George Bush could cast the deciding

(See STEVENS, page A-3)

Stevens

(Continued from page A-1)
vote in the event of a tie in the Senate.

Stevens said the Senate is now evenly split on the issue. He said 48 or 49 oppose the sale, 47 or 48 favor it and 3 to 5 are undecided.

Sen. Frank Murkowski, R-Alaska, is one of the undecided votes. Stevens said he has talked to him about the issue and said if Congress blocks the sale, the Reagan administration's foreign policy will suffer a setback in the eyes of the international community.

"I think the more he thinks about it, he'll come to the same conclusion that I did — that we have no alternative but to support the sale."

cause they concede the immunity question is an important legal issue and are not concerned whether DeMan testifies.

"I don't give a damn whether they put DeMan, the governor or the Supreme Court on (the witness stand). It's not going to make any difference," Fraties said.

In addition to being charged with offering a bribe to Meekins, Hohman also is charged with agreeing to accept a bribe.

State prosecutors allege the money Hohman was to get was to come from a salesman for the planes. Meekins has said that Hohman offered Meekins a "share" of a \$20,000 bribe.

The charges are the most serious ever brought against an Alaska lawmaker. If found guilty, Hohman could be sentenced to up to 10 years in jail and fined \$50,000 on each of the counts.

Assistant Attorney General Tim Petumenos, who handled the DeMan case and also is to prosecute Hohman, said he is pleased about the trial delay because the immunity issue is an important legal question that needs to be resolved.

"The issue transcends this case," Petumenos said, and has ramifications in all criminal cases where the prosecution seeks to offer immunity to a potential witness.

At present, confusion exists over the exact effect when the state grants immunity to a witness, Petumenos said.

The state is arguing that it can force DeMan's testimony by granting him "use immunity" — a limited immunity that essentially would bar the state from using statements DeMan made at trial against him.

But Serdahely ruled that DeMan could be forced to testify only in exchange for a grant of "transactional immunity" — a much broader immunity that could bar further prosecution on any charge involving the transactions about which he testified.

Subs proposed for natural gas arctic transport

Asch Daily News

By THOMAS W. LIPPMAN
The Washington Post

10/25/81

WASHINGTON — General Dynamics Corp., a major defense contractor, is proposing to build a fleet of submarine tankers to carry liquefied natural gas (LNG) beneath the arctic ice.

The proposal, drafted by senior executives of the company's Electric Boat division, builder of the Navy's Trident nuclear submarines, was presented at a technical conference in Germany last week and is now circulating in Washington.

It calls for construction of massive tankers, each capable of carrying 91,100 cubic meters of gas per day, which would take on gas at a submerged arctic terminal and ferry it out to an open-water port in eastern Canada or Europe. The proposal says the tankers, which would cost an estimated \$700 million each if powered by methane gas and \$725 million each if nuclear-powered, would be "competitive economically" with a fleet of ice-breaking surface tankers under study in Canada and cheaper than a pipeline.

"It's a feasibility study," said L. E. Holt, a representative of Electric Boat. "It asks if such a system is technically feasible. The answer is yes. It asks if it's economically viable. The answer is yes." The next step, he said, is to drum up interest among potential customers.

The idea of nuclear-powered underwater behemoths, 1,470 feet long and 228 feet wide, plying the shallow waters beneath the polar ice is not as novel nor bizarre as it appears, knowledgeable maritime sources said. It represents a refinement of a proposal that was seriously studied in the 1960s, before the construction of the Alaska oil pipeline, to transport crude oil from Alaska's North Slope. The rise in energy costs since then could make a submarine tanker fleet an economically realistic proposal, maritime experts said.

The Electric Boat proposal was prepared by P. Takis Veliotis, the shipyard's general manager, and his deputy, Spencer Reitz. Veliotis, an experienced builder of surface LNG tankers, has for the past four years been director of the submarine construction program at Electric Boat's Groton, Conn., shipyard. The first Trident missile submarine is to be delivered at the end of this month, after a long period of management snafus and multibillion-dollar cost overruns that brought Veliotis into open conflict with the Navy.

No federal funding for gas pipeline

by Betty Mills
Times Washington Bureau

Washington — Energy Secretary James B. Edwards told Congress today that the Reagan administration will seek no further federal help for the Alaska gas pipeline beyond the package of waivers it recently submitted.

"This administration does not plan to put any federal guarantees, any funds into this project," Edwards told a joint hearing of two House Energy and Interior subcommittees.

"This administration is interested only in this being financed through private means."

He added, however, "That doesn't mean that a few years from now," under some sort of emergency situation, "there wouldn't be some form of federal financing."

Edwards was questioned closely by several subcommittee members

Anchor Times 2/27/81
about the waiver package, which allows consumers in the Lower 48 states to be billed before the gas starts to flow. Both houses of Congress must approve the waivers within 60 days for them to take effect.

"If this project is to be built, it will have to be built without any further help from this administration beyond the waiver package," Edwards told Energy Committee chairman John Dingell, D-Mich.

He added, "If this waiver package is approved, I doubt very seriously this administration would support any further waivers."

Dingell said he fears the Alaskan gas may prove to be too expensive if natural gas prices are decontrolled.

"If the administration decontrols, this raises serious questions as to the viability of the project," Dingell said.

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Gas

(Continued from page A-1)

Edwards replied, "If it is a marketable product, they'll build it. If it's not, it won't be built." If the arithmetic works out according to figures cited by Dingell, with the gas costing \$22 per thousand cubic feet, "this gas will not be marketable and this pipeline will not be built," Edwards said.

Edwards spent most of his hour-long return appearance before the subcommittees defending the pre-billing waiver, which has emerged as the most controversial part of the waivers. Other waivers would allow the North Slope producers to hold an

equity interest in the project, and would streamline regulatory approvals.

Rep. Harold Rogers, R-Ky., said, "Why should we ask the American public to finance basically a risk-free project by the largest banks, the largest pipelines and the largest producers?"

Edwards responded: "Consumers are getting the benefit of this project. Don't you think it's fair and just to ask them to share in the risk just a little bit?"

In other testimony, representatives of the interstate pipeline industry, the American Gas Association and the state of Indiana supported the waiver package.

Today's testimony follows three days of testimony last week before

three House and Senate committees considering the waiver package. One of those testifying last week was Gov. Jay Hammond, who said the state may be interested in helping finance the Alaska segment of the 4,800-mile line if it knew more about the details of the project.

On Friday, Sen. Ted Stevens, R-Alaska, told reporters in Anchorage that the state should be involved in guaranteeing the financability of the gas line.

"The oil companies have an equity interest and the state has a royalty interest in the value of the gas," Stevens said. "We (the state) should participate in guaranteeing a portion of the construction costs."

Is gas a pipe for Alaska

By GEORGE BRAYSON
Daily News reporter

WASHINGTON — Five years ago, a consortium of U.S. pipeline companies unveiled an ambitious plan to transport Prudhoe Bay's rich, untapped reserve of natural gas to market.

They would pipe it to the Lower 48 States.

Their pipeline would extend an unprecedented 4,800 miles, down the mountainous spine of Alaska and Canada and across 10 states.

It would follow the existing Alaska oil pipeline to Fairbanks, skirt southeast along the course of the Alaska Highway into Canada, cross three provinces and split in two in southern Alberta. One leg would branch southeast to Chicago; the other leg would branch southwest to San Francisco.

The pipeline would transport Prudhoe Bay's 26 trillion cubic feet of natural gas — the largest known gas reserve in America — to the U.S. market at a consumer cost far below the price of imported oil.

It would cost \$8 billion (roughly the price of the 800-mile trans-Alaska pipeline under construction at the time) and would be completed by 1983.

It sounded good.

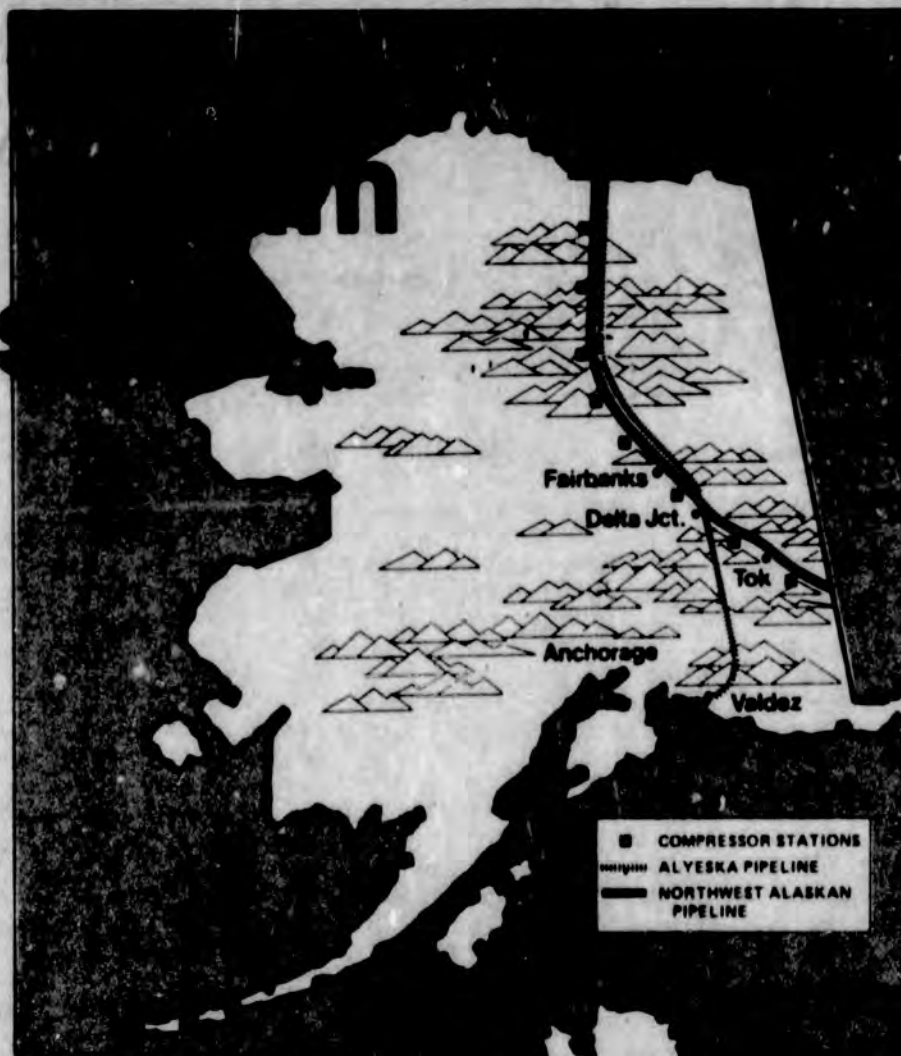
So good that President Carter and Congress approved the highway pipeline plan only one year after it was proffered by a group called the Alcan Pipeline Company (later to become the Northwest Alaskan Pipeline Company).

Soon afterwards, the Alcan project was licensed by the Federal Energy Regulatory Commission and set to go. The sponsors were permitted to begin their design and planning and secure their financing.

That was December, 1977.

Today, four years and nearly \$1 billion in out-of-pocket expenses later, the pipeline sponsors are still trying to secure financing. Only now they're trying to secure loans for a project which is estimated, some say conservatively, at \$43 billion.

Long-touted as the most expensive privately-funded project ever attempted by man, the Alaska Natural Gas Transportation System costs so much now that all of the banks in the U.S. combined fall far short of having enough

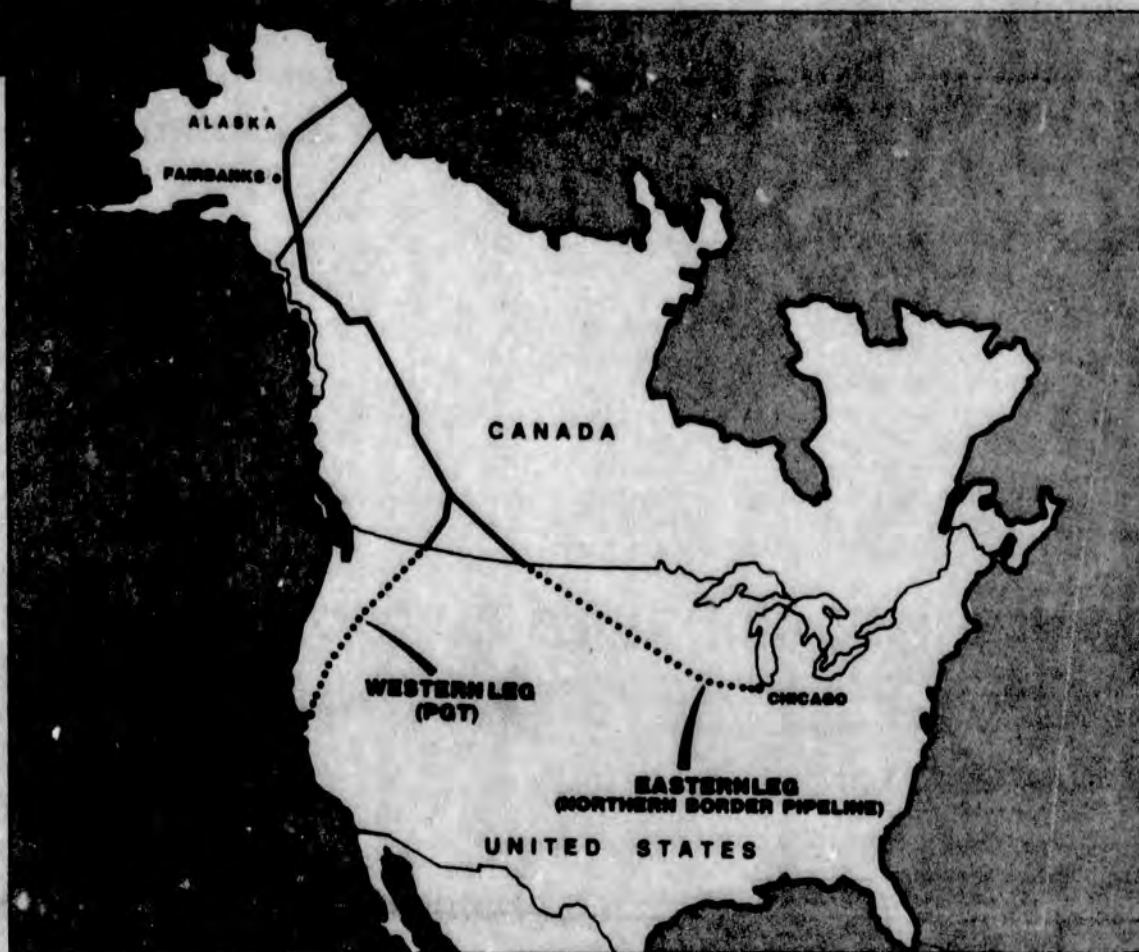


LENGTH:

- Total: 4,800 miles.
- Alaska segment: 741 miles.
- Canadian segment: 2,028 miles, including portions of the two branch segments in Canada.
- Eastern U.S. leg: 1,117 miles.
- Western U.S. leg: 911 miles.

ROUTE:

- Alaska segment: Starting at Prudhoe Bay, the pipeline parallels the Trans-Alaska Pipeline System corridor to Delta Junction, southeast of Fairbanks; there it turns southeast, paralleling the Alaska Highway to the Canadian border.
- Canadian Segment: Joining the Alaska segment at the Canadian border, it parallels the Al-Can Highway through the Yukon Territory, British Columbia and Alberta; at James River, located north of Calgary, it branches into two legs, one turning west into British Columbia and the other turning east into Saskatchewan.



Pipeline Chronology

1988 — Reserves of oil and gas discovered in Prudhoe Bay are estimated to contain 9.6 billion barrels of crude oil and over 26 trillion cubic feet of gas.

MARCH, 1974 — A group of private companies headed by Arctic Gas file for necessary permits with U.S. and Canadian governments to build a pipeline, primarily located in Canada, that would transport North Slope gas from the McKenzie River Delta to the Lower 48 States.

SEPTEMBER, 1974 — El Paso Alaska, a second competitor, files for government approvals for a land-sea gas transportation system involving liquefaction of gas at Valdez.

JULY, 1976 — Alcan Pipeline Company, an affiliate of Northwest Pipeline Corp., files the third application to transport Alaska gas, proposing an overland route which generally follows the Trans Alaska oil line and the Alcan Highway.

OCTOBER, 1976 — Congress passes the Alaska Natural Gas Transportation Act to expedite the gas line selection and approval process.

FEBRUARY, 1977 — Judge Litt (FPC) issues his initial decision recommending Arctic Gas, but finds that any of the three proposals are feasible.

MAY, 1977 — Federal Power Commission presents split recommendation to President Carter: two commissioners choose Arctic Gas, two choose Alcan.

JULY, 1977 — Canadian National Energy Board recommends Alcan project and denies Arctic Gas' application as environmentally unacceptable.

JULY, 1977 — Interior Secretary Cecil Andrus recommends Alcan project be approved.

JULY, 1977 — Arctic Gas withdraws and the eight American members join the Alcan project.

SEPTEMBER, 1977 — President Carter and Canada Prime Minister Trudeau announce agreement on the gas pipeline project.

SEPTEMBER, 1977 — President Carter issues his "Decision and Report to Congress" selecting the Alcan system and setting forth conditions of the pipeline construction. The report prohibits producer ownership of the pipeline.

NOVEMBER, 1977 — Both houses of Congress overwhelmingly approve the President's recommendation of Alcan.

DECEMBER, 1977 — Federal Energy Regulatory Commission (formerly the FPC) conditionally approves Alcan project, enabling the company to begin pipeline design and planning.

DECEMBER, 1977 — Alcan changes its name to Northwest Alaskan Pipeline Company and the project name to the Alaska Highway Pipeline Project.

NOVEMBER, 1978 — President Carter signs into law the Natural Gas Policy Act, which sets the wellhead price of Alaska natural gas at \$1.45 per thousand cubic feet and allows monthly inflation increases. (As computed for January, 1980, that price is \$1.78.)

FEBRUARY, 1979 — Federal Energy Regulatory Commission requires the Prudhoe Bay producers to pay for construction and operation of conditioning facilities needed to ready the gas for transport.

JUNE 1979 — Department of Interior conditionally authorizes right-of-way grant for construction across federal lands in Alaska.

AUGUST, 1979 — FERC approves 48-inch pipe size, 1260 pound per square inch pressure for Alaskan segment, and in October denies rehearing of that decision.

OCTOBER, 1979 — Exxon submits plan to Energy department whereby it and other major Alaska gas producers would help in project financing.

JANUARY 1980 — FERC issues western leg pre-build certificate.

FEBRUARY, 1980 — First major gas pipeline drilling begins in Alaska to gather soil samples on southern part of the route.

APRIL, 1980 — FERC approves certificate for eastern pre-build segment involving 811 miles and \$1.2 billion in cost.

AUGUST, 1980 — Construction begins on Canadian western leg.

NOVEMBER, 1980 — Interior department issues right-of-way grant to Northwest Alaska to cross the 433 miles of federal lands in Alaska, following congressional approval on Nov. 19.

MAY, 1981 — Northwest Alaskan and three major North Slope gas producers, Exxon, Sohio and Atlantic Richfield Co., announce joint financing agreement, subject to waiving laws which make producer ownership of the pipeline illegal.

MAY, 1981 — Pipeline sponsors estimate Alaska gas line will cost \$23 billion in 1980 dollars, and \$43 billion in "as spent" dollars that allow for inflation; completion is planned for November 1986.

OCTOBER 15, 1981 — President Reagan sends pipeline law waivers to Congress in effort to attract private financing for project. Both houses of Congress must approve the waivers by December adjournment or waivers fail.

(SOURCE: Office of the Federal Inspector, Alaska Natural Gas Transportation System)

Senate committee OKs gas line waiver package

Anch Times 11/10/81

by Betty Mills
Times Washington Bureau

Washington — The Senate Energy Committee gave a boost to the Alaska gas pipeline today, approving a package of waivers of federal law needed to secure private financing for the project.

With no debate, the committee sent the waivers to the Senate floor, where action could come as early as next week. Only Ohio Democrat Howard Metzenbaum opposed the waiver package, while two senators — Democrat Bill Bradley of New Jersey and Republican Gordon Humphrey of New Hampshire — voted "present."

As the committee recessed, the vote for the waivers was 15-1, with two "present," but the record was kept open for absent members to vote later in the day.

The waivers were submitted by President Reagan on Oct. 15. Both houses of Congress must approve

them without amendment by Dec. 18 for them to take effect. The waivers allow the North Slope producers to hold an equity interest in the project, include the gas conditioning plant in the total cost of the project and permit consumers to be billed before gas starts to flow.

The House Interior Committee is expected to vote on the waivers Thursday. The outlook for the package is less rosy in the House, where substantial opposition has been expressed to the pre-commencement billing waiver.

Sen. Frank Murkowski, R-Alaska, who contacted each member of the Energy Committee to press for approval of the waivers, exulted in his victory today.

"I am pleased at the vote and at the support," Murkowski told reporters. "It is a vote of confidence in the project, which is dramatically expressed by the fact that there was only one vote against it."

He added, "This is another step, and a positive one, toward bringing this project to reality."

John G. McMillian, chairman of Northwest Alaskan Pipeline Co., said following the committee meeting, "I am pleased and delighted with the results. It was a strong vote that will help give us momentum to proceed."

McMillian acknowledged that the waiver package faces a rougher road in the House, but said he remains "hopeful" that the waivers will be approved.

Opposition from Metzenbaum, who blocked an Energy Committee vote on the waivers last week, evaporated as the panel assembled. Murkowski experienced a few anxious moments as he tried to rally 11 senators to make up a quorum of the 20-member committee. Fellow Alaska Republican Sen. Ted Stevens also worked to round up supporters.

(See PIPELINE, page A-3)

(Continued from page A-1)

But Metzenbaum walked into the hearing room to become the 11th member, sending titters through the crowd of lobbyists and staff members in the audience.

A vote by the full Senate could come as early as Nov. 20, depending on the calendar of other business. But Murkowski said he expects Senate consideration to be delayed until Thanksgiving week.

Murkowski said he will lobby for the waivers in the House, adding, "as a consequence of the vote today, I hope the House will zero in on this. I'm looking forward to it."

Today's action followed testimony Monday from resource specialists from universities and private companies who touted methanol and submarine alternatives to the Alaska natural gas pipeline project.

Gas line waivers package wins crucial victory

Daily News "1/19/81"

By GEORGE BRYSON
Daily News reporter

WASHINGTON — A White House plan to attract private financing for the \$43 billion Alaska natural gas pipeline was passed overwhelmingly by the House Interior Committee Thursday, making congressional approval of the resolution all but certain.

The committee adopted the president's proposed waivers of the Alaska pipeline law 32-7.

The approval came after

Chairman Morris Udall, D-Ariz., voicing support for the measure, beat back efforts by waiver opponents to delay a vote until next week.

In doing so, Udall told the committee he remains skeptical over whether the 4,800-mile-long gas line will ever be built even with favorable financing conditions. But his present concern, he said, is to honor the earlier commitment Congress made to Canada to support its construction.

"If it's going to go down," Udall said, "I'd rather it go down in the hands of Wall Street and the financial markets of Ottawa and Toronto than at the hands of the U.S. Congress."

Reps. Phil Burton, D-Calif., and John Seiberling, D-Ohio, both objected to the quick approval and urged Udall to allow the committee more time to study the waivers.

"The information that came out of those hearings just

bowled me over," Seiberling said. He added that his home state will be saddled with paying higher rates for Alaska gas than anywhere else in America.

Some estimates, Seiberling said, show the initial gas out of the pipeline will cost residential consumers in Ohio \$20 per 1,000 cubic feet — nearly five times the current rate.

"Now here we are with the gun pointed at our head and we're being told it'll upset our relations with Canada unless

we rubberstamp these waivers," Seiberling complained.

Supporting the pipeline resolution, Alaska Congressman Don Young said the waivers present a now-or-never option for Congress.

"Let's not kid ourselves that if it's not passed, there'll be another route at another time," Young said. "If Congress turns down this package, the line will never be built."

See Back Page, HOUSE

House panel approves gas line waivers

Continued from Page A-1

What would happen instead, Young argued, would be the construction of a North Slope plant to convert Prudhoe Bay's gas reserve into liquefied natural gas for export to foreign nations. Young also predicted that a pipeline pull-back by the U.S. would prompt Canada to boost its tariff on the gas it exports to America.

Throwing his key support to the president's waivers was Indiana Congressman Phil Sharp,

chairman of the House Subcommittee on Fossil and Synthetic Fuels.

Sharp, whose committee is expected to vote Tuesday on the waivers, said the project will still have to pass "the market test" in the months to come when the world banking community decides whether the pipeline is financially feasible.

The testimony from 63 witnesses during recent congressional hearings also convinced him the risk the waivers pose for consumers are "small com-

pared to the potential benefits to them" if the project is completed, Sharp said.

The Prudhoe Bay reserve of 26 trillion cubic feet of gas represents 13 percent of the nation's gas reserves.

The Senate Energy Committee passed a similar resolution supporting the pipeline waivers Tuesday.

The waiver resolution must be approved by both the House and Senate before Dec. 19 or it automatically fails.

STATE OF ALASKA

OFFICE OF THE GOVERNOR
JUNEAU

JAY S. HAMMOND
GOVERNOR

NEWS RELEASE



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GASLINE FINANCIAL COMMITTEE TO MEET WITH PROJECT SPONSORS
12-1-81
#178

FOR IMMEDIATE RELEASE

JUNEAU--A special committee, partially appointed by Governor Jay Hammond, will leave on Wednesday for two days of meetings in the Nation's Capital in an effort to gain more information concerning the financing of the proposed Alaska natural gas pipeline project.

Hammond this morning announced that the state's Special Committee on Gasline Financing has scheduled meetings Thursday and Friday in Washington, D.C. with financial officers of the Northwest Pipeline Co., chief sponsor for the 4,800-mile Alaska natural gas pipeline project. The group will also interview potential consultants to be hired jointly by the administration and the Legislature to advise the state on financial issues relative to pipeline development.

Hammond in mid-October announced the creation of the special committee to assist the state's Department of Natural Resources in analyzing the elements of the gas pipeline financing "waiver" package proposed by President Ronald Reagan and currently awaiting final Congressional approval.

MORE

Hammond in Congressional testimony Oct. 22 announced that he was appointing Commissioner of the Department of Natural Resources John Katz to chair the special committee while also naming Tom Williams, commissioner of the Department of Revenue; and Wil Condon, Attorney General; to represent the administration on the high-level working group. Hammond also invited the presiding officers of both the House and Senate to appoint one member to serve on the special committee.

Recently Senate President Jay Kerttula of Palmer named Sen. Bettie Fahrenkamp, D-Fairbanks, as the Senate's representative on the committee, while House Speaker Joe Hayes of Anchorage recently named Rep. Rich Halford, R-Chugiak, to serve as the House member on the panel.

Hammond this morning said Katz, Fahrenkamp and Halford, plus staff representing the Department of Law and other state agencies, will interview representatives of three Eastern investment houses in Washington, D.C. on Thursday in an effort to pick one firm to serve as the state's chief investment advisor on investment and financial questions relative to the gasline. Later the group will meet with officials of Northwest Pipeline to open discussions with Northwest over the exact makeup of its pipeline financing plan and to hear an explanation of any potential role for the state in financing of the line--at least any proposals to be put forward by Northwest.

The committee during the visit will also meet with officials in the Office of the Federal Inspector for the pipeline project.

MORE

Hammond said the meeting was exploratory in nature and designed to allow the state to obtain information not previously available on financial plan details in advance of final Congressional action on the gasline waiver package, action now expected next week.

-30-

Am. Times 11/25/84

Group urges look at all-Alaska line

by Mary Pat Murphy
Times Writer

Commonwealth North has recommended reconsideration of an all-Alaska route for a natural gas pipeline, financed through state investment or loan guarantees.

A report released today by the group recommended that the state take the lead in pushing for an alternative plan for transporting North Slope gas if delays continue to plague plans for a route through Canada.

An all-American route for transporting natural gas from the North Slope to Lower 48 markets is "a viable alternative and should be reconsidered," the report stated.

The report said there is an untapped energy supply of 26 trillion cubic feet of natural gas on the North Slope.

A gas pipeline parallel to the route of the oil pipeline could be redesigned as a high-pressure system which would accommodate both the dry gas and gas liquids. Such a system would eliminate the need to build an expensive conditioning plant at the North Slope and would allow immediate establishment of a petrochemical industry in the state, the report concluded.

In 1977, President Jimmy Carter selected the trans-Canada pipeline route over two competing proposals, including an All-Alaska route that would have paralleled the oil pipeline.

Four years later, the Commonwealth North report said, financing for the project hasn't been found and the cost of the proposed line has escalated from \$6.8 billion to \$23 billion in 1980 dollars and \$43 billion in "spent" dollars, allowing for inflation through 1987.

Even if Congress approves a waiver package considered a necessity for private financing, there's no guarantee the line will be built, the report concluded.

While Presidents Carter and Reagan have been committed to private financing of the line, the report said, "many observers believe that the

pipeline sponsors will require the participation of the state of Alaska in financing the line, as well as federal loan guarantees or direct federal subsidies."

The report quoted the vice president of the Bank of America, who said that the combined aggregate legal lending limit of the 100 largest U.S. banks last year amounted to just \$4.7 billion. Therefore, the report concluded, a large portion of the financing for the project presumably would have to be borrowed from foreign sources.

"In the best interest of the nation and the state, Alaska should provide equity investment or loan guarantees to the pipeline project if it is built through Alaska to an ice free port," the report said.

Participation by the state "will be a strong indication to the financial markets in the U.S. and abroad that the people of Alaska endorse the project," the report continued. "It will be a signal to the nation that Alaska is dedicated to help the country as a whole meet its serious long-term energy needs."

Two of the state's five gas transmission companies have expressed "strong interest" in an all-American line if the state participates, Commonwealth North said, although El Paso Alaska, which originally proposed the route, is no longer interested.

Delays in switching the route could be minimized, the report concluded, saying additional design and engineering work would take a maximum of two years.

Financing the all-American line would be simpler than the trans-Canada route, the report said, because the system would be made up of a pipeline, a liquification facility at tidewater, tankers and a revaporization plant, all of which could be financed separately.

"Most financial experts agree that spreading one large \$23 billion financing package into four parts can help make financing more attainable," the report said.

Gas line waivers get 2 more OKs

11/19/81

By Betty Mills
Times Washington Bureau

Washington — The Alaska Highway natural gas pipeline got a boost on both sides of Capital Hill today as the Senate and the House Energy and Commerce Committee approved the waiver package.

By a vote of 75 to 19, the Senate approved the waivers needed to ease private financing of the gas pipeline project. A few hours later, the House committee adopted the waivers, 27 to 14 with one abstention.

The waivers were submitted by President Reagan last month and must be approved by both houses of Congress by mid-December to take effect. The waivers allow the North Slope producers to participate in the project, include the gas conditioning plant in the total price tag and provide for consumers in the Lower 48 to be billed before gas starts to flow.

The Senate action followed an hour-long debate that was sometimes acrimonious, as Ohio Democrat Howard Metzenbaum blasted the waiver package as "evil."

Metzenbaum said, "This is cruel, unfair, inequitable, unjust and the result of sheer, unadulterated greed. This is one of the rawest deals ever."

The big winners are Arco, Exxon and Sohio. They will get a 70 percent interest rate of return in the first year of production, while the consumers get zip.

"The other winners are the bankers. And the state of Alaska will reap \$80.7 billion in severance taxes and royalty payments on Alaskan gas, while American consumers get zip," he added.

With John G. McMillian, chair-
(See PIPELINE, page A-3)

Pipeline

(Continued from page A-1)

man of Northwest Alaskan Pipeline, looking on from a front-row seat in the gallery, Metzenbaum yelled that the Senate was "playing into the hands of the oil companies and the senator from Alaska. This deal is evil."

An angry Sen. Ted Stevens, R-Alaska, said: "I know of nothing evil here. I personally take umbrage at the wording he used. This is not an evil project."

Stevens said the North Slope of Alaska "represents the highest potential discovery area for oil and natural gas on the North American continent." Further exploration of those vast resources will be delayed if the

gas pipeline is not built, he said.

Sen. Frank Murkowski, R-Alaska, said, "If we are committed to energy independence . . . we must vote for these waivers." He likened the issue to the Alaska oil pipeline authorization, which the Senate narrowly approved in 1973.

Murkowski also dismissed the concern about the pre-billing waiver, saying, "the risk to consumers is negligible to zero."

At a news conference following the vote, Stevens said he expects it may take the project sponsors a year to obtain financial commitments.

If financing is not forthcoming, "it's back to square one," Stevens said. "It goes back to the producers for alternatives."

Meanwhile, a Ralph Nader-sponsored consumer group charged today that the pipeline sponsors have

contributed nearly \$83,000 since January to members of Congress.

Harvey Rosenfield, a staff attorney at Congress Watch, said, "The climate of support for these anti-consumer waivers reflects the enormous lobbying campaign by the project's sponsors and Alaska natural gas producers. It is impossible to escape the conclusion that campaign contributions have helped to create that climate."

The Congress Watch study indicated that Stevens received \$500 from Pacific Light, and Rep. Don Young, R-Alaska, received \$1,250 from Exxon, Sohio, Arco and Texas Eastern.

In response to the Congress Watch report, Stevens said:

"Those contributions would have been made in any event." He added that he did not know if his campaign

committee had received any money from the pipeline sponsors.

"It is this kind of demagoguery . . . that infuriates me. There is no justification in it whatever. The people running this pipeline have been my friends for years."

McMillian, a heavy Democratic contributor, said, "I usually always donate my limit each year (50) it was not unusual for me. I didn't see anything exceptional there."

McMillian predicted the waiver package would clear the House committee by two or three votes, but said there is substantial support for the issue in the full House.

"Regardless of the vote in the committee, we do have majority support in the (full) House and we will be successful," McMillian predicted.

Wall Street 12/1/81

The Alaska Pipeline Lives

Almost unnoticed amid the congressional budget frenzy, the world's biggest private deal moved another step forward. On Nov. 19, the Alaska Gas Pipeline got a boost from the House Energy Committee and the full Senate.

Whatever one's opinion on the merits of the project, there are several aspects that are indisputable. For starters, it is expensive. No question that an eventual price tag of \$40 billion or so makes it the largest, single, privately financed construction project in history, at least in nominal terms.

It is huge. When finished, the pipeline will cover some 4,800 miles—all the way from Prudhoe Bay in Alaska, down through Canada to southern Alberta, where one leg will head off to San Francisco, another to Chicago.

It is risky. And here is where the disputes begin. The 745 miles through Alaska are chancy: not only the trick of constructing a pipeline in the permafrost but over a geologically treacherous terrain including a mountain range. Construction could take four to six years. And who knows what the price for energy will be by then? Any forecast on the demand for natural gas depends on imponderables like natural gas deregulation, the cost of transporting the gas from Alaska and the price of oil.

The Alaska Gas Pipeline, then, is a pricey, dicey project. Moreover, it cannot by law enjoy any federal financing and there's little likelihood—or so we hope—that Congress will change its mind about that. It's no wonder the project has been moving with, well, glacial speed. Things did pick up last spring, though, when the 11 pipeline sponsors agreed to give the three major Alaska oil companies—who own the gas—up to 30% equity investment in the project. Critically, the agreement provides for the oil compa-

nies to contribute several billion dollars to a cost overrun pool, a couple of billion dollars in equity and about four times that in borrowed funds. Undoubtedly, the big buck participation by the oil companies will be reassuring to potential lenders.

And that's why the waiver package now before the House is crucial. The 1977 legislation authorizing the pipeline route prohibited oil company ownership and thus must be waived. The package contains two other important "fixes." A gas conditioning plant, to be built in Prudhoe Bay, would be considered part of the project. Its cost then could be included in the rate base.

The waiver that has caused the most controversy deals with billing arrangements. Under the 1977 legislation, a "minimum bill"—permitting recovery of operating and maintenance expenses, taxes and debt service—could be charged to consumers when the *entire* project was completed and commissioned. The new terms, called "pre-billing," divide the project into three parts: gas plant, Alaska pipeline and Canada pipeline. The Federal Energy Regulatory Commission would determine a completion date for each part and when any of the three were finished, provided that the target date had passed, consumers would begin paying the minimum bill on the completed part.

The House is scheduled to vote on the waiver package early this month. Of course, even if the package is passed, finding private financing is not at all assured. Potential lenders might still decide the risks are too great. The Alaska Gas Pipeline is, after all, a rather big enchilada—Eskimo Pie. But we're reassured to see that a project so large and so complicated has come so far without government dollars.

House clears gas pipeline package

by Betty Mills

Times Washington Bureau

Washington — Beating back an eleventh hour challenge, Congress today cleared the Alaska gas pipeline waiver package. However, opponents threatened court action that could further delay the project.

The House voted 239-188 for the version of the gas line waivers adopted by the Senate last month. This followed 24 hours of parliamentary wrangling that threatened the waiver package and the entire project.

The House had approved the waiver package Wednesday by a 233-173 vote. But opponents used an unusual parliamentary tactic to force a

reconsideration today. Despite heavy overnight lobbying, consumer groups failed to reverse the outcome.

The completion of congressional consideration today means the pipeline sponsors will now go to lenders to seek financial commitments for the project, estimated to cost more than \$30 billion.

The waivers to federal law allow North Slope producers to participate in the project, and streamline regulatory procedures. It also allows consumers to be billed before gas starts to flow.

An extraordinary parliamentary maneuver developed after the House voted for the waiver package Wednesday.

reconsideration today. The measure was identical to the Senate-passed waiver package except for the number of the bill.

Using normal procedures, House Interior Committee Chairman Morris K. Udall, D-Ariz., sought unanimous consent to substitute the Senate version for the identical House-passed measure. This would complete Congressional consideration and is normally done in a matter of seconds.

But Rep. Thomas Corcoran, R-Ill., objected to the unanimous consent request by Udall. The move set off a flurry of activity Wednesday afternoon, as backers of the waiver package in the House and Senate tried to straighten out the parliament-

ary snafu.

The basic options were to:

— Bring the House-passed waiver package to the Senate, where Ohio Democrat Howard Metzenbaum threatened a filibuster or;

— Go back to the House Rules Committee for new rules requiring more debate and a vote on the Senate waiver package.

The second option was taken, and the House Rules Committee convened in an emergency session Wednesday night. Two hours of debate and a vote were ordered today.

Consumer advocate Ralph Nader, who attended the Rules Committee meeting, said his consumer groups would work overnight to con-

tact members. "It's a race between a surge in public opinion and the companies' money bags," he said. Meanwhile, Metzenbaum and Rep. Richard Ottinger, D-N.Y., challenged the Rules Committee action in bringing the matter before the House again, terming it "patently illegal."

Metzenbaum and Ottinger said they "have no doubt that court litigation will result as a challenge to the House action."

The grounds for the suit would be the original law approving the Alaska gas pipeline project, which stated that it is not in order to consider another waiver package within 60 days of a vote on the first one.

(See PACKAGE, page A-3)

Package

(Continued from page A-1)

Today's debate was largely a rehash of arguments heard earlier, with Corcoran terming the waivers "potentially the biggest consumer ripoff ever."

Noting that many members had called him "mischievous" for forcing reconsideration of the issue, Corcoran said he believed he had suffered "shabby treatment" in not being allowed to debate the waivers fully.

"I took the action I did because on numerous occasions, I requested more time . . . but we were thwarted every step of the way," Corcoran said. "My action is the reason why this legislation will be toppled by the U.S. Supreme Court."

"As more and more members see this legislation, they like it less and less, and will reject it," he said.

But the margin of victory for the waivers today was only 19 fewer than the tally on Wednesday.

Rep. Don Young, R-Alaska, reminded Corcoran that the pipeline law allowed only one hour of debate on the waiver package. And several

times, he rose to protest comments from other members about the lack of state participation in the project.

"The state is looking at the project, particularly the conditioning plant," Young said.

Rep. Edward J. Markey, D-Mass., said each Alaskan would receive \$40,000 from the bill, due to the 12 percent severance tax.

Young answered, "My wife is on the phone asking where her \$40,000 is."

Markey shot back: "Tell her it's in the pipeline. It's on the way."

Young said he was "deeply hurt" by the statements made by other House members about Alaska, pointing out the high unemployment rate, poor housing and roads in the state.

"I thought we were Americans. I hear a creeping tone of resentment here," Young said. "Alaskans want to deliver this gas, not because of the so-called \$40,000, but because it's right for the nation."

Rep. Philip Sharp, D-Ind., challenged the complaints that the waiver package would hurt consumers. He said the Federal Energy Regulatory Commission and the Federal Inspector would oversee the project to protect consumers.

Reagan signs gas line legislation

THE ANCHORAGE
(Anch Times 12/15/81)

Associated Press

Washington — President Reagan today signed special financing legislation for the \$43 billion Alaska natural gas pipeline, the world's largest private construction project.

The House gave final approval to the package Thursday after supporters swept aside legal and policy objections.

Sen. Howard Metzenbaum, D-Ohio, a leading opponent, has said he will challenge the package in court, contending that the House vote approving the package violated

the special federal law governing the Alaska pipeline decision.

The measure, originally proposed by Reagan in October, exempts the pipeline from several antitrust and pricing laws and, in a concession to the financial community, could require customers to start paying off billions of dollars in construction loans before the pipeline is completed, even if it is abandoned.

Private investors have been unwilling to put up the money to build the line without greater assurance they'll get their investment back.

The package gives them that assurance by shifting much of the risk to consumers, a provision that drew the opposition of Ralph Nader and other consumer interests.

Even the Northwest Alaskan Pipeline Co., the consortium of 10 natural gas transmission companies sponsoring the project, concedes that financing of the pipeline remains uncertain despite the new conditions.

Supporters say the small risk to consumers is worthwhile since it is the only way to tap the vast natural

gas reserves on Alaska's North Slope. Proven reserves total 26 trillion cubic feet — about 13 percent of known U.S. supplies — and geologists say another 100 trillion cubic feet may be awaiting discovery.

The 4,800-mile pipeline would run from the Prudhoe Bay fields south through Alaska, then southeast through Canada to near Calgary, Alberta. It would fork there, with separate legs running to existing pipeline connections near San Francisco and Chicago.

Approximately 70 percent of the

gas transported through the line will go to the Midwest, the East and the South and about 30 percent to the West.

If private financing is found, the pipeline could be completed by 1987. The controversial pre-billing arrangement would not take effect until then, and would be limited to those parts of the project that are completed.

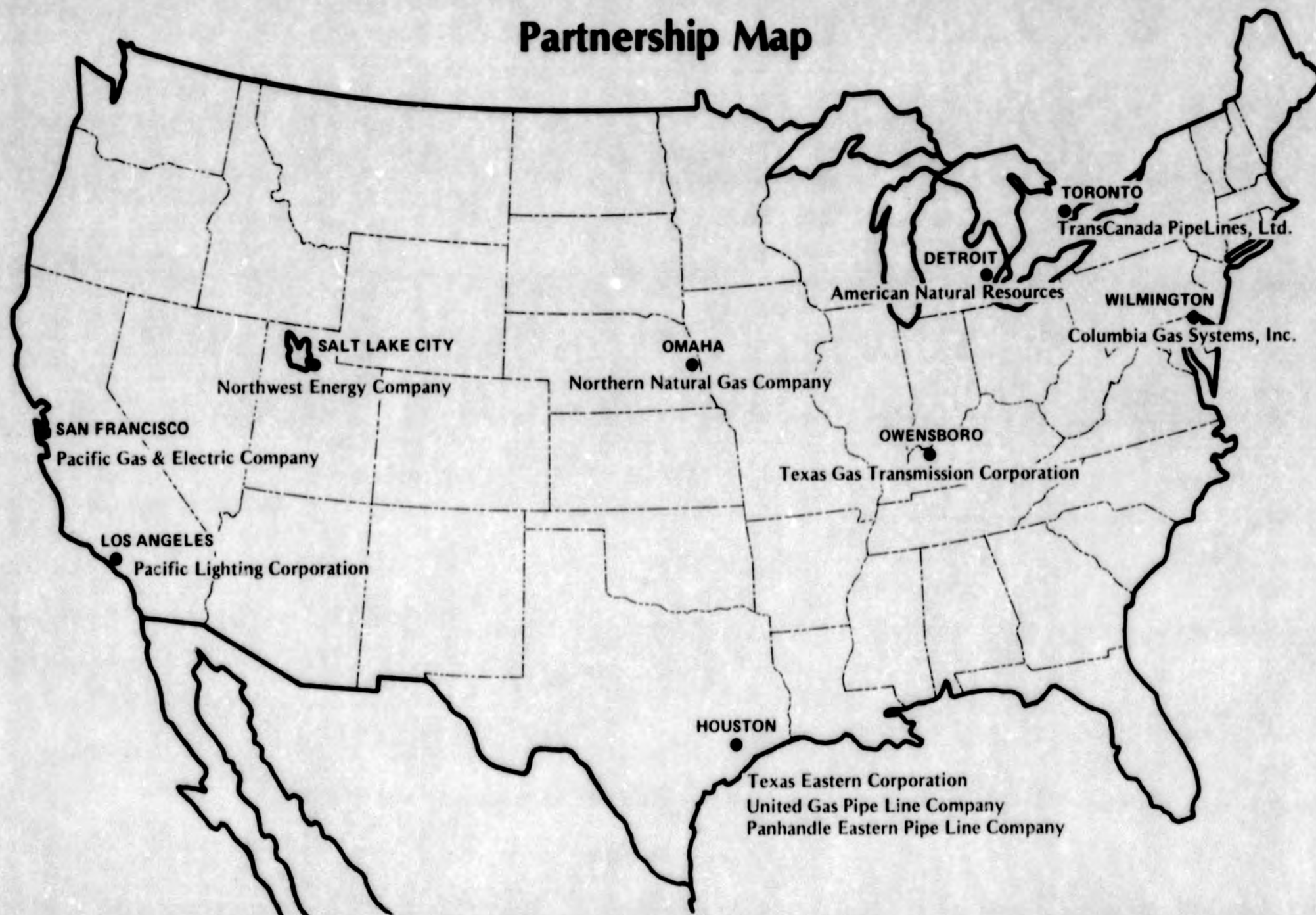
Supporters also say the package fulfills a formal U.S. commitment to Canada, which already has invested millions of dollars.

SCOMM

28:25

Alaskan Northwest Natural Gas Transportation Company

Partnership Map





Alaskan Pipeline

CONTACT: Joe Vallely, vice president, Public Relations
Tel. (801) 534-3531 or
Kathleen Kelly, (907) 452-5500

FOR IMMEDIATE RELEASE

ALASKAN FIRM IS AWARDED

CORRIDOR STUDY FOR GAS PIPELINE

Fairbanks, April 10 -- Northwest Alaskan Pipeline Company has contracted with an Alaskan firm to assist Alaska gasline corridor communities in developing baseline information to facilitate planning for the gas pipeline, it was recently announced by Jack Bachman, vice president-Alaskan Operations for Northwest Alaskan.

Darbyshire & Associates of Anchorage is conducting socioeconomic baseline profiles for the communities of Delta Junction, Dot Lake, Tanacross, Tok, Tetlin and Northway; all of these communities are along the proposed route of the Alaska Highway gas pipeline project. Darbyshire & Associates recently completed similar profiles for 25 communities in the Lower Yukon/Kuskokwim Region of Alaska.

The studies will provide key community planning data on such items as land use, land status, existing utilities, topography and soils, flood and erosion hazards, climatic and related environmental conditions, natural resources, transportation and communication systems, history, population, economy and government.

- more -

-2-

The profiles will be completed in June and will be included in Northwest Alaskan's certificate filing with the Federal Energy Regulatory Commission.

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041080

From: Northwest Alaskan Pipeline Company
P. O. Box 60089
Fairbanks, Alaska 99706



Alaskan Pipeline

1980 ACTIVITIES

- Budget \$127.5 million
- Conduct Major Field Programs
- Complete Project Financing Plan
- Obtain Federal and State R.O.W.
- Complete Filing Design
- File for Final FERC Certificate

3/25/80



Alaskan Pipeline

1979 KEY EVENTS

- President Carter publicly expresses commitment
- Congress establishes:
 - Office of the Federal Inspector
 - Executive Policy Board
- Prudhoe Bay reserves committed
- New Partners:
 - TransCanada Pipelines
 - American Natural Resources

FERC ACTIONS

- Incentive Rate of Return
- Tariff
- Pipe Size and Pressure
- Processing Plant
- Western Prebuild
- Import Authorization

OTHER GOVERNMENT ACTIONS

- Provisional approval of alignment
- Approved stipulations
- EEO/MBE regulations in final stage
- Permitting for field programs

3/25/80



Alaskan Pipeline

ALASKA NATURAL GAS TRANSPORTATION SYSTEM

-- FACT SHEET --

PROJECT DESCRIPTION:

The ANGTS is the largest private construction project of its kind in history. It consists of four integrated pipeline segments (Alaska, Canada, U.S. Eastern leg and U.S. Western leg) that will operate jointly to bring natural gas from the Prudhoe Bay region of Alaska's North Slope southward through Canada to markets in the lower 48 states. The system will transport approximately 26 trillion cubic feet of proven natural gas reserves over the next 25-30 years, supplying about five percent of the entire country's natural gas needs. It is estimated that over ten times that amount in Alaskan gas reserves can be made available through exploration and development over the next twenty years. The total system authorized by the Canadian and U.S. governments consists of some 4,800 miles of pipeline ranging in size from 36 to 56 inches plus other related facilities.

PROJECT SPONSORS:

Alaska

The Alaskan Northwest Natural Gas Transportation Company, a consortium of seven major gas transmission companies, will be responsible for designing, building and operating the Alaskan segment. The operating partner for the consortium is Northwest Alaskan Pipeline Company (formerly Alcan Pipeline Company) whose proposal was selected by President Carter in September 1977 as the preferred method of transportation for Alaskan North Slope gas. Northwest Alaskan is a wholly-owned subsidiary of Northwest Energy Company of Salt Lake City, Utah.

Joining Northwest Alaskan Pipeline in constructing the Alaskan segment of the pipeline are: American Natural Alaskan Company, a subsidiary of American Natural Resources Company, Detroit, Michigan; Northern Arctic Gas Company, a subsidiary of Northern Natural Gas Company of Omaha, Nebraska; Pan Alaskan Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company, Houston, Texas; United Alaska Fuels Corporation, a subsidiary of United Gas Pipe Line Company, Houston, Texas; Calaska Energy Company, a subsidiary of Pacific Gas & Electric Company, San Francisco, California; and Pacific Interstate Transmission Company (Arctic), a subsidiary of Pacific Lighting Corporation of Los Angeles, California.

Canada

Alberta Gas Trunk Line Company Ltd., of Calgary, Alberta and West-Coast Transmission Company, Ltd., of Vancouver, British Columbia, principal sponsors of the project in Canada, have formed Foothills Pipe Lines (Yukon) Ltd., to design, construct and operate the system in Canada.

U.S. Eastern Leg

A consortium of U.S. and Canadian transmission companies headed by Northern Plains Gas Company, a subsidiary of Northern Natural Gas Company, has formed the Northern Border Pipeline Company to construct the U.S. Eastern Leg of the pipeline system. Other partners are: Northwest Border Pipeline Company, a subsidiary of Northwest Energy Company; Pan Border Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company; United Mid-Continent Pipeline Company, a subsidiary of United Gas Pipe Line Company; and TransCanada Border Pipeline Ltd., a subsidiary of TransCanada Pipelines Ltd., Toronto, Canada.

U.S. Western Leg

Pacific Gas and Electric Company and its affiliate, Pacific Gas Transmission Company, will plan, design, construct and operate the U.S. Western Leg.

ROUTE:

The pipeline begins at Prudhoe Bay and follows the existing Alyeska oil pipeline 548 miles south to Delta Junction, just south of Fairbanks. For the remainder of the 743-mile Alaskan segment, the line will diverge from the oil line and follow the Alaska Highway to the Canadian border. In Canada, the route proceeds southeasterly through the Yukon Territory and British Columbia and into Alberta to James River where the pipeline will separate into eastern and western delivery systems. The western leg, carrying approximately 30 percent of the gas, will proceed through British Columbia, cross the U.S. border at Kingsgate, British Columbia, and pass through northern Idaho, southeastern Washington, central Oregon and northern California with delivery at Antioch, California. The eastern leg will cross the U.S. Border at Monchy, Saskatchewan, where approximately 70 percent of the gas will be delivered into the proposed Northern Border Pipeline for redelivery to U.S. markets in the midwest, south and east.

DESIGN:

The initial capacity of the total system will be 2.0 to 2.4 billion cubic feet per day of Alaskan gas, expandable up to 3.2 billion cubic feet per day. In addition to Alaskan gas for U.S. markets, the Canadian portion will be designed to transport up to 1.2 billion cubic feet per day of gas from Canada's Mackenzie Delta for Canadian markets.

The 743-mile Alaskan segment will consist of a 48-inch diameter pipeline operated at 1260 psig pressure. The 48-inch 1260 psig line continues into Canada where the 1,078-mile section from Whitehorse, Yukon to James River, Alberta will consist of 56-inch pipe at 1080 psig pressure. At James River, the line divides into a 496-mile eastern segment of 42-inch pipe and a 282-mile western segment of 36-inch pipe. Crossing the U.S.-Canadian border, in the lower 48 states, the eastern leg will consist of 1,117 miles of new 42-inch pipeline at 1440 psig pressure, and it is expected that the western leg will involve 911 miles of looped 42-inch line, at 911 psig, on the existing right-of-way of the Pacific Gas Transmission/Pacific Gas and Electric system.

PROJECT COST ESTIMATE:

The presently estimated capital cost, escalated to the date of expenditure and based upon a three-year delay from the originally planned in-service date in early 1983, is approximately \$15 billion excluding the cost of money during construction. Of this amount, about 45 percent is attributable to that portion of the pipeline to be constructed within the State of Alaska, 35 percent is attributable to that portion of the pipeline to be constructed in Canada, and 20 percent is attributable to those facilities which will be added in the lower 48 states.

PROJECT SCHEDULE:

Although project sponsors are prepared to meet a 1984-85 in-service date, recent reports indicate that the conditioning plant for natural gas from Prudhoe Bay cannot be completed until the 1985-86 heating season, even if work is commenced immediately. If the plant cannot be built to coincide with the 1984-85 pipeline schedule, a year's delay in completion of the project appears inevitable. Under a schedule reflecting this delay, final financing arrangements and filing for government approvals will be made in 1980, detailed project design will be completed in 1981, acquisition and preparation of temporary facilities will be accomplished in 1982, civil construction will commence in 1983, and actual pipeline and compressor station construction will commence in 1984 with completion and operation scheduled for the 1985-86 winter heating season.

DELIVERED COST
AND BENEFITS:

Although capital costs are high, under present plans the transportation cost of service, including the field price for Alaskan gas, will be within the range of \$5 per MMBtu initially and declining in constant 1980 dollars due to depreciating fixed costs to under \$4.00 per MMBtu in 1990. The initial cost is less than the current cost of heating oil and

equal to the current cost of imported crude oil. Based upon an independent study, the net national economic benefit for the project ranges from \$10.4 billion to \$23.5 billion. With respect to the nation's overall energy picture, Alaskan gas represents a proven and dependable domestic source of supply. Its marketability is assured because of the rapidly escalating cost of foreign oil, more than sufficient demand for natural gas to absorb all Alaskan volumes over the life of the project, and a regulated base field price established by the Natural Gas Policy Act of 1978.

PREBUILDING FOR
CANADIAN IMPORTS:

Northwest Alaskan Pipeline Company has signed contracts for importation of surplus volumes of Canadian gas which will be delivered through southern portions of the line constructed prior to completion of the total system. There are several advantages to the overall project of prebuilding. Among the advantages; prebuild results in: an increase in needed near-term gas supplies to markets in the U.S.; lower transportation costs because earlier installation of facilities avoids higher inflationary costs; earlier depreciation of facilities which helps to lower the cost of service when Alaskan gas comes on stream; and spreading out the total program over a greater period of time by constructing about 30% of the pipeline system in advance and lessening the impact of the project on availability of labor, materials and capital.

FINANCING:

In accordance with the President's Decision, the project must be privately financed, and it is planned to raise capital on a project-financing basis. Debt service and equity return will be accomplished by the cash flow generated by the project's operations. It is presently contemplated that 25 percent of the total commitment will come from equity financing and 75 percent from debt financing. Financing for the preliminary construction phase of the project is provided by the partner companies. Under this proposed financing plan, commitments will be obtained for an amount of capital large enough to assure all investors that there will be enough capital to complete the project.

The project's four integrated sections will be financed by four separate entities. The Alaska portion, although representing the greatest construction challenges, will benefit from the construction experience of the TAPS oil line, a developed right-of-way, utilization of existing technology and relatively proven construction techniques. The western leg will be built as an expansion of the existing operating company, Pacific Gas and Electric and

its affiliate, Pacific Gas Transmission Company. The eastern leg involves routine conventional construction by Northern Border with no unusual risks. Much of the Canadian system is adjacent to existing systems and the remaining portion presents largely uncomplicated terrain and geotechnical conditions.

The private capital markets are fully capable of providing all necessary funding to allow private financing for the project which can be achieved under the following conditions: 1) the principal project beneficiaries, that is, the State of Alaska, the Prudhoe Bay gas producers and the major gas transmission companies, provide their required significant financial support; and 2) the U.S. government demonstrates its significant support by providing responsible and timely government decisions on all procedural and organizational issues.

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Alaskan Pipeline

1979 - 1980

CHRONOLOGY OF IMPORTANT EVENTS

1979

- January 26 -- Northern Border Pipeline Company, a partnership of subsidiaries of four major U. S. Pipeline companies, filed an application with FERC to build about \$1.4 billion in pipeline facilities to transport Canadian and Alaskan natural gas to the U.S. midwest as part of the planned Alaskan natural gasline system.
- February 2 -- FERC issued a proposed rulemaking stating that the producers of Alaskan North Slope (sellers) gas should bear the responsibility of production-related costs for natural gas to be transported through the Alaskan Highway Pipeline Project.
- February 15 -- Alaskan Northwest Natural Gas Transportation Company filed a petition with FERC requesting expedited consideration and resolution of the IROR issues.
- February 16 -- Northwest Alaskan Pipeline Company began a centerline drilling program on the 193-mile segment from Delta Junction to the Canadian border to determine subsurface soil conditions for design of the gasline.
- February 22 -- FERC issued a report stating that the Commission intends to consider in a single consolidated rulemaking proceeding all the remaining issues associated with the IROR mechanism. It is believed that obtaining private financing for the project would be facilitated by further definition of the IROR parameters. Also, since the allowed rate for pipeline operation may materially affect risks facing equity investors and requires Commission consideration in resolving the IROR issues, the report also contained an order requiring the project sponsors to file their proposed tariff by March 12.
- February 28 -- The Canadian National Energy Board issued its demand/supply report on natural gas and announced a surplus of Canadian gas available for export. Exports of Canadian gas are

- more -

expected to be transported through the pre-built sections of the Alaska Highway Pipeline Project.

- March 1 -- Northwest Alaskan Pipeline Company consolidated all of its state operations at the Company's Alaska headquarters in Fairbanks.
- March 5 -- President Carter met with Canadian Prime Minister Pierre Trudeau to discuss energy matters of mutual interest. At the meeting, both leaders reaffirmed the "strong commitment" of their governments to completion of the Alaska Highway Pipeline Project.
- March 9 -- The FERC announced at a public briefing that it will expedite several of the key regulatory issues affecting progress of the Alaska Gasline system, giving the project renewed momentum.
- March 12 -- Alaskan Northwest Natural Gas Transportation Company, a partnership, filed its proposed tariff with FERC. The tariff is the contractual arrangement between the owners of the pipeline project and those companies using the transportation services of the pipeline.
- April 25 -- Alberta Gas Trunk Line Company Ltd., Dome Petroleum Limited, and TransCanada Pipelines agreed to join in a maximum effort to support early construction of southern segments of the Alaska Gasline system. With the agreement, all of the major natural gas transmission companies in Canada support the Alaska Highway Pipeline Project.
- June 29 -- Foothills Pipe Lines (Yukon) Ltd. filed an application with Canada's National Energy Board (NEB) and the Department of Indian and Northern Affairs for construction and operation of the Dempster Lateral gas pipeline. Foothills stated that construction of the Lateral, which will tap the 5.3 trillion cubic feet of gas reserves in the Mackenzie Delta and tie into the Alaska Gasline system, will begin in 1985 with first gas flowing in January 1987.
- July 16 -- President Carter, in a nationally televised speech on America's energy situation, said the Alaska Highway Gasline project is America's top, near-term energy priority. "The North Slope producers have dragged their feet in helping to finance a pipeline needed to bring that gas to market . . . I will insist personally that this gas pipeline be built without further delay," the President said.

- July 30 -- Canada's NEB approved a minimum bill payment for debt service and other out-of-pocket costs to Canadian sponsors of the gasline to go into effect 60 days after the NEB approves completion of gasline construction in Canada. The full cost-of-service will be instituted when gas flows through the system, or 12 months after the minimum bill starts, whichever comes first.
- August 6 -- The FERC issued its decision in favor of a 48-inch diameter pipe size and 1260 psig operating pressure, as proposed by project sponsors, for the Alaska Gasline system. These two elements of gasline design are essential to finalizing cost estimates and obtaining financing for the project.
- August 8 -- Following President Carter's request that the North Slope gas producers enter into discussions regarding financial participation in the Alaska Gasline Project, a meeting took place in Washington, D. C., between the major producers -- Arco, Exxon, and BP-Sohio -- and officials of the Department of Energy to explore the issue.
- August 9 -- The Canadian NEB completed omnibus proceedings on applications for exports of Canadian gas.
- September 6 -- The FERC issued its final order on the incentive rate of return for equity investors in the Alaskan and Northern Border (or eastern leg) segments of the Alaska Highway Pipeline Project. The order allows a 17.5% return on investment if the project is completed within the approved estimated costs.
- The FERC order also approved project sponsors' pipeline tariffs for the Alaskan and Northern Border segments.
- September 14 -- Arco, one of the three major gas producers on Alaska's North Slope, agreed to commit its volumes of Prudhoe Bay gas to subsidiaries of five U.S. pipeline companies. With the Arco agreements, all of the Prudhoe Bay gas owned by the three major producers has now been committed or is under contract to U.S. pipeline companies. The three producers own approximately 85% of the gas reserves in the Prudhoe Bay field.

- October 16 -- In response to questions during his testimony before the House Interior subcommittee hearings on the Alaska Gasline system, FERC Chairman Charles Curtis said the FERC would be ready to issue a final decision on prebuild plans for the project's western leg by year-end 1979. Curtis also said that the commission would be ready to issue a final decision on the prebuild proposal for the eastern leg early in 1980 and on the Alaskan segment six months after project sponsors have submitted their final filing. The sponsors intend to submit this filing in June 1980, and look for final approval by year-end 1980.
- October 26 -- TransCanada PipeLines of Toronto completed an agreement with the Northern Border Pipeline Company in its efforts to prebuild certain segments of the Alaska Gasline project's eastern leg. The agreement provides for TransCanada to obtain a 30% interest in the prebuild project and an opportunity to participate in the remaining portion of the Northern Border project. Subsidiaries of four U.S. pipeline companies are partners in Northern Border and will share the remaining 70% ownership of the prebuild facilities.
- November 1 -- The U.S. House of Representatives and the U.S. Senate approved separate versions of the priority Energy Act which is designed to expedite large-scale energy projects determined to be in the national interest. A joint House-Senate conference committee is working to effect a legislative compromise of the two versions. Project sponsors support an amendment in the house version which provides that no measures of the new legislation shall affect or interfere in any way with actions taken by federal officers or agencies relating to the Alaska Natural Gas Transportation System.
- December 3 -- American Natural Alaskan Company, a subsidiary of American Natural Resources of Detroit, Michigan, joined as an equal partner in the Alaskan Northwest Natural Gas Transportation Company, the consortium responsible for design, construction and operation of the Alaskan segment of the Alaska Highway Pipeline Project. This brought to seven the number of U.S. natural gas companies forming the partnership. Other companies are expected to join the partnership in the future.

December 6 -- Canada's National Energy Board (NEB) issued its decision regarding export of surplus Canadian natural gas volumes to the U.S. through the Alaska Highway Pipeline Project. Northwest Alaskan Pipeline Company had requested export authorization of approximately 4.5 trillion cubic feet of Alberta gas, or 380 billion cubic feet a year over a 12-year period, to support prebuilding the portions of the project's eastern and western legs. Instead, Canada approved exports of only 1.8 trillion cubic feet, providing full volumes for a three-year period ending in 1984 and declining thereafter by 25 percent per year through 1987.

1980

January 11 -- The FERC agreed to project sponsors' request that separate decisions on the prebuild facilities for the eastern and western legs be issued in order to expedite procedures necessary for completion of the western system by the end of 1980. Regarding the western leg, the Commission approved Northwest Alaskan's application for import of 240 million cubic feet daily of Canadian gas and sale of same to Pacific Interstate Transmission Company. Pacific Interstate is authorized to sell these daily volumes to Southern California Gas Company, according to the terms of the order.

The order also approved the application of Pacific Gas Transportation Company for construction of 160 miles of looped line between Kingsgate, British Columbia and Stanfield, Oregon. In conjunction with the western leg prebuild, the commission issued certificates of Public Convenience and Necessity to Northwest Pipeline Corporation, Pacific Interstate Transmission Company, and El Paso Natural Gas Company, authorizing the transportation of the Canadian volumes to Pacific Interstate Transmission through June 1981.

January 23 -- Foothills Pipe Lines (Yukon) Ltd., Alberta Gas Trunk Line Company, Ltd., and Pan-Alberta Gas Ltd., all of Calgary, Alberta, issued a joint statement expressing their support of the prebuild proposal for the Alaska gasline system. In their statement, the companies announced their intention to proceed with commitments which must be made to meet the

November 1, 1980 start-up date of the western prebuild portions. They were joined in this commitment by Northwest Pipeline Corporation, Pacific Interstate Transmission Company, and El Paso Natural Gas Company.

- January 28 -- Encouraged by the strong support of the federal government and the expeditious handling of several key regulatory issues during 1979, the sponsors of the Alaska Highway Pipeline Project announced a 1980 budget for the project of \$127.5 million, or just about triple the expenditures approved for 1979. Nearly \$100 million of the amount budgeted will be spent on field programs in Alaska, and engineering and pipeline design activities necessary to develop design and cost estimates for a mid-June 1980 filing before the FERC.
- January 31 -- The FERC, following discussions with Energy Secretary Charles Duncan, issued a supplemental order authorizing a 42-inch diameter pipe size for the prebuild portions of the Alaskan project's western U.S. delivery system. It was felt that the larger pipe size would be more economical and efficient.
- February 15 -- The Department of the Interior advised it will provide a detailed response by April to Northwest Alaskan's final routing proposal for the Alaskan segment submitted on January 29th. In the interim, DOI informed the company it may continue to plan and make cost and design estimates on the basis of the January 29th proposal.
- March 12 -- Pacific Gas Transmission Company, San Francisco, received a right-of-way grant from the Bureau of Land Management (DOI) to construct a prebuild portion of the western leg of the gasline project on federal lands. This is the first such grant issued to the project.
- March 18 -- John G. McMillian, Chairman of Northwest Alaskan Pipeline Company met with representatives of the North Slope producing companies (Exxon, ARCO and BP-Sohio) and the State of Alaska at the Department of Energy in Washington, D.C. to discuss joint participation in a private financing plan for the project. Producers and sponsors agreed to try to develop an operating agreement for the design and engineering phase of the project (Phase I) by mid-April. They also agreed to define the key issues involved in formulating a financing plan and establish a timetable for resolution of those issues (Phase II).

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ALASKA HIGHWAY PIPELINE PROJECT

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HIGHLIGHTS

GASLINE SPONSORS, STATE OF ALASKA AND NORTH SLOPE PRODUCERS TO DISCUSS FINANCING. . .
RIGHT-OF-WAY GRANTED FOR WESTERN PREBUILD
. . . U.S. EASTERN, CANADIAN PREBUILDS MOVE FORWARD. . . ROUTING PROPOSAL SUBMITTED. . .
FEDERAL INSPECTOR MOVES TO PERMANENT OFFICES
. . . LARGEST GASLINE FIELD PROGRAM UNDERWAY
. . . NORTHWEST SEEKS CORRIDOR COMMUNITY INFORMATION.

GASLINE SPONSORS, STATE OF ALASKA AND NORTH SLOPE PRODUCERS TO DISCUSS FINANCING: The first meeting between sponsors of the Alaska Highway Pipeline Project, the major North Slope producing companies (Exxon, Arco, and BP-Sohio), the State of Alaska, and the Department of Energy (DOE) with regard to financing the gasline project was held March 18 in Washington, D.C.

Previous attempts to effect face-to-face negotiations by the sponsors have been unsuccessful. A special counsel assigned responsibility by DOE for assisting in project financing caused further delay when he put forward certain financing suggestions which were not in accord with requirements of the President's Decision and Report to Congress. Consequently, and despite sponsors' repeated requests for such a meeting, forward motion on financing during the past four months came to a virtual standstill. However, project sponsors continue to maintain a positive attitude toward the scope of financing discussions and are encouraged by the new DOE initiative to bring producers and sponsors together on this important issue.

Project sponsors have proposed that the producers commit funds to an overrun pool of sufficient amount to provide lenders with assurances that the project will be completed. A provision in the President's Decision disallows significant equity participation by producers to prevent anti-competitive abuses if management of the oil and gas lines are both within the producers' control. The Decision also ruled out federal financial assistance to the gasline. As a result, sponsors consider their proposal to be consistent with the President's Decision, which named the producers and the State of Alaska as major beneficiaries of the project and, therefore, logical participants in the financing effort. Participation of the producers in the Alaskan segment of the financing package is essential to obtaining private financing for the project.

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According to the project's current schedule, sponsors intend to file an application for a Certificate of Public Convenience and Necessity with the Federal Energy Regulatory Commission (FERC) by the middle of 1980. A financing plan must be approved by the Commission before the certificate to begin construction can be granted. Because of this, conditional commitments of financial participation by the producers must be obtained as soon as possible.

John McMillian, Chairman of Northwest Alaskan Pipeline Company, lead partner for the consortium which will build and operate the Alaskan segment of the gasline system, represented the partnership at the March 18 meeting. McMillian has consistently expressed his confidence that the parties involved will be able to work out a financing package which will be of benefit, not only to the participants, but to the national interest as well. It has been demonstrated that the total system authorized by the U.S. and Canadian governments to transport Alaskan and Canadian gas volumes will save the U.S. approximately 700,000 barrels a day of imported oil at a cost less than that of the current cost of heating oil and equal to the current cost of imported crude oil.

The producers and the sponsors agreed to try to develop an operating agreement for the design and engineering phase of the project (Phase I) by mid-April, and also agreed to move forward on identifying the areas of agreement and disagreement with respect to the construction and operating phase of the project (Phase II).

Project sponsors were pleased with the progress made at the March 18 meeting and will continue to work with the North Slope producers and the State of Alaska to resolve the financing issue.

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RIGHT-OF-WAY GRANTED FOR WESTERN PREBUILD: Pacific Gas Transmission Company (PGT), San Francisco, received March 12 a right-of-way grant from the Department of Interior's (DOI) Bureau of Land Management (BLM) to construct prebuild portion of the western leg of the Alaska Highway Pipeline Project on federal lands. This is the first grant issued to the project which will bring Alaskan North Slope gas to markets in the lower 48 states.

The DOI grant follows issuance in January 1980 of a Certificate of Public Convenience and Necessity by the FERC for PGT's proposed construction of the western leg prebuild. The FERC certificate is not final and has not been accepted by PGT due to certain tariff issues which remain to be resolved. However, the swift resolution in the U.S. and Canada of certain regulatory issues could allow construction of a portion of the western prebuild and partial service by the end of 1980 or early 1981, with full service by mid-1981.

PGT's plans for the prebuild call for 160.5 miles of 42-inch diameter pipeline which will parallel and connect with PGT's existing pipeline system. The new facilities will be installed between the Canada-U.S. border and Stanfield, Oregon, and will be used along with the connecting systems of Northwest Pipeline Corporation and El Paso Natural Gas Company to provide new sources of Canadian natural gas supplies to more than 3.6 million natural gas customers of Southern California Gas Company.

The PGT prebuild facilities are estimated to cost approximately \$133 million in January 1, 1978 dollars. PGT is a wholly-owned subsidiary of Pacific Gas & Electric Company.

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U.S. EASTERN, CANADIAN PREBUILDS MOVE FORWARD: Hearings on Northern Border Pipeline Company's financing plan for the prebuild of the U.S. eastern leg of the Alaska gasline system concluded February 27 at the FERC and the record was certified by the presiding administrative law judge for submission to the Commission. Initial briefs were filed March 13, with reply briefs due on March 20.

The FERC is expected to issue the final certificate on the eastern leg prebuild by early April, after Canada's National Energy Board (NEB) has made its decision on export volumes. It is expected that full service for the eastern leg prebuild will be possible by the end of 1981.

In a related matter, the NEB issued March 11 its findings on the financing plan for the Canadian prebuild segments as submitted by Foothills Pipe Lines (Yukon) Ltd. The NEB found that the eastern leg would be financible with total throughput of 2,047 billion cubic feet instead of the previously approved volumes of 1,318 billion cubic feet. In addition, the NEB found that as a minimum condition to the financibility it would be necessary to transfer at least 450 billion cubic feet already dedicated to other pipeline systems to the eastern leg.

The NEB also found that the western leg would be financible with a total throughput of 701 billion cubic feet dedicated through firm export licenses, an increase of 220 billion cubic feet over amounts previously approved in its December 6, 1979 order.

While the NEB did not approve the exportation of these increased volumes in its March 11, 1980 findings, the Board will consider, later in March, Pan-Alberta Gas Ltd.'s revised application for these increased gas volumes to be exported through the pre-built segments of the Alaska Highway Pipeline Project.

The NEB also determined that Foothills can submit updated cost estimates for approval closer to the time of pipeline construction and, in general, reaffirmed that the prebuild proposal is in the public interest.

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ROUTING PROPOSAL SUBMITTED: Northwest Alaskan submitted January 29 its final routing proposal for the Alaskan segment of the Alaska Highway Pipeline Project to the DOI. The company's proposal addressed the 15 specific route alternatives suggested by DOI, and considers it has met the department's requirements that the suggested reroutes be "fully considered...prior to any final right-of-way decision," that thorough justification for rejection of any alternatives be provided, and that the documentation includes "cost, environmental and technical comparisons." Expedited review and approval was requested by the company.

The DOI replied in a February 15 letter that Northwest Alaskan's proposed routing will be carefully reviewed and a final and detailed response will be provided by April 1980. In the interim period, DOI said, the company may continue to plan and make cost and design estimates on the basis of the route shown in its January 29 letter. As a result, design, engineering and cost estimation are proceeding according to the proposed routing.

(more)

Northwest Alaskan will continue to take such steps as are appropriate to accommodate any reasonable concerns, comments and recommendations of others toward the objective of a pipeline that is technically sound, environmentally safe, economically prudent, and expeditiously constructed.

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NORTHWEST SEEKS PSD PERMIT: On March 6, Northwest Alaskan submitted an application to the U.S. Environmental Protection Agency (EPA), Region X, in Seattle, Washington, for a Prevention of Significant Deterioration (PSD) permit for exhaust emissions from compressor stations for the Alaska gasline project. A PSD permit is required pursuant to the Clean Air Act Amendments of 1977.

The company has requested issuance of the permit no later than January 1, 1981, in accordance with the Alaska Natural Gas Transportation Act (ANGTA) of 1976 requiring expedited processing so that necessary lead time will be provided for timely initiation of compressor equipment procurement.

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DOI RECEIVES PROGRESS REPORT: Northwest Alaskan provided February 29 a progress report to the DOI on 12 questions raised in June 1979 by a technical working group involved in the right-of-way planning for the Alaskan segment of the gasline project. The 12 areas of concern are frost heave, groundwater problems, geotechnical issues, blasting effects on the trans Alaska oil pipeline system (TAPS), risk analysis, seismic design criteria, ditch stability studies, TAPS crossings and highway crossings, river crossings design, fish and wildlife habitat, fish and wildlife population, and erosion control and vegetation.

The report includes the sponsors' proposed approach to the frost heave question to be submitted to FERC and DOI, respectively, for the final certification and the grant of right-of-way. Northwest Alaskan believes that prudent engineering judgment will allow a grant of right-of-way to be issued based on information available at the time the final application is submitted, currently planned for the end of June 1980.

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FEDERAL INSPECTOR VISITS FLUOR: John Rhett, the Federal Inspector for the Alaska gasline project, visited the offices of Fluor Engineers and Constructors, Inc. at Irvine, California, March 12 and 13 for a series of discussions regarding project control, endangered species regulations, environmental engineering and a general update on the project by Fluor personnel. Fluor is the project management contractor (PMC) for the Alaskan segment of the gasline system.

Rhett's visit coincided with a two-day meeting of the Cold Regions Engineering Technical Committee, chaired by Paul Fisher of the Corps of Engineers. The committee reviewed the progress of Northwest Alaskan's frost heave program to date, and discussed future frost heave planning incorporating suggestions by the Federal Inspector's office and critical items for further study.

On March 13 and 14, Northwest Alaskan hosted meetings for senior government environmental representatives at the Fluor offices. Discussions involved the environmental engineering manual, and biological, physical and civil programs associated with the gasline project.

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FEDERAL INSPECTOR MOVES TO PERMANENT OFFICES: As of March 1, 1980, the Office of the Federal Inspector will be in the Post Office Building, 1200 Pennsylvania Avenue, N.W., in Washington, D.C. The move to this location was originally planned for January, but was postponed until this month.

The Federal Inspector's new mailing address is:

Office of the Federal Inspector
Alaska Natural Gas Transportation System
P.O. Box 290
Washington, D.C. 20044

New phone numbers are:

(202) 275-1100: Federal Inspector, executive officer, general counsel, public affairs, and the executive secretariat.

(202) 275-1114: Administrative, contracts and procurement, personnel, technical advisor, and environmental review.

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LARGEST GASLINE FIELD PROGRAM UNDERWAY: An Alaskan firm, The Drilling Company of Anchorage, has been awarded a contract for the largest field program to date in preparation for the 743-mile section of the gasline in Alaska.

The Drilling Company began the first 1980 field activity on February 19 with a borehole drilling program to determine subsurface soil and frost conditions along the route of the gasline in Alaska. This is the third year of drilling operations and the largest field program ever conducted for the gasline project so far in Alaska.

Other Alaskan firms working on the drilling program include R & M Consultants, Communications Equipment Services, Moneymaker Construction, Arctic Test Lab, all of Fairbanks; and R. A. Kreig and Associates of Anchorage. R & M Consultants will gather and evaluate soil samples from drilling operations, Communications Equipment Services will install and maintain communication equipment on all vehicles including drilling rigs, Moneymaker Construction will gather soil samples from the field and deliver them to the lab in Fairbanks, Arctic Test Lab will conduct lab analysis of field samples, and R. A. Kreig will do geotechnical consulting on the route alignment profile.

The 1980 drilling program will have two phases. Phase I, which began in mid-February, is taking place from Livengood south to the Canadian border and will last approximately 45 days. Phase II will start after spring breakup and occur along the route from Livengood to Prudhoe Bay. Livengood is located 80 miles north of Fairbanks. Approximately 200 people will work in the field on Phase I of the program.

In addition to the drilling program, Michael Baker, Jr., Inc. Engineers and Surveyors has been awarded a contract to conduct material site exploration along the pipeline route from Livengood to the Canadian Border. Soil samples will be gathered from these sites to determine availability of natural construction materials such as gravel at 130 potential sites.

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A 1980 budget of approximately \$41.6 million was recently approved by sponsors of the Alaska gas pipeline for field programs, most of which are scheduled to be carried out in Alaska during the spring and summer months.

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NORTHWEST SEEKS CORRIDOR COMMUNITY INFORMATION: Northwest Alaskan Pipeline Company has contracted with an Alaskan firm to assist Alaska gasline corridor communities in developing baseline information to facilitate planning for possible gasline impacts. Darbyshire and Associates of Anchorage is conducting socioeconomic baseline profiles for the communities of Delta Junction, Dot Lake, Tanacross, Tok, Tetlin and Northway; all are along the proposed route of the Alaska Highway gas pipeline project.

The studies will provide key community planning data on such items as land use, land status, as-built utilities, topography and soils, flood and erosion hazards, climatic and related environmental conditions, natural resources, transportation and communication systems, history, population, economics, and government.

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FAIRBANKS OFFICE EXPANDS: Several new employees have joined the Fairbanks headquarters office of Northwest Alaskan Pipeline Company. Among them:

Jack W. Woods recently joined Northwest as manager of Field Programs in Alaska. Woods, 53, brings nearly 30 years of gas pipeline industry experience to his new position. Before joining Northwest, he held various project management engineering positions with Bechtel, Inc., and is a graduate of the University of Houston with a B.A. in civil engineering.

Virgene Hanna, a Fairbanks resident, has been named research analyst for the company's socioeconomic department. As such, she will assist Susan Fison, director of socioeconomic affairs for the company, with research and reports, pipeline corridor community activities and monitoring the impact of the project in the state. Hanna was formerly with the University of Alaska's Institute of Social and Economic Research. She has also done private consulting in Fairbanks for the Tanana Chiefs Conference and the state's Limited Fisheries Commission, working with Alaska Native villages on impact planning.

Kirk T. Morgan, of Anchorage, and Rex Nutter, of Fairbanks, have joined Northwest Alaskan as permits/compliance coordinators. In this capacity, they will work with representatives of government, Alyeska, and Native corporations to assure timely completion of the permit processes in coordination with the company's various field activities in Alaska.

Others hired by the company's Fairbanks office include three engineers: Robert Egg of Soldotna, Walter McMillan of Wasilla, and Wilton Prejean; in addition, Robert Brown has been hired as a drilling supervisor. Fairbanks residents also filled three clerical positions recently with the company. They include Barbara Hitchcock, permits compliance clerk, Mille Beagley, field programs secretary, and Violet Mullen, secretary for public relations and socioeconomic affairs.

In addition, Fluor Northwest, the project management contractor on the Alaskan segment of the gasline, recently expanded its Fairbanks staff with 10 new employees.

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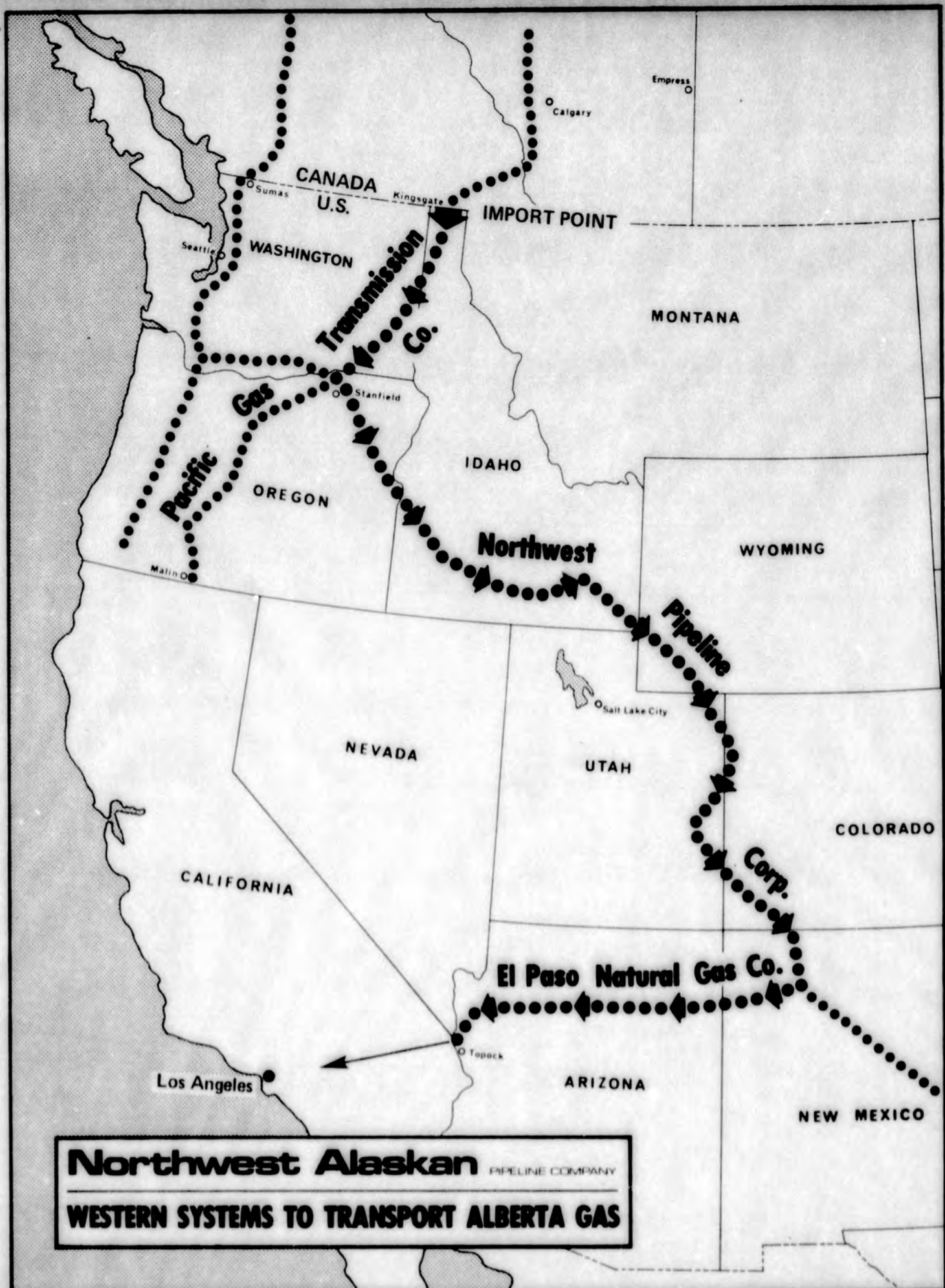
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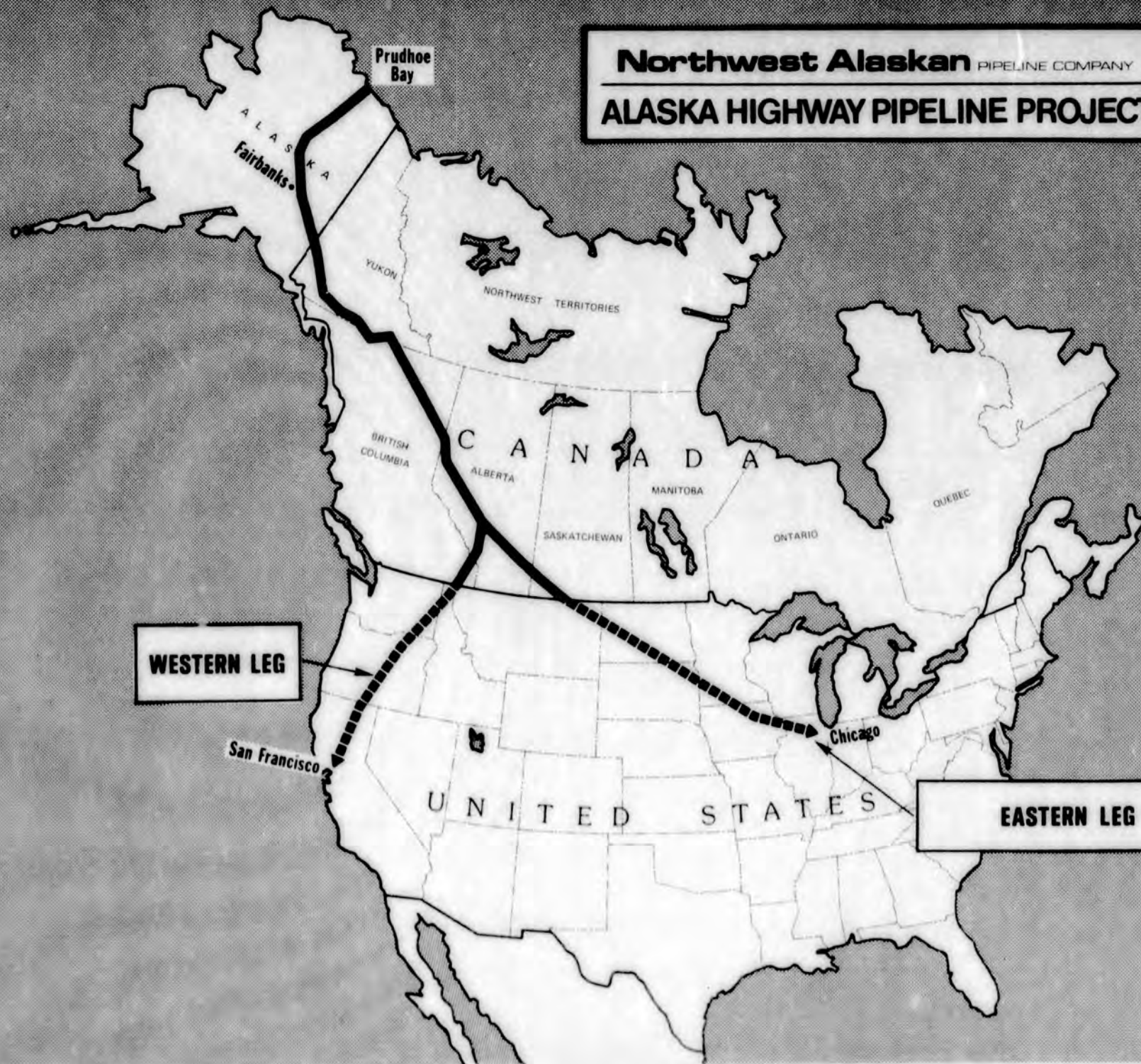
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Northwest Alaskan PIPELINE COMPANY
WESTERN SYSTEMS TO TRANSPORT ALBERTA GAS

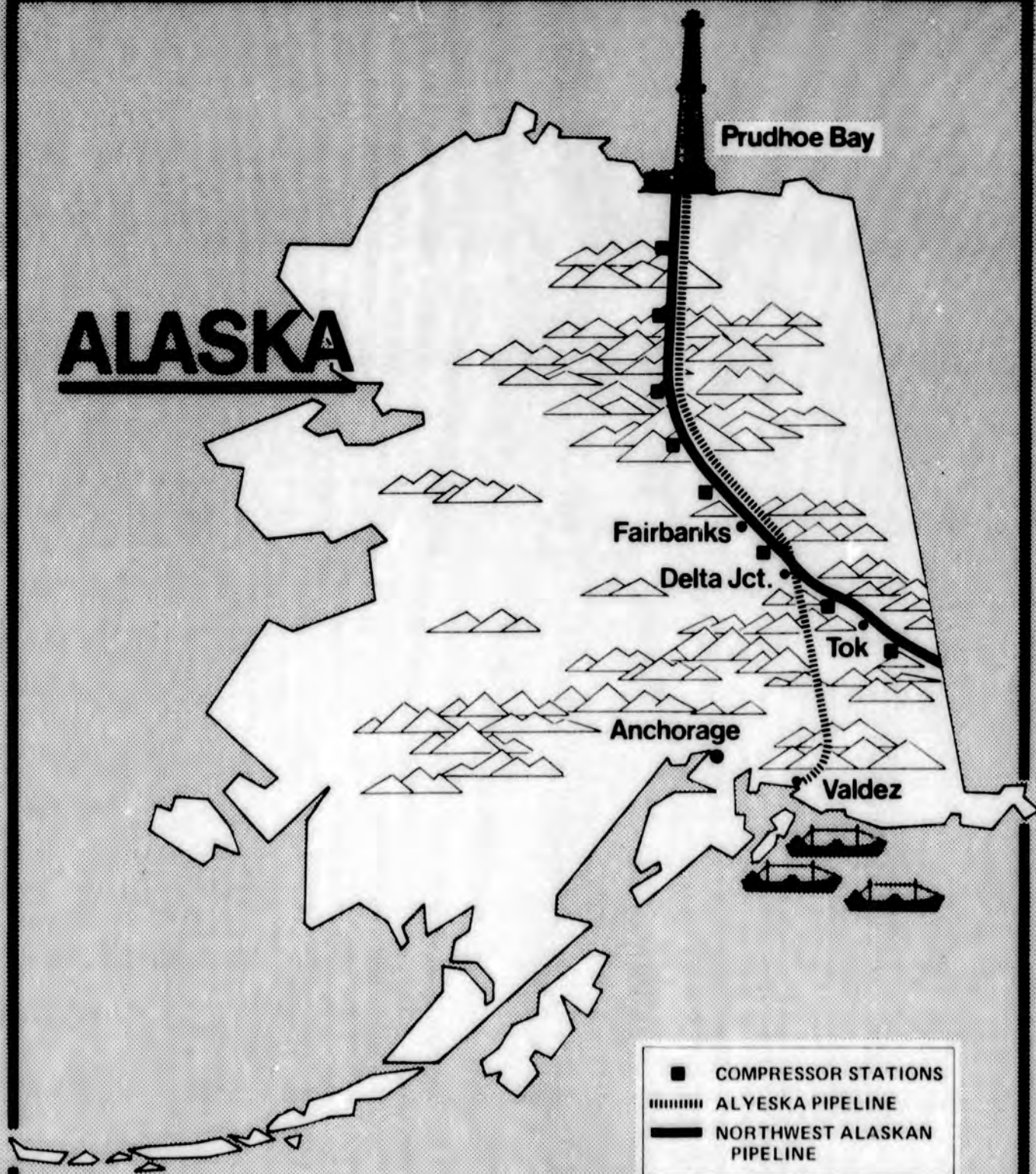
Northwest Alaskan PIPELINE COMPANY
ALASKA HIGHWAY PIPELINE PROJECT



WESTERN LEG

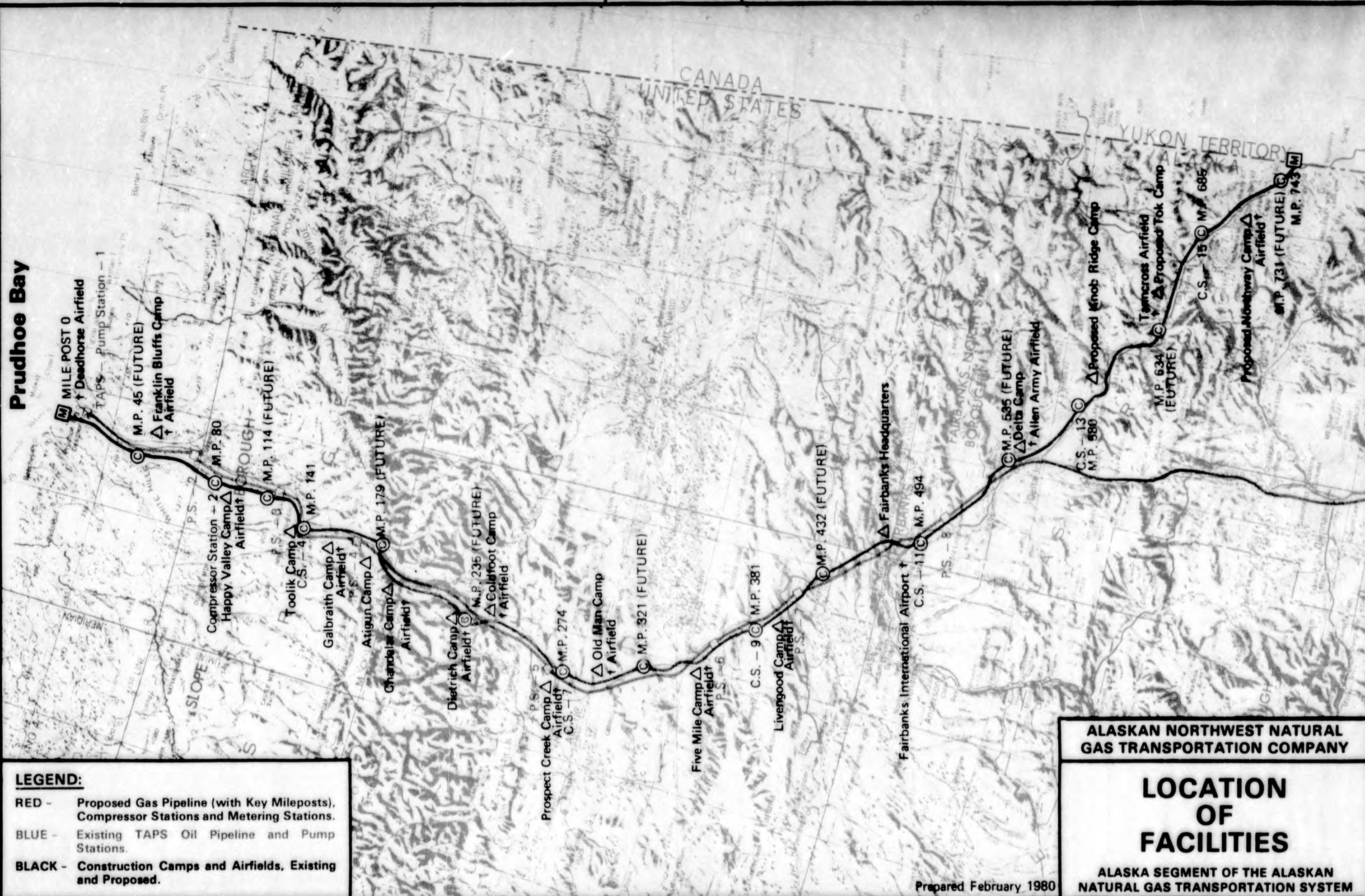
EASTERN LEG

ALASKA



Northwest Alaskan PIPELINE COMPANY
ALASKA HIGHWAY PIPELINE PROJECT

Prudhoe Bay



LEGEND:

- RED - Proposed Gas Pipeline (with Key Mileposts), Compressor Stations and Metering Stations.
- BLUE - Existing TAPS Oil Pipeline and Pump Stations.
- BLACK - Construction Camps and Airfields, Existing and Proposed.

ALASKAN NORTHWEST NATURAL
GAS TRANSPORTATION COMPANY

LOCATION OF FACILITIES

ALASKA SEGMENT OF THE ALASKAN
NATURAL GAS TRANSPORTATION SYSTEM

Prepared February 1980



Alaskan Newsline

Auth R41

Vol. 3, No. 6

September 30, 1980

HIGHLIGHTS

ALASKAN NORTHWEST ANNOUNCES FOUR NEW PARTNERS
. . . WELD CEREMONY COMMEMORATES CANADIAN GAS-
LINE CONSTRUCTION. . . NORTHWEST PIPELINE BEGINS
CONSTRUCTION ON WESTERN DELIVERY SYSTEM. . .
EXECUTIVE POLICY BOARD MEETING HELD IN ALASKA
. . . FERC HOLDS ALASKAN COST ESTIMATE CONFER-
ENCES. . . INTERIOR SUBMITS RIGHT-OF-WAY GRANT
TO CONGRESS. . . AFFIRMATIVE ACTION PLAN SUB-
MITTED TO FEDERAL INSPECTOR. . . TEMPORARY WORK
CAMPS IN ALASKA ARE IN OPERATION. . . ALASKAN
NATIVES TOUR COMPRESSOR STATION.

ALASKAN NORTHWEST ANNOUNCES FOUR NEW PARTNERS: The Alaskan Northwest Natural Gas Transportation Company announced at the end of August the addition of four natural gas transmission companies to the consortium which will build and operate the 743-mile Alaskan segment of the Alaska Highway Natural Gas Pipeline Project.

Columbia Alaskan Natural Gas Transmission Corporation joined the partnership August 25. Columbia Alaskan is a wholly-owned subsidiary of the Columbia Gas System, Inc., Wilmington, Delaware, which has the right to purchase up to 5.6 trillion cubic feet of North Slope gas owned by Sohio Natural Resources Company and BP-Alaska, Inc. The Columbia System currently supplies natural gas to 4 million customers in seven midwestern and mid-Atlantic states.

On August 28, eastern Canada's largest natural gas transmission company, Trans-Canada PipeLines, Ltd., of Toronto, Ontario, joined the consortium through a wholly-owned subsidiary, TransCanada Pipeline Alaska, Ltd. Unlike the U.S. companies in the consortium, TransCanada will not be a shipper of Alaskan gas, but views the project as an excellent investment opportunity.

Two additional U.S. companies joined the partnership August 29. The first, Tetco Four, Inc., is a corporation whose stock will be owned 50 percent each by Texas Eastern Transmission Corporation and Transwestern Pipeline Company. Both are wholly-owned subsidiaries of Texas Eastern Corporation, Houston, Texas. Texas Eastern and Transwestern have executed letters of understanding with ARCO Oil and Gas Company for the purchase of a total of 20 percent of ARCO's Prudhoe Bay natural gas production. Texas Eastern Corporation is a diversified energy company whose pipeline systems supply natural gas to the east and west coasts.

The second company, Texas Gas Alaska Corporation, is a wholly-owned subsidiary of Texas Gas Transmission Corporation, Owensboro, Kentucky. Texas Gas has the right to purchase 12 percent of the natural gas production from ARCO Oil and Gas Company's interest in the Prudhoe Bay field. The existing Texas Gas system provides natural gas supplies to 90 distribution companies serving 554 communities in the central U.S.

John G. McMillian, chairman of Alaskan Northwest's Board of Partners, said, "These four new companies are a most beneficial addition to the Alaska Highway Pipeline Project and we welcome their participation. With the addition of these new partners," McMillian continued, "every U.S. company that has contracted for North Slope Alaskan gas is now a part of our project." (A map of the U.S. partners' existing pipeline systems to deliver Alaskan gas to lower 48 markets is on page 8.)

The Alaskan Northwest Natural Gas Transportation Company is now comprised of eleven partners whose combined assets total over \$35 billion. With respect to consolidated sales, eliminating inter-company sales and excluding TransCanada, the Alaskan consortium represents about 38% of total U.S. natural gas consumption. Other members of the consortium are subsidiaries of: American Natural Resources Company, Detroit; Internorth Inc., Omaha; Panhandle Eastern Pipe Line Company, Houston; United Gas Pipe Line Company, Houston; Pacific Lighting Corporation, Los Angeles; Pacific Gas & Electric Company, San Francisco; and Northwest Energy Company, Salt Lake City. The Northwest Energy subsidiary, Northwest Alaskan Pipeline Company, is the operating partner for the consortium.

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WELD CEREMONY COMMEMORATES CANADIAN GASLINE CONSTRUCTION: On September 27, representatives of the Canadian and U.S. governments and project sponsors attended a commemorative weld ceremony at Burton Creek, Alberta, marking the beginning of construction of the western Canadian portion of the Alaska Highway Pipeline Project. Foothills Pipe Lines (Yukon) Ltd., sponsor of the project's Canadian segment, hosted the ceremony.

The western Canadian segment will be comprised of 132 miles of 36-inch diameter looped line between James River, Alberta, and Kingsgate, British Columbia. When completed, this portion of the pipeline will tie into the U.S. western delivery system (see below).

Attending the ceremonies at Burton Creek were: R. L. Pierce, president and chief executive officer of Foothills; S. R. Blair, chairman of the Board of Partners of Foothills; Sen. H. A. Olson, (Federal) Minister Responsible for Canada's Northern Pipeline Agency; E. C. Phillips, chairman and chief executive officer for Westcoast Transmission Company, Vancouver; C. G. Edge, acting chairman of Canada's National Energy Board; John Stabbach, former chairman of the National Energy Board; and the Hon. Mitchell Sharp, Commissioner of Canada's Northern Pipeline Agency. Also attending were John Rhett, the Federal Inspector for the U.S. portions of the gasline project; and John Adger, of the Federal Energy Regulatory Commission's Alaska Gas Pipeline Project Office, as well as representatives from Northwest Alaskan and other U.S. project sponsors.

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NORTHWEST PIPELINE BEGINS CONSTRUCTION ON WESTERN DELIVERY SYSTEM: September 3 marked the start of construction of 351 miles of looped pipeline, as well as additional compression, along Northwest's existing rights-of-way in Oregon and Idaho as part of the western delivery system of the Alaska Highway Natural Gas Pipeline Project.

The 351-mile project extends from Stanfield, Oregon, to a point 14 miles east of Burley, Idaho, and will consist of 24-inch and 30-inch diameter pipe with additional compressor units installed at Baker, Oregon (2,000 horsepower), and at Caldwell, Idaho (1,500 horsepower).

The early construction phase of the western leg of the project is authorized to transport up to a daily average of 300 million cubic feet of gas from Alberta, Canada, to consumers in southern California. The approved route for the western leg prebuild phase also involves installation of 160 miles of new 36-inch diameter pipeline on Pacific Gas Transmission Company's existing rights-of-way between the Canadian border and Stanfield, Oregon, where it will connect with the expanded Northwest Pipeline system.

The first segment of the Northwest Pipeline expansion is scheduled for completion in January 1981, and the full project is scheduled to be completed in late summer 1981. Ownership of the new Oregon-Idaho facilities is shared, with Northwest Pipeline owning 70 percent and Pacific Interstate Transmission Company, purchaser of the Canadian volumes, owning 30 percent.

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EXECUTIVE POLICY BOARD MEETING HELD IN ALASKA: The Executive Policy Board (EPB) held its meeting in Fairbanks, Alaska on September 9 and heard comments from several Northwest Alaskan Pipeline Company officials on the status of the gasline project. The EPB is a Federal interagency advisory group established by the President to advise the Federal Inspector on policy matters and enforcement actions concerning the project.

The company gave a presentation on the status of its affirmative action planning and results to date, and reported that from January-July of this year, Northwest has awarded or committed awards of \$10.02 million to firms identified as Minority Business Enterprises (MBE) or Female Business Enterprises (FBE). The value of prime contracts involving MBE/FBE participation (January-July) totals \$29.5 million. Northwest said that "the minority hiring in these contracts is substantial."

The company reported it had contracted with Dr. David Reaume, former chief economist with the State of Alaska Department of Commerce and Economic Development, to develop statistical data on minority representation in the population and workforce that the company needed for its Affirmative Action Plan, which has been developed to facilitate Equal Employment Opportunity (EEO) and MBE/FBE contracting.

Northwest officials also gave a presentation before the EPB on the status of socioeconomic activities in Alaska. The company expressed the need for final state socioeconomic stipulations to be attached to the state's right-of-way lease and stated that the absence of agreed upon guidelines is an impediment to socioeconomic planning.

Northwest added that a major focus of its socioeconomic planning will be in communities near the proposed gasline route, particularly those between Delta Junction and the Canadian Border.

Company representatives noted that the gas pipeline will not be the only major energy-related construction project in Alaska between now and 1985. Although the gasline will be the largest, they expressed that it should not be the only project which has to meet socioeconomic requirements. They suggested that the involvement of planners from other projects will better enable industry to work cooperatively with government to the benefit of the people of the state.

The EPB is made up of representatives of the Departments of Labor, Agriculture, Energy, Transportation, and Interior; the Army Corps of Engineers, Federal Energy Regulatory Commission, and the Environmental Protection Agency. They assess, at least every six months, progress made and problems encountered in constructing the gasline system and make necessary recommendations to the Federal Inspector. Their goal is to facilitate construction of the gas pipeline system in a timely, cost efficient manner without undue environmental damage.

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FERC HOLDS ALASKAN COST ESTIMATE CONFERENCES: As previously reported (see Alaskan Newslines Vol. 3, No. 4), project sponsors submitted an application July 1 to the Federal Energy Regulatory Commission (FERC) for a certificate of public convenience and necessity to construct and operate the 743-mile Alaskan segment of the Alaska Highway Natural Gas Transportation System. In an August 1 order pursuant to the application, FERC reviewed the main points on which project sponsors have requested approval. These included the Certification Cost Estimate (CCE) and establishment of the center point for the incentive rate of return (IROR) determination, permission to use the indices in the Project Labor Agreement for deflation of direct construction labor costs, and actual third-party monitoring costs.

The Commission agreed with project sponsors' request to "utilize notice and comment procedures, rather than adjudication, to resolve these particular matters."

The Commission recognized that, although certain of the matters relating to final certification are pending, such as the marketability of Alaskan gas, and the relationship of project costs to those stated in the President's Decision and Report to Congress, other outstanding matters relating to the IROR mechanism for the Alaskan segment must be resolved as expeditiously as possible. Therefore, the Commission is instituting a special series of technical conferences to assist in this determination.

Chairing the conferences will be John Adger, head of FERC's Alaska Gas Project Office (the Alaskan delegate). Richard Berman, Director of the Division of Audit and Cost Analysis of the Office of the Federal Inspector, will co-chair the conferences.

In conjunction with the Commission's August 1 notice, a procedural conference was held September 3-5 at FERC offices in Washington, D.C., where the Alaskan delegate discussed the handling of major design issues which could materially

affect the cost estimate, and the possible cost consequences of resolution of those issues. Project sponsors consider the pipeline design contained in their July 1, 1980 filing to be a valid basis for considering the CCE, with the two exceptions discussed at the September 3-5 conference. These are changes in the pipeline route necessitated by the proposed DOI grant of right-of-way, and consideration of tunnelling rather than traversing the Atigun Pass. Northwest Alaskan is working to provide the Alaskan delegate with this new design and cost information prior to a final and complete review of the certification cost estimate for the project.

Project sponsors hope that all procedural matters are expedited in connection with reviewing the certificate application and have indicated that the cost and design information required on the above outstanding design issues should be available in October.

All parties are proceeding with an initial series of technical conferences to clarify and resolve the issues, beginning on a bi-weekly basis at the project management contractor's location in Irvine, California. On September 16-17, Northwest Alaskan briefed FERC staff on all the existing components of the CCE. The first technical conference will take place on September 30.

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INTERIOR SUBMITS RIGHT-OF-WAY GRANT TO CONGRESS: On August 19, the Department of Interior (DOI) submitted the project sponsors' proposed right-of-way grant to the jurisdictional congressional committees for review. In an accompanying letter, DOI's Assistant Secretary for Land and Water Resources, Guy Martin, requested a waiver of the 60-day congressional review period called for in the Mineral Leasing Act of 1920. Martin referred to "the national interest in expediting" the gas line project, and stated that the existence of the Federal Inspector in a monitoring capacity and the "benefits of the FERC certification process" obviate the need to hold up approval pending receipt of "greater levels of detail... a number of technical issues."

DOI believes that Northwest Alaskan has provided sufficient information to support the grant, and Martin informed the company that DOI finds it to be "technically and financially capable of fulfilling the requirements of the Mineral Leasing Act..." DOI also found that the proposal is "compatible with other uses in the (right-of-way) corridor in Alaska, including the TransAlaska Oil Pipeline System (TAPS) already located in that corridor."

However, DOI added two conditions to the grant relative to the gasline route and its relation to the TAPS oil line. First, the grant states that the two pipeline systems must be separated by at least 200 feet, instead of the 80 feet in the sponsors' proposal, except under specific conditions to be approved by the Federal Inspector. According to DOI, virtually all government reviewers of the company's proposal were in agreement that substantial delays would result in pursuing a route calling for an 80-foot separation, due to necessary additional work required to support such a separation. Key government officials indicated to the company that they were doubtful of ever approving an 80-foot spacing. Accordingly, Northwest Alaskan has altered its route planning to remain at least 200 feet from the oil pipeline except where terrain constraints dictate a closer distance. No schedule delays are expected as a result.

The second DOI condition provides for a mutual indemnification agreement between Northwest Alaskan and the TAPS owners covering damages which may occur in the corridor. Martin has stated that "the department believes that there must be a reasonable and equitable method of resolving issues involving damages between the two systems...determined by a reasonable division of responsibilities...based on the types of activities of the two systems." Northwest Alaskan and the TAPS owners are working together to formulate such an agreement.

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AFFIRMATIVE ACTION PLAN SUBMITTED TO FEDERAL INSPECTOR: Northwest Alaskan recently submitted a project Affirmative Action Plan (AAP) for the Alaska segment of the gasline project to the Office of the Federal Inspector (OFI) in Washington, D.C. The company's plan complies with each of the detailed requirements set forth in the equal opportunity regulations mandated by the Alaska Natural Gas Transportation Act and published May 12 of this year. It sets forth specific goals and timetables for both equal employment opportunity (EEO) and contract awards to Minority Business Enterprise (MBE) and Female Business Enterprise (FBE) firms.

In a September 5 notice in the Federal Register, OFI acknowledged receipt of the plan and stated that it has been initially reviewed but action to either approve or disapprove it could not be completed by the September 9 due date. OFI is taking additional time for review because of "the voluminous nature of the submittals and the complex issues presented therein." Although the plan is still under review, Northwest Alaskan is basing its present activities on the current document.

OFI also published a notice of proposed rulemaking in the September 11 Federal Register instituting procedures to enforce the equal opportunity regulations. The procedures cover compliance review, complaint investigation, conciliation and enforcement for both employment discrimination and contracting activities.

The procedures include periodic on-site inspections, investigation of all complaints, and written notice of any non-compliance. The primary enforcement measure will be conciliation, with injunctions and civil fines up to \$25,000 a day as alternatives in the event of continuing non-compliance. For blatant violations, used only as a last resort, work-stop actions may be ordered.

Since OFI and the Equal Employment Opportunity Commission (EEOC) have concurrent jurisdiction over EEO claims, the two offices propose a memorandum of understanding regarding employment discrimination which will allow OFI to devote most of its resources to affirmative action and take advantage of the EEOC's expertise in processing charges of discrimination. Public comment on the enforcement regulations is requested by October 10 and on the memorandum of understanding by October 14.

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TEMPORARY WORK CAMPS IN ALASKA ARE IN OPERATION: Four temporary work camps have been constructed in Alaska and are operating to augment pre-construction field activities for the Alaskan segment of the project. The camps, which can be relocated, were needed because the increasing number of people working on preliminary field programs exceeded available facilities.

The camps are set up along the gasline route north of the Yukon River for temporary housing and as operational bases for gas pipeline activities. The 78-man camps are located at Seven Mile, Prospect, Chandalar, and near Slope Mountain. The Arctic Slope Alaska General Construction Company, Inc., Alaska's largest minority construction firm, has been awarded a contract to supply and operate the camps for Northwest Alaskan. Another Alaskan firm, Modern Construction, Inc., has been awarded a contract to provide maintenance and fueling services to the camps.

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ALASKAN NATIVES TOUR COMPRESSOR STATION: Representatives of four Alaska Native Corporations located along the route of the gasline were guests of Northwest Alaskan Pipeline Company on a recent tour of right-of-way and compressor station facilities similar to those which will be constructed for the Alaska Highway Gas Pipeline Project. The facilities, located near Spokane, Washington, are owned by Pacific Gas Transmission Company which is currently involved in early construction of portions of the project's western U.S. leg in Washington and Oregon. Representatives of the Dot Lake Native Corporation; Tanacross, Inc.; Tetlin Native Corporation; and Northway Natives, Inc. attended the tour.

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For further information contact:

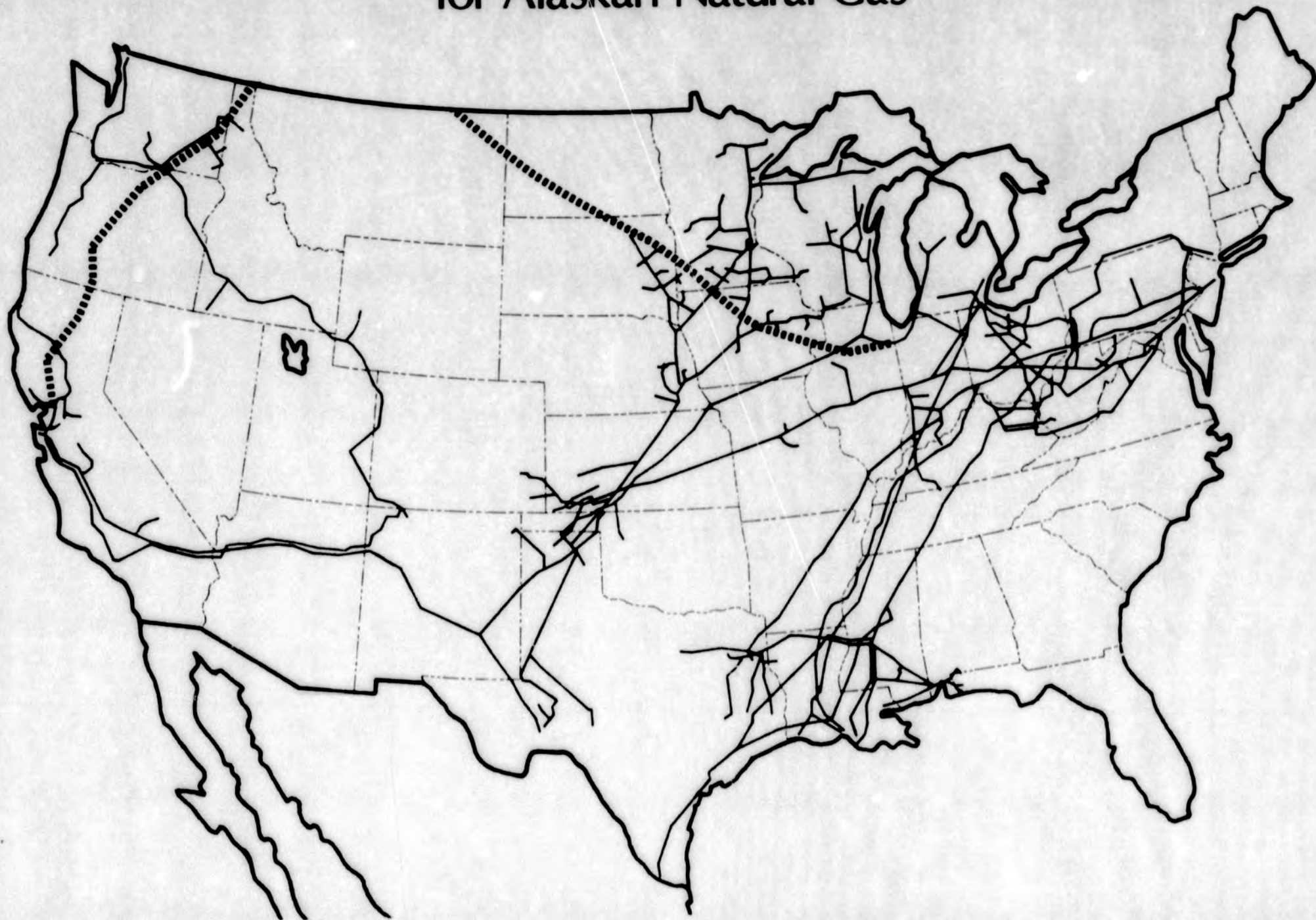
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U.S. Pipeline Partners: Delivery Systems for Alaskan Natural Gas



John G. McMillian

ADDRESS BY JOHN G. MCMILLIAN TO COMMONWEALTH NORTH *
October 5, 1979

Governor, distinguished Governors, ex-Governors and distinguished members of the House and Senate and the distinguished unbiased open-minded audience that we have here today and business leaders, its really a pleasure to be able to talk to you because I always look forward to my trips to speak in Alaska because a lot of times I've made trips here where I haven't been able to speak, so I always welcome the opportunity to speak to such business leaders and public leaders as yourselves. First I'd like to discuss the project to where we are today, where we are going, but to see where we are today and to look at where we plan on in the future. We might touch upon the history of what has happened to a brief degree.

As you will well remember we entered the competitive aspects of moving the Alaskan gas to the lower 48 market at a late stage in the proceedings. But we did that for a special reason. We realized the other two projects were in extremely difficult times and conditions, one had economic problems and environmental problems; the other one a similar situation -- the Arctic project -- but not to the same degree. Its problems were mainly in Canada. We recognized these problems and so we gave an ultimate choice to the Canadian Government, the American Government and to the citizens of Alaska. Clearly realizing it wasn't your first choice but it was a very...we hoped it would have been a very acceptable second choice. It was a very competitive hearing. There was a lot of strong feelings in Washington, more strong feelings in Alaska. Some of those feelings we haven't been able to overcome. I wish we could, but we haven't been able to. We were awarded the project by the President, it was ratified by Congress, the same situation transpired in Canada, their Prime Minister and their Parliament ratified the project. The treaty was agreed to between the two countries and ratified by our Congress. Our project is now set in concrete. It is going to be built. The two questions are when and how its going to be financed. With a commitment between both Canadian and American governments and with the monies that have been spent on both sides of the border, this project will be built. An unfortunate set of circumstances in the world entered--the situation in Iran--but in some ways this was fortunate to the project. It brought a national focus to this project and a national dedication from our President and Congress to this project and it is now the number one energy project in this country. We began with... we first started when we were awarded the project putting together an organization and doing special studies as to the geo-technical environmental work which was required here in Alaska. We also had some special federal governmental decisions to clear up in Washington. Unfortunately about

*Text is verbatim; questions, where necessary, are paraphrased.

that time the Department of Energy was established and the energy bill that we thought would take three months took a little over a year to complete. We worked hard on this energy bill because we believed and we still do believe, that it was really the foundation of this energy bill and the conditions that we worked to put into this bill, that help our project and to make it successful.

The two main items that we worked for, they were very helpful, was to establish a base price for the Prudhoe Bay gas and we think it was a favorable price for the state and to the producers. We pushed and worked hard for this price because we thought it was fair. At the time we start selling this gas, the price of Prudhoe Bay gas to wellhead will be somewhere between \$2.50 and \$3.50 per thousand cubic feet. That's compared to if we didn't have an energy bill and you had the normal vintage contract under the old FPC of about 50 cents or so the gas...we felt like you should have had a fair price and we worked towards it. We also worked on what we call the rolled-in marketing aspect of Alaskan gas. We realize that Alaskan gas will be more expensive than domestic lower 48 gas so therefore we had to average it in with all the lower 48 gas that is being sold in the United States so we achieved what we called the rolled-in marketing concept of Alaskan gas. It makes Alaskan gas clearly marketable under any energy costs. We also supported the state in the state's use of Alaskan...of the Prudhoe Bay gas, this is a first time... you are the first state that has ever had that privilege and we supported you on that. And I think our support was important because the UAW, not one of our favorite labor unions but one of the most powerful in Washington, gave us credit for seeing that the energy bill was passed because we made so many issues over Alaskan gas and we did put a full effort behind the gas and from your competitors to get that kind of compliment for doing those things that I've mentioned, we feel that we worked hard and I hope you will remember that.

The other things that have happened that have given our project momentum and given a new direction and importance to the federal governmental community in Washington, is the reorganization bill where a federal inspector's office was established. That was recently done, a federal inspector has been confirmed by Congress. We think he is a very good man, his name is Jack Rhett, he is ex-Corps of Army Engineers. Some of you have met him. He is a very positive individual. He is a big-project man and realizing the problems of both government and environment and what it takes to get a project done -- we are very pleased with the selection and our working relationship with this man.

The other item that has been established which we think is positive for the project is two strong partnerships have been established. We have a U.S. partnership where there are six of the largest gas transmission companies in the United States are members of this group. I think most of you know who they are; they are Northern Natural, United Gas, ourselves, PG&E and PG&T and United Gas. In addition to that on the northern border which is our eastern leg of the project, it will be announced and they have been accepted, and we are working on a definitive agreement now. That Trans-Canada, the largest pipeline in Canada, will join the United States portion with an Eastern leg with a thirty percent interest in that leg, that portion of the project. Now it seems at first that's a large percent to give a Canadian company in a United States line but they are bringing so much to the project that we, the membership and partnership, thought it was well worth giving them that percentage to have their participation in the project. What they are bringing to us is what we call the pre-building concept where we will pre-build the two lower eastern/western legs of the project in an earlier time frame. We expect around the first of November the Canadian government will enter a export...will make an export decision to export to us over a billion cubic feet of gas per day of surplus Canadian gas. And at that time what we will do and we think its the same export concept will be approved by our federal government and if that is so, we will start construction of the lower portions of the system in 1980 and we hope to have the western leg completed in 1981 and the eastern leg completed in 1982. This does several things for the project. It increases the throughput of the lower system by one-third so our unit cost of transportation will be lower. It allows us to pre-build at a lower cost in the inflationary times we now face and it allows us to finance the entire project by segments and so it will not be such a strain on the financial market at one time by spending some nearly 2.3 billion dollars on the lower portion of the United States line and some 800 million for the Canadian portion. I think that your distinguished senator from Alaska, and he is a very good senator, Ted Stevens, had a meeting with the Alberta Premier here this week in Washington with Senator Jackson and members of the Energy Commission, I think from that talk and those talks it was clearly made to our Congressmen those distinguished Senators that pre-building was in the best interest of Canada and they wanted to pre-build and we think that that meeting was beneficial and that some concepts were discussed that we think are reachable that will insure the pre-building. Once the pre-building is done the Alaskan project is going to be done and has to follow.

The other item that we think is important that we have achieved since being awarded the project was that the group of American companies that I mentioned has spent over 130 million dollars on pre-engineering, pre-planning work. This is a lot of money. Our total expenditures before we lay our first joint of pipe will be some 600 million dollars and that will include a lot of field work, a lot of geo-technical work, a lot of environmental work, a lot of surveying; but it will be in the 600 million dollar mark before we lay our first joint of pipe. Before we can receive our definitive certificate we will have spent over 400 million dollars on this project. Now these monies are being put up by the transmission companies that are involved which shows their confidence in the project. Likewise a similar amount is being spent in Canada doing the same things that we are doing in the lower 48.

The other positive development was the FERC decision on our incentive rate of return. This was a frustrating delay which took seventeen months of hearings, of filing of briefs, of arguments with the FERC that should have taken three or four months but again we were in the same time frame of the energy bill being established. There was uncertainty and re-organization in this department as to what the national goals and policies would be but we finally achieved an incentive rate of return that we think is very acceptable and favorable to the sponsor of the project. We are able to earn up to 17 1/2 percent as a center point on the equity investment that we'll be making after taxes on this project and when you relate that to before taxes you are looking at some 35 percent of income and with the tax structure and investment tax credit and other factors you have to consider we consider that this is a very good opportunity for investment.

The other issue that was decided at this time was the tariff. The tariff is how and the basis of our financing for the project. Our tariff is a good tariff. It protects the debt participants very well, it, we wish it protected equity participants in greater detail better than it does but we think we can live with it. On the equity portion. We think the debt portion is fully covered and a very good tariff. We've heard about financial problems with the project. We have never been able to go to the financial markets until this time when our tariff had been established. Otherwise we would be wasting their time and our time. We are now doing this. We are now formulating our financial plan. We are now putting the plan together, we plan to have it together by the last quarter of this year, we plan to go to the financial markets by the first of next year. That is one of the reasons that I was encouraging the state to participate because of this time frame that we must meet. I will talk about that later on.

The other encouraging thing that we have had is the DOI's approval in principal of the alignment that we had proposed for the project conditioned upon the many geo-technical and environmental concerns that we both must solve together. We are working with the government on this in a positive manner. They are helpful. We hope to have these achieved in the near future and so far everything has been going well on these issues thanks to the federal inspector and the one window approach.

The other positive aspects of the project that we think is very important is the three major oil producers on the North Slope have entered into gas contracts with the major transmission companies. We think that this now gives us a better basis for expanding the group of participating transmitting companies - we have six today, seven counting Trans-Canada. I think that we will probably have somewhere in the range of nine to ten members in the consortium when its finally, the structure is finally complete.

The timing of the project, the timing that we can meet and we are hoping to meet is Prudhoe gas deliveries to the lower 48 in the 1984-85 winter heating season, that will be November 1984. We believe we can meet that schedule if the governmental decisions are made timely which they seem to want to achieve. We have also a problem of the gas processing plant. That issue has been spoken to in a recent decision where FERC has determined that the producers will bear the processing cost. We believe that that issue is negotiable depending upon the participation of the oil companies and the financial structure of the project. And it has been so stated.

We are now negotiating with the oil companies, we are negotiating in a positive manner and we think that they will participate with us. The way we planned to approach the financing of the project is of course our companies, the transmission companies, will put in the equity of 25 percent we will borrow debt of 75 percent from the conventional sources---insurance companies, commercial banks, supplies credit, foreign sources included. The, we have asked the oil companies to form what we call an over-run contingency in case our cost estimate is exceeded by an amount and we are talking to them along that basis where they will be the backup for an over-run contingencies not where those dollars will be donated to the project but those dollars they put in as an over-run contingency if an over-run does occur where that will be part of the permit structure where those companies will recover those monies in time with interest.

They didn't give us a chance to earn any monies on this wonderful project, what are you going to do. We said fine, we'll try to structure something of that nature and we did as a participating preferred stock that approaches or equals what the common equity would earn on their stock and it was a participating preferred because it was allowed the premium or the interest or the coupon or whatever you want to call it, is allowed to fluctuate with all profits in an upward manner, if that is what happens. It was a preferred stock and that we didn't feel the state could have a voice in management since they were one of the regulators of the project and so there would be a built-in conflict, you can't be an owner and regulator at the same time and we were giving them the best what we considered of both conditions in offering them 500 million of preferred stock in this manner. This second concept I've never even been able to explain. I haven't gotten through today, I don't think I'll ever explain it. I read your Daily News this morning. And after all this time, and after all this controversy and after all these debates they referred to one billion dollar guarantee asked by the State. We have never asked that, and I still know we haven't got that, we asked for a billion dollars for the state to be a conduit for a billion dollars of tax-free bonds where the project would be the credit for those bonds, not the State. The State would receive a bonus or income for being the conduit and we never could get this accepted in a clear-cut manner that we felt we could go to Congress with. In the first session, the first time we came up here we brought a lot of representation up here, we had hearings, we brought our experts up here, we brought the investment bankers up here, we brought the commercial bankers up here. We had hearings. We testified - we laid out the project and plans as clearly as we could and we said fine, but we need our own experts, they went out and hired their own experts, their experts came back and told them basically the same thing. Well we don't believe that expert, we need another expert. Also we heard last year you are putting too much pressure on us. You got too many lobbyists up here. You got a TV film down there, why don't you quit running that TV film, everybody is calling us. Okay, we said, we hear you, if we can't get it like we want this session we'll work on it next session. We went to them and said we'll pull the lobbyist off, we'll pull this off, we'll low-key it and we'll be able to work with you. We went to them the next session. Told them what do you want. Same thing, we're here to get it done like in a low-key manner. Wish you'd of give us more notice. The only thing we're interested in now is early adjournment, that's the main goal we got to do whether we do anything or not--is early adjournment. You know, you get a little frustration when those things happen. Very frustrating. So we said

So if we meet that date of 1984-85 we will start our major civil construction work in 1981 and start laying pipe in 1982. This will require us to file for our final certificate in the latter part of June 1980. And we plan to meet that goal. We plan to have our final certificate approved from FERC six months thereafter and with those two events in place. And when we say that we do file for our final certificate that means that most of our engineering work will be complete, our financing will have to be in place, our other critical issues that make the project successful have to be determined, have to be reviewed before the regulatory agencies and approved. So that's roughly our time schedule. We hope that the producers--and we are talking to the oil producers--that are going to be responsible for the gas processing plant can meet that same schedule. But whatever the schedules are for the gas processing plant we of course will have to meet those schedules.

I'll talk about the gas processing plant, I hear some people are interested in it, I'll speak to that later.

First I'd like to talk about the Presidential decision that was approved by Congress, and it has been approved by Congress. And I know some people might not accept that but that's the way it is. This mandates to us several things, one of them is it clearly states that the beneficiaries of the gas sale should participate in the financing of the project. This mandates to us to approach both the producers and the state to solicit and ask for their support. This we have done. This we have done, been doing for two years with the state of Alaska and I'd like to review a little bit of that history. Some of the parties here might remember it, they might remember it differently, but I'm telling you how I remember it. It's been a very frustrating two years, but we came down here telling you, telling Alaska, 'okay we knew we weren't your first choice. We were hoping we were your 2nd choice. But its kinda looking like we weren't even your second choice. Well, we are here to work with you and we want to work with you, and we opened our arms and we opened our hand and say let's work together. We met with your Governor and he had fourteen points that he wanted us to agree to before we started talking about financing. We discussed those points. We agreed to those points. And we've lived up to those points and everything we've done in Alaska, like Alaska hire, Alaska contractors, everything else. If you will follow our record we've lived up to them until this time. We've withdrawn our proposal for a lot of reasons, but we went to you and we talked to the people and we talked to the representatives in government and tried to structure something that would be workable and feasible for the state. The first thing we heard was you know the worse thing about Alyeska they didn't give us a chance to participate in the project.

well wait a minute why don't you give us a chance, why won't you hear us? We need it clean, what you've given us has so many strings on it it means nothing. And said well maybe we'll have a special session, maybe we'll do this. Okay we'll work with you in special session, we'll stand ready, and it was implied by some sources that we would be able to do this in special session. Special session came up. Its controversial, we don't want to talk with you. I said okay, but I'm asking for a special session, I request a special session, I'm still waiting for their answer. So this is the frustrations I've gone through trying to work with the state, this is the reason that I withdrew that offer because fully realizing that its become so public now and we stretched over so far backward to give the state what we felt like was a minimum commitment to and a favorable commitment to participating in the financing. I mean the taxfree bond, a nothing type situation. We were receiving a lot of criticism and time from congressman saying, 'wait a minute, what you are saying, you are getting the state of Alaska to finance on taxfree bonds, but you are not, you are asking the citizens of the United States to finance you on that because you are giving up part of your tax basis that the rest of the country enjoys and they are not doing anything. And so, realizing the controversy that was arising, the publicity that was arising, I wrote the Governor and said, and after not hearing from asking for a special session to meet the time frames we have to meet I told the Governor we are withdrawing our proposal, it was not acceptable, we had to acknowledge that fact, we had to notify the President of that fact that we did not think that we would be able to get this plan and I said other financial support from the State of Alaska. Because after these frustrating years with being fluffed around I still feel that way. I would like to work with the State of Alaska, I would welcome the opportunity to do something positive.

I have talked to the Governor recently, I am going to meet with him to see if we can do anything. We won't do it on this basis that I just mentioned. I think, I couldn't explain the taxfree bonds, I still couldn't, your morning papers show that, a lot of citizens show that this is an obnoxious approach but you own 1/8 of the gas if you own and want the gas and want to use it in the state, I'm going to mention the suggestion that you put up 1/8 of the project. Let's think about it. You'd receive 1/8 of the benefits and it might not be too bad.

Well, we are going ahead and we're going to build our financial structure around the State of Alaska, and we think we can do it if we have to, there might be special things that we have to go through in Congress, we hope we don't, but if we do, we'll do it. We think we can work with the oil companies and we're working positively with that and we want to do that now. So that's how I view the trials and tribulations of the State

financing that we've recently gone through.

The other things that I'd like to talk about is the future course of action, we plan to expand our consortium, we plan to increase our expenditures, we plan to do everything we can to meet the schedules that I've mentioned to you with government approvals, with other factors involved. I think we can.

As a future course of action with the State of Alaska, we'd like to work with you. We've been down here for two years telling you we want to work with you, we've agreed to all of your points that you brought forth and would still agree to points that we could work with you. But you have to face reality and that reality is it's been very difficult and the way things have gone in the past it might not be feasible.

The processing plant. Line pressure issue has been brought up. There is no way in the world that this gas can be transported from Prudhoe Bay without a gas processing plant at Prudhoe Bay. Now that has to be. You have to dehydrate the gas, you have to get the water out of it, you got to get the heavy elements out of the gas, you have to get the CO₂ out of the gas before you can transport it, or you have all kinds... you cannot build a transportation system, unless you do all that. Your hydrates, your design problems, your corrosion problems--nobody would build a pipeline under those conditions, nobody would finance it, we wouldn't put equity in it. So a processing plant of some kind has to be at North Slope.

Straddle plants, processing plants, are all over the U.S.; that is where a plant is built across a line or system where certain elements, petrochemicals and so forth. The design that we have proposed, 1260 pound pressure design is what we believe is the state of the art that is now available for the pipeline industry that can be done by private citizens and be done by private financing. This issue was very hotly and controversially debated in the Arctic Gas days when they had a 1680 pound pressure design and that's the reason--one of the reasons--they had to insist on governmental support. If our line pressures did change to any degree we would have to do the same thing because we would not stand the risk of an uncertainty of an investment in an unknown system. Especially after the Canadian government had made the decision that 1260 pounds is the state of the art today and that's why they approved it. If we exceed that I don't know how to explain to our financial sources, we wouldn't. And so that's why we would have to ask for government. We think we have an optimum design for you, we think its an optimum design if you want to build a petrochemical plant. We have enough ethane in that system to get two or three world size petrochemical complexes. Ethane is your main petrochemical base we've heard said...well but that's a world glut of ethane.

That's right. It's cheap. It's all over the world and it's going to get worse and you're not putting the real goodies in the stream for us because your pressure is too low. Tell me what those are. Nobody has told me what those real goodies are. Nobody's told me what kind of petrochemical plant they're going to have. Nobody's told me where there is a concrete project for a petrochemical plant, if there is, we'd like to see it. But anyway, it doesn't make any difference to us because we're taking gas at the tailgate of that processing plant. Now you might have a 500-mile gathering line someplace and that is alright with us but we're taking gas from the tailgate of the processing plant. That is where we are designing our system. But a petrochemical complex can be built, you have the ingredients in the gas stream to do so. Sometimes I wonder why the issue has been so sensitive or why it hasn't been thoroughly studied out because you have to have a processing plant on the North Slope and I think if you look at it they will tell you that. Let me look at my notes to see if I left out anything. If not, I'll try to answer some questions for you. Those are the main things I had to mention, anybody has any questions I'll be glad to try to answer them.

Q Mr. McMillian if the state were to withhold its 1/8 royalty share from the pipeline entirely would your financial experts tell you that your project is still financially feasible?

Well, how are you going to withhold them? You going to leave them in the ground? If Alaskan gas is going to be transferred on this system, this is an intra-state system, their tariff will be charged at Alaskan gas. You might not like that tariff. That tariff can be adjusted and negotiated and it could be a favorable tariff and it could be a very unfavorable tariff, I'd say that if Alaska doesn't participate or do something positive it would be unfavorable, but then you got to say how are we going to do this, if you want to leave it in the ground--leave it in the ground. Because we'll produce what the reservoir will produce which we think at the time we will be producing gas will be around 2.4 billion--our studies, although 2 billion has been approved we think at the time it will be around 2.4 billion. Now there are a lot of people that do this in the oil business. They leave their gas in the ground and let the other operator take their gas out and that's all right. We'll do that, but, yes we can do it on the volumes that are there for the reasons that I mentioned, the rolled in pricing of the things.

Q Bonding authority legislation - local hire

We withdrew the whole concept of the bonding authority. That's what I tried to make a point to you because we don't think that will ever go, that we will ever get that done. We've accepted that fact, we've withdrawn it completely. We have also withdrawn the 14 items that we told you we'd do and work with you on because we think if we re-negotiate we are going to re-

negotiate those too. But its not true that we haven't used local contractors and its not true that we haven't used local labor because we have done that. We have hired R & M that has done most of the field work we have done up here and Nortech has done a lot of the work up here and Frank Moolin built the 7 million dollar permafrost installation in Fairbanks. Everything that we have done in the field and every bit of work we have done here has been with Alaskan contractors, Alaskan labor and Alaskan people and we will continue to do that, not because we negotiated it, but because we think it's in our best interest to do so, and we're going to use them when they are available because its in our best economic interest to do so.

Q (inaudible)

You are asking me for a lot of specific detail that I'm not familiar with maybe somebody here knows but I know we haven't made an effort on right-of-way -- a major effort.

Q Foreign investment -- tell us about your trip to Germany and discussions with bankers there.

Well, I think -- we not only visited Germany, we visited France and we visited Italy, we visited Japan, we visited all the major industrial centers and major world money markets. In our discussions with Germans, it is probably the most aggressive economy in the world today, the state of Alaska was not the major topic of discussion, we said they may or may not, but it was in our opinion that they would not participate in the project. Our main talks and negotiations with the banks were upon if we buy German materials and supplies supplier-type credit that could be furnished and more important to us would be your dollar or deutsch mark type of financing that would be available to the project. Upon those phases we reached a very optimistic market with where we thought were positive results where we felt like a billion dollars of debt financing could be obtained in the German market without too much trouble.

Q Why through Canada -- when Trudeau -- communist visited China. Why go through foreign country?

Well, I'm supporting this idea for a lot of reasons, one reason I just returned from Communist China. We have established relationships with that country and I don't think that just because he was there a year or two ahead of us as Americans that should condemn him for that purpose. I think that viewpoint is so out of date, so obsolete, so ridiculous that I hate to comment on it. But I will comment on it. Our two governments are more dependent upon each other more than ever. The Canadian government now is on the energy positive supply basis, they furnish 2.7 billion cubic feet

to us every day with our new application it will be 3.7 billion. That's nearly twofold of what has been approved from Prudhoe Bay. The Canadians transport 40% of their gas from western Canada to their eastern Canada markets to the United States. They transport 100% of their Canadian oil through the United States to their Canadian markets. Now if we don't have security by that, you don't have any security. Now we think doing business with Canadians is very reasonable, its the thing to do, they have the energy resources, we've been doing business with them for a long period of time, they are reliable people and it was the best approach. You had three projects--two of them through Canada, one of them through Alaska, and I know how you feel about it, but it wasn't economically viable, it wasn't environmentally, it wasn't there--so the two projects that were really viable were through there and it was for the reasons that I mention, I mean its more economical and you got a good relationship with those people. Jesus, we can't, Trudeau is not even there any more and we are going to Red China now.

Q Sir, given the animosity towards your project in the State, why isn't it in your best interest to try to encourage the petrochemical site and give us an ongoing economy here rather than writing the President to cut it off?

Well, I'll tell you, I don't think I'm going to improve my PR or hurt my PR efforts here but I think I started at base zero and we worked hard on it for a year or so and may be at base zero after a year and may be minus and we decided we had to make our views known a little stronger and I think we are still at the same base and I think we're still at the same base today. But we don't discourage your petrochemical plant. If you want to build one there, go ahead and build it. That's what I said. I mean build it. You have enough components to do it but we are restricted on what we can build and if you think if you are going to come to me and say, 'build me a 1680 pound line up to the North Slope because I can get a little bit more down here, but I don't have a plan for it, I don't have a financial responsible company to support, that I only have a dream for that...we want you to spend several billion dollars to make this system so that I might have something to do,' when you don't even give me the time of day on a taxfree bond! What do you expect me to do? What do you expect any reasonable man to do? But I'm here to help you and I'm going to work with you if I can (laughter)...But if I got to hit you over the head with a baseball bat and if you want to hit me over the head with a baseball bat, you do it and we'll butt heads all day. If we can work together I want to work with you and I want to do it but the way you have been working I don't see how you can ask anything. But I'm still willing.

Q Regarding tariff - what will be the tariff for gas taken off in-state? for in-state use?

Well its a...you must realize there are different concepts on this but when a pipeline is built from point A to point B like this will be a 15 billion dollar project, and I should mention this I forgot to mention this in my main speech, we plan in 1984-85...dollars time completion our estimated cost will be over slightly six billion dollars in Alaska. Six billion in Canada and the remainder in the lower 48 with the pre-building we talked about so within those frames we are looking at a \$6 - \$6.50 gas delivered to the market with a, say, somewhere around \$2.50 to \$3.00 for the wellhead price for your gas. So the remainder of that \$6.50 will probably... is transportation tariff for the entire system. Now there's never been a tariff built or established in the world unless its under unusual circumstances where you have an mcf/mile basis. Usually the investment for the entire system is taken into account on a tariff adjustment. Granted the lower...the less distance you transport gas can be adjusted because part of the horse power requirements, the fuel requirements, other requirements down in the lower part of your system can be adjusted for and the tariff will not be the same whether you take the top or the bottom there is an adjustment to be made. But to come up with an exact figure on what that would be right now, I don't have those figures. But I'd say you'd still be looking in an order of magnitude of 4 to 5 dollars, in that range to be adjusted.

Q What impact will recent gas contracts signed with Mexico have on your project?

It completely...from the...still the diehards of the El Paso project that are here it's probably another cloud over your dream and that it did fill up the capacity of help fill up the capacity of the El Paso system where their concept of transferring gas reserves throughout the United States is a no longer a viable option. Not that it was, but it just made it less of an issue. But we were the contract that was discussed with us. We told them what would happen in Canada. We asked if they could modify the reaction from the Canadians on the price, it would be appreciated, but as far as opposing it, we didn't, because it was a political issue that we were glad to see out of the way. The volumes of gas from Mexico we do not consider competitive, there are 300 million a day initially. They hope to get two billion, its in effect a 90-day contract. We don't think it will seriously effect the marketability of the Alaska gas because of the time frame we are talking about. I think our supply will be so much more secure than their supply and I think that we will be competitively priced. Because if you look at the world prices and new gas prices in the United States, new oil is

going for \$30 a barrel, new gas is going to \$4.00 per mcf with escalations tied to OPEC oil so I think we will be competitive and so we're glad to see it over as an issue.

Q Impact of Kennedy for President movement on the Northwest project?

Well, like the Governor said, you know, you have trouble with elections, you have trouble writing letters too. But I think there is no doubt about it, the President has problems, the polls indicate that. I don't think...I think the Kennedy battle, the Carter battle; is not as the polls indicate. I think once Kennedy steps into the arena you're going to see a different reaction from the press. You're going to see a man that is going to have to face the issues, he is going to have to speak to his own record in the Senate, his own leadership role and so that I do not think that battle is as clear cut as most people indicate. Then you come to the general election and there is going to be a very difficult race. Like the Governor and I were talking: if Connelly and Kennedy are there you'll probably see one of the more exciting races than you have ever seen. If Reagan and Carter are there, I don't think it will be quite as exciting. But it is always a risk. Next question is what will they do to our project and I don't think they will do anything because the project has been set in concrete. We have approval of the Congress, we have an agreement between the two countries and an agreement in Parliament; so the majority of our support and the majority of the tension we receive on the project, because the individuals are all worried about other items; now is from Congress. And so we wish them both well, but it'll be a good race. Any other questions?

Q You mentioned the \$6 - \$6.50 gas to market, what would be the retail price normally to the consumer if it were not rolled in? What would be a normal markup from whole-sale to retail price for gas?

Well its not marked in that manner. Our business is a regulated business and our profits are generated from the investment we put into a system to transport the gas. The same with the distribution companies that you have down in the lower 48. I mean you have a gas distribution company and he makes a 10 million dollar investment he gets a certain rate of return on his 10 million dollars. And so the price of gas is given to him at what the wellhead price is, what the transportation cost is delivered to his point of delivery. The profit is made on the investment that we make so there is no markup on gas as referred to, but the profit does vary by how the regulators change our rate of return.

Q What is the normal investment return. What is the normal add-on of the distribution.

Well \$6.50 price I mentioned to you includes to the burner tip, or to the factory, or to the point of entry. That is the average over the United States, that wouldn't be exactly it. Today what is the national average - it approaches the \$2 mark. More expensive energy coming on all the time will vary that greatly.

Q On that issue, was your \$6.50 the rolled-in price or the actual Northwest price before it gets rolled-in?

It's an actual delivery point at the end through the transportation systems in eastern/western United States and that's an average. I mean it might be \$6 in California, \$6.85 or something there.

Q On the Royalty gas issue, there has recently been a lot of discussion about the State building a separate gas liquids pipeline, an 18 inch pipeline from the North Slope to tidewater carrying just the gas liquids to develop a separate petrochemical industry, if the State got involved in something like that which would involve taking it's entire 1/8 in the form of gas liquids in effect leaving Northwest with 7/8 of the gas to transport. What would the effect be on the project, the financing schedule, so forth?

It would probably be helpful if the State would approach that seriously. Because I think they would then realize economical problems they are facing and economical liability of their talks and dreams and they would realize some of the problems we are now facing and they would maybe be a little more sympathetic to us.

Q Mr. McMillian you say that you have withdrawn your offer but you say you are still willing to work with the State, forgetting all the problems of the past, what is it now that you would like to have from the State from this point forward?

Well the first thing, I had talked to your Governor about this, I hope to meet with your Governor shortly. We had a basis for setting up a...with their consultants, with our financial consultant; and they hired a financial consultant, a very reputable one who we have never had the privilege of meeting with. Our committees have never gotten together to really work on things but we would hope that those committees could be activated where they could consider the time frame we are looking at then something could be done in a timely manner. We would approach it and from the past history, that we have to consider as we don't think that we could get the original concept, and we would be open to other approaches like the 1/8 approach. We'd be interested to hear what the State really wants to do, besides nothing, and if we can do that

we'll try to work it out. And if we can't, we will build around the State and then let the Federal government decide. We are just trying to fulfill a mandate that was issued to us. We wish could...we wish this issue was behind us, it should have been behind us two years ago, then you'd have had the best deal in the world and everybody would have thought you'd done the greatest thing in the world. It wouldn't be an issue. It would have really helped us too in that time frame, but as its gone, it hasn't helped us at all. But if we can sit down with the two committees and we can work something out. We're going to suggest the 1/8 basis because you have 1/8 of the gas and maybe that is easier to understand than the taxfree bond.

Q What is the projected life of the system?

It depends upon the gas reserves available to the system. We think that your North Slope of Alaska is one of the most prolific oil and gas reserves or potential reserves in the nation today. I think that this has been brought forth by the Dome discovery in the Beaufort Sea. One of the major North Sea-type fields in that area. We estimate on the North Slope where you have at least twofold, possible threefold, of your offshore fields could be tremendous reservoirs. AGA gives you a potential gas reserve of 225 trillion cubic feet of gas which is more than the entire gas domestic supply in the lower 48. So we think the potential is unlimited for you there. What we are building is not a pipeline to take Prudhoe Bay gas. What we are building is a gas energy corridor to the North Slope of Alaska. So we think it has that potential. But the financial life of the project is what you usually go by is initially put on twenty years, but of course, with the gas supply you have there you have about 25 to 30 years of existing gas supply at Prudhoe.

(Question by former governor William Egan)

Q As a layman, it seems to me that your frustration often expressed with the State of Alaska not being cooperative in this venture seems to hinge around the fact that the State hasn't rushed in to substantially help finance this project. Is it normal for you and other states and companies like this to come in and pound the table and demand that a State substantially finance a project for companies that have hoped to develop the people's resources, have the privilege of developing the people's resources at a profit? That is what I have not been able to get through my mind, this frustration, so called frustration with the State of Alaska.

So called a privilege, I wonder if it is a privilege. And but I don't think two years is really rushing in. I don't think our initial approach was pounding the table. I think

our initial approach was very conciliatory. We agreed to all of your points and every time we turned around you muffed in our face. You delayed us. You pushed us back, you didn't even give us the time of day. So after two years of that, yes, I think its time to draw the line when we have a time schedule that we must meet and we had a mandate that we must meet and you read the same mandate. And so I think it's very fair and I think for you not to recognize the time restraints and everything else that we have, is unfair.

Q But my question was, is it the normal thing for a company to demand from a State to help finance their project?

But I didn't demand this, the President did. The Congress did. That's why you got the intrastate use of the gas. That's why you have the wellhead price you have.

Q Does the President or the Congress, do they have the right? What would happen in any other state if they demanded that of a state?

They would not have those privileges. But if they had, they might. When you have that privilege, you can hardnose as much as you want to but they regulate you and they are going to tell you what you are going to get...and a....

Q You mean to say the Treasury of Utah is going to finance any particular project...the Governor and legislature would descend on Washington right now - I think you would agree with that.

It depends on the project and it depends on the basis of income. You are getting 70 billion dollars in a gas sale.

Q The State of Alaska hasn't gotten that yet.

But you are not going to get it until the system is built.

Q There are other things involved.

Any other questions.

Q As I recall, presentations to the FPC, I believe your company said no financing from the federal government.

We did not ask for federal guarantees, that's correct. We asked for private, the opportunity to privately finance this system for several reasons. The first reason is that on our equity investment that we put into this system. Now we have the opportunity to earn 17 1/2 percent which is a very favorable rate of return. I think that if we had a federal guarantee,

the rate of return we would be allowed to earn would probably be something that we wouldn't accept and wouldn't be interested in building the system. I think also that with a federal guarantee, well if you like d-2 and if you are happy with d-2, let the government build your pipeline and that will be what would be happening with federal guarantees. The government would be building this pipeline and I don't think you will receive the handsome returns that you are now able to enjoy on your wellhead pricing for your gas and we won't get what we want on our equity. The debt holders will not get what they want on our loan - their bonds. They would be selling government bonds. They won't be selling industrial bonds or indentures. So that's the reason we approached, that we believe it can be done, and we are going ahead on that basis.

Q Mr. McMillian, you mentioned pre-build for the eastern/western leg, will that affect Alaska building schedule?

Yes, well one, our market - the U.S. market - will absorb the surplus Canadian gas and so we think it's a -- the market is there. The time frame difference allows us to approach the markets in different time frames and which makes the financing easier from that stand point. Which also allows you to space out your construction people, your equipment spreads and other things that make it more efficient for construction and so we think it's a good separation and can be handled.

Q So you don't have any expected delay for construction in Alaska.

No, no, it expedites, it strengthens financial prospects of the project greatly.

Q Suppose the equity investment concept was dropped but the state approved use of the revenue bonds, would that be okay?

Well one part without the other doesn't make a whole, for us to ask, the taxfree bond concept was for one reason, it opened a different market but also opens more difficult problems with Congress.

Q Would it be possible to make arrangement with the State wherein the concept of equity investment remains dropped, but the state comes back with a larger amount of tax-exempt bonds?

Well, no, we think you ought to have both because really what you are offering. The tax exempt bonds is not really a financial burden on the state, it is a financial plus and if we go

to Congress and say look how the state of Alaska participated in this they've given us all the tax free exempt bonds. And this doesn't effect our profit. Let me tell you that. All that it does effect, I mean that aspect, the interest aspect on debt, is passed on to consumer. So whether we sell 14% bond or 10% bond it doesn't effect our profit. It does effect the consumer. So we thought for that reason it would be acceptable. We thought it would open additional market. But I think to go in with a larger element where the controversy has now been created by ourselves on this issue, where it could have gone through very smoothly at one time, now I don't think it will. Now I think you will have difficulty with it, expecially if you don't put some other form of financing in such as a preferred equity, because really you are giving nothing. And we tried to make it as easy as possible but it didn't go.

Q I hear you talking about a solid project with 17 1/2 percent equity, why don't you just go ahead and build the project and forget about the state of Alaska?

We are, but somebody else is not going to forget about you.

Q You mentioned \$2.50-\$3.50 per SPF wellhead price for state of Alaska producers but what concerned me was the gas plant at the North Slope, do producers pay the cost of conditioning?

Well I told you that to me is a negotiable item, I think it still is. I think a lot of factors here are negotiable but right now the way it stands it is the producer's and the state's burden to process the gas. The state can argue with the producer as to whether it's theirs or not but I think that price is gross, is not net of processing and right now you are looking at 100% of the processing cost. I think that that can be varied. I understand that we are running short of time.