

SCOMM

28:2

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

CONTRACT BETWEEN

STATE OF ALASKA
ALASKA STATE LEGISLATURE
Pouch Y
Juneau, Alaska 99811

AND

LAZARD FRERES & CO.
One Rockefeller Plaza
New York, New York 10020

The parties to this agreement are the Alaska State Legislature, on behalf of the Alaska State Legislature's Joint Gas Pipeline Committee, hereinafter referred to as the "AGENCY", and LAZARD FRERES & CO., hereinafter referred to as the "CONTRACTOR".

WHEREAS, the Joint Gas Pipeline Committee and the Alaska State Legislature desire to consult with appropriate financial and legal experts, and obtain expert opinions on the economic feasibility of the proposed natural gas pipeline and alternative methods by which the Legislature may wish to assist timely and prudent use of Alaska's natural resources, including gas and gas liquids,

THE PURPOSE OF THIS AGREEMENT is to provide specialized financial research and consulting services to the Alaska State Legislature through the Joint Gas Pipeline Committee.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I - STATEMENT OF WORK

(A) The Contractor shall provide to the Joint Gas Pipeline Committee and to the Department of Natural Resources expert financial opinion on the desirability of various methods for providing financial assistance to the gas pipeline project, including but not limited to direct State participation. The Contractor shall provide three quarterly reports on the status of financing arrangements for the gas pipeline project, the perceived marketability of Prudhoe Bay natural gas, and other factors which could affect the timely construction and operation of the gas pipeline. Such opinion shall be made after discussions with appropriate federal

government agencies, lenders, Northwest Energy Company and other interested parties as may be deemed necessary. The three quarterly reports may be delivered as oral presentations to the Joint Gas Pipeline Committee or as written progress reports. The first shall be delivered by October 15, 1980; the second by January 21, 1981; and the third by April 15, 1981.

(B) The Contractor shall further provide a final written report on or before June 30, 1981. Copies of the quarterly reports, if written, and the final report shall be sent to the Co-Chairmen of the Joint Committee, the Committee members, the Project Director, the Commissioner of Natural Resources, and the Legislative Library.

(C) All reports, correspondence, graphs and other documents prepared under this Contract are the property of the Alaska State Legislature, and it shall have the full right to use these documents for its purposes, or otherwise, when and where the Alaska State Legislature may designate without any claim on the part of the Contractor for additional compensation.

(D) The work shall be done in accordance with generally recognized standards of professional consulting services. In the event that any work does not meet these standards, the Agency may serve written notice and satisfactory correction shall be made within ten (10) days. Failure to complete work on time shall result in liquidated damages of One Hundred Dollars (\$100) per day, except for delays due to causes beyond the control without fault or negligence of the Contractor. Liquidated damages shall not exceed the total payments allowed under the Contract and may be deducted from payments that are owing.

(D) The Agency may terminate this Contract upon written notice of the necessity for doing so and payment shall be made for any satisfactory work. Any dispute concerning a question of fact that relates to the Contractor's performance, if not disposed of by agreement between the parties, shall be decided by the Co-Chairmen of the Committee. This decision, unless appealed to a court of competent jurisdiction within ninety (90) days of the completion or termination of the Contractor, shall be final and conclusive.

CLAUSE II - WRITTEN REPORTS

As provided for in Clause I (A) and (B), the Contractor's opinions and advice will be in written form, including findings and recommendations, to the Committee.

CLAUSE III - PROJECT DIRECTOR

The Project Director shall be Duncan Read, Director, House Research Agency, or his designee, acting on behalf of the Joint Gas Pipeline Committee.

CLAUSE IV - PERIOD AND DATES OF PERFORMANCE

The work under this Contract shall commence on July 1, 1980, and expire on June 30, 1981. Performance may be extended for additional periods by mutual written agreement of the parties.

CLAUSE V - COMPENSATION AND METHOD OF PAYMENT

In full consideration of the Contractor's performance hereunder, the Joint Committee shall pay the Contractor the customary fees not to exceed a total of \$100,000 (One Hundred Thousand Dollars). Billings may be submitted to the Agency on a quarterly basis and shall include appropriate time records of the Contractor. No more than 50% of the maximum charge under the Contract shall be paid out in advance of the acceptance of the final work product by the Committee Co-Chairmen.

CLAUSE VI - OTHER CONTRACT PROVISIONS

It is understood that the Contractor is an investment bank with numerous, historic relationships with oil producing companies, oil and gas transmission compsnies, and refiners. It is understood that the Contractor is not obligated to terminate ongoing relationships with such companies and may without restriction enter into new relationships with such companies in the future. The Contractor shall be obligated, however, to inform the Agency of any arrangements which may present a conflict of interest, and upon receipt of such information the Agency may, if it so desires, terminate this Contract without penalty. Contractor knows of no current or prospective circumstance which would present a conflict of interest in providing objective expert financial advice.

Nothing in this Contract shall prevent Contractor after completion of its report from participating in the ultimate financing agreements of the Alaska Gas Pipeline Project.

LAZARD FRÈRES & Co.

ONE ROCKEFELLER PLAZA
NEW YORK, N.Y. 10020

CABLE ADDRESS 'LAZARD NEW YORK'
TELEPHONE (212) 489-6600

NEW YORK

July 28, 1980

Dr. Robert E. LeResche
Commissioner
Department of Natural Resources
State of Alaska
Pouch "M"
Juneau, Alaska

Dear Bob:

I will outline my thoughts regarding the services that our firm can provide to you and the Pipeline Committee in the following months.

Let me start with the description of the overall problem as I see it:

As I mentioned earlier to you, I believe the broad description of the State's objective is the maximization of values of the State's resources. At the present time, there are three separate but interrelated "projects" which are involved in the sale of gas, all of which come under the broad heading of maximization of values.

1. The gas pipeline itself,
2. The gas-conditioning plant, and
3. the stimulation of a petrochemical industry.

While the economics and financing of a pipeline, a gas-conditioning plant and a petrochemical works can each be viewed separately, from a strategic point of view, they should be looked at together. For example, in each of these three "projects" the State may or may not wish to play a role. Or, perhaps, if the State plays a large role in one aspect, it may wish not to play a role in another. Each has an impact on the States revenues and each could receive some form of State encouragement, financial or otherwise.

During this past year we have focused on various alternatives for State participation in the overall pipeline project and submitted our report last November. As we all know, much has happened since November and most recently with the signing of Phase I Agreement between the producers and sponsors.

Dr. Robert E. LeResche
Commissioner
Department of Natural Resources

July 28, 1980
Page 2

Over the next twelve months we would expect that a number of financial plans will be put forth by various players with respect to the overall project. The State will be called upon to express its opinion and may well be called upon to play a financial role.

In addition, inasmuch as the State has committed itself to study its possible role in financing of a gas-conditioning plant, specific proposals must be studied and developed. Finally, as the State has solicited invitations for proposals for a petrochemical industry based upon the gas liquids generated by the pipeline, such proposals must be reviewed.

✓ All three aspects outlined above should be reviewed together, if at all possible, not only from the technical engineering point of view but from the financial point of view.

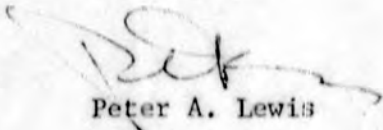
What I would propose to you, Bob, is that we be assigned the task for a twelve-month period of advising the Pipeline Committee and yourself on the financial implications of the various proposals that are put forth on all three aspects. This will entail our attending meetings in Washington and in Alaska, as necessary.

✓ As part of this program of effort we would specifically be prepared to develop a financial plan for the gas-conditioning plant and to comment on the financial feasibility of the proposals you receive for a petrochemical industry.

I will be coming to Alaska the first week in August and would like to discuss with you and others how we might proceed along these lines or along other lines which you might deem more appropriate.

With best regards,

Sincerely,


Peter A. Lewis

PAL:g

AMENDMENT NO. 2

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

and

BIRCH, HORTON, BITTNER & MONROE
1127 West Seventh Ave.
Anchorage, Alaska 99501

IT IS MUTUALLY AGREED THAT THE CONTRACT BETWEEN THE ABOVE PARTIES
DATED October 1, 1979 IS HEREBY AMENDED AS FOLLOWS:

CLAUSE III, Paragraphs (A)(1) and (A)(2) is amended to read:

CLAUSE III -- COMPENSATION AND METHOD OF PAYMENT

(A)(1) Total payment for the work referenced in Clause I shall not exceed \$55,000, inclusive of all expenses, which, for the work under Clause I, shall be the sole responsibility of the Contractor.

(A)(2) Payment for the work referenced in Clause I and described in the Contract shall be due and payable to the Contractor in accordance with the following schedule:

22 monthly payments of 2500.00 each, the first payment due and payable on September 30, 1979 and successive payments due on the last day of the succeeding months thereafter.

IN WITNESS Thereof, the parties have executed this amendment to this agreement on dates indicated below.

BIRCH, HORTON, BITTNER & MONROE

LEGISLATIVE AFFAIRS AGENCY

Ronald G. Birch 10/3/80
Ronald G. Birch Date

M.R. Charney Date
Executive Director

Approved:

Approved as to form:

Senator Mike Colletta
Senator Mike Colletta Date

Billy G. Berrier Date
Agency Legal Counsel

Representative Bill Miles 10/3/80
Representative Bill Miles Date

AMENDMENT NO. 1

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

and

BIRCH, HORTON, BITTNER & MONROE
1127 West Seventh Avenue
Anchorage, Alaska 99501

IT IS MUTUALLY AGREED THAT THE CONTRACT BETWEEN THE ABOVE PARTIES DATED October 1, 1979, IS HEREBY AMENDED AS FOLLOWS:

CLAUSE II, Paragraph (A), page 1 is amended to read:

- (A) This Agreement shall commence on September 1, 1979 and continue through June 30, 1981. This Agreement may be terminated by either party on written notice to the other.

IN WITNESS WHEREOF, the parties have executed this amendment to this agreement on dates indicated below.

BIRCH, HORTON, BITTNER & MONROE

LEGISLATIVE AFFAIRS AGENCY

Ronald G. Birch
Ronald G. Birch (5/27/80)

Ronald G. Birch Date

M. R. Charney
M. R. Charney

M. R. Charney Date
Executive Director

Approved:

Approved as to form:

Bill Miles 4/1/81

Representative Bill Miles Date
Project Director

Billy G. Berrier

Billy G. Berrier Date
Agency Legal Counsel

Mike Colletta 28 Aug 80

Senator Mike Colletta Date
Project Director

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

CONTRACT BETWEEN

STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY
Pouch Y
Juneau, Alaska 99811

AND

MARK WITTOW
630 W. 8th Avenue, #208
Anchorage, Alaska 99501

The parties to this agreement are the LEGISLATIVE AFFAIRS AGENCY, on behalf of the Alaska State Legislature's Joint Gas Pipeline Committee, hereinafter referred to as the "AGENCY" and MARK WITTOW, hereinafter referred to as the "CONSULTANT".

THE PURPOSE OF THIS AGREEMENT is to provide specialized research and consulting services to the Alaska State Legislature through the Agency.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I - STATEMENT OF WORK

The Consultant shall provide the Alaska State Legislature with specialized research and consulting services relating to oil and gas, gas pipeline development, petrochemical development, and related policy areas, particularly with reference to preparation of studies authorized by the Agency.

CLAUSE II - PERIOD OF PERFORMANCE

(A) The period of this contract shall be from September 1, 1980, through January 15, 1981, unless extended by written agreement or terminated in accordance with (B) of this clause.

(B) This contract may be terminated by three (3) days written notice of either party to the other party.

CLAUSE III - COMPENSATION AND METHOD OF PAYMENT

(A) Payment for work performed under this agreement shall be at the rate of \$2,556.00 (Two Thousand Five Hundred Fifty-six Dollars) per month, exclusive of expenses.

(B) Billings for all work and requests for reimbursement of expenses shall be submitted monthly to the Project Director for approval.

(C) The Consultant shall be reimbursed by the Agency for travel expenses authorized in advance by the Project Director. Air transportation shall be reimbursed at coach class fares and per diem expenses at prevailing State rates.

(D) Total payments under this contract, including expenses shall not exceed \$12,000.00 (Twelve Thousand Dollars).

(E) Office space and equipment necessary to carry out the work designed in Clause I of this agreement shall be provided by the Agency at no cost to the Consultant.

CLAUSE IV - PROJECT DIRECTOR

The Project Director shall be Senator Mike Colletta, and Representative Bill Miles, Co-Chairmen of the Joint Gas Pipeline Committee, or their designee.

CLAUSE V - REPORTS

The Consultant shall keep the Project Director informed as to the progress of work performed under this agreement and shall provide written reports as specified by them.

CLAUSE VI - RECORDS, DOCUMENTS, AUDIT

The Consultant shall maintain accurate records, including detailed time records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times. All documents, reports and writings produced in the course of the work performed under this contract are, upon delivery to the Agency or at the termination of this agreement, the property of the Agency.

CLAUSE VII - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates indicated below.

CONSULTANT

LEGISLATIVE AFFAIRS AGENCY

Mark Wittow 9/5/80
MARK WITTOW Date
AK BUSINESS LIC. 98004

M. R. CHARNEY Date
EXECUTIVE DIRECTOR

Accepted:

Approved as to form:

Mike Colletta 28 Aug 80
SENATOR MIKE COLLETTA Date
Co-Chairman Joint Gas
Pipeline Committee

BILLY G. BERRIER Date
AGENCY LEGAL COUNSEL

Bill 9/9/81
REP. BILL MILES Date
Co-Chairman Joint Gas
Pipeline Committee

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

CONTRACT BETWEEN

STATE OF ALASKA
ALASKA STATE LEGISLATURE
Pouch Y
Juneau, Alaska 99811

AND

INSTITUTE OF SOCIAL
AND ECONOMIC RESEARCH
UNIVERSITY OF ALASKA
Anchorage, Alaska

The parties to this agreement are the Alaska State Legislature, on behalf of the Alaska State Legislature's Joint Gas Pipeline Committee, hereinafter referred to as the "Agency", and the INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, hereinafter referred to as the "Contractor".

THE PURPOSE OF THIS AGREEMENT is to provide specialized professional economic and governmental consulting services in the area of natural gas policy, petroleum refining and petrochemicals manufacturing in Alaska to the Alaska State Legislature.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I - STATEMENT OF WORK

(A) The Contractor shall provide to the Joint Gas Pipeline Committee the series of written reports described in Clause II of this agreement. One hundred copies of the final reports shall be delivered to the Project Director for distribution to members of the Legislature, the Legislative Library and others. In addition, a copy shall be delivered separately to each of the Co-Chairmen of the Committee.

(B) All reports, correspondence, graphs and other documents prepared under this contract are the property of the Alaska State Legislature, and it shall have the full right to use these documents for its purposes, or otherwise, when and where the Alaska State Legislature may designate without any claim on the part of the Contractor for additional compensation.

(C) The work shall be done in accordance with generally recognized standards of professional consulting services. In the event that any work does not meet these standards, the Agency may serve written notice and satisfactory correction shall be made within ten (10) days. Failure to complete work on time shall result in liquidated damages of Two Hundred Dollars (\$200) per day, except for delays approved in advance by the Project Director. Liquidated damages shall not exceed the total payments allowed under the Contract and may be deducted from payments that are owing.

(D) The Agency may terminate this Contract upon written notice of the necessity for doing so and payment shall be made for any satisfactory work. Any dispute concerning a question of fact that relates to the Contractor's performance, if not disposed of by agreement between the parties, shall be decided by the Co-Chairmen of the Committee. This decision, unless appealed to a court of competent jurisdiction within ninety (90) days of the completion of the Contract or the termination of the Contractor, shall be final and conclusive.

CLAUSE II - WRITTEN REPORTS

(A) The first general report shall be a primer on fuels refining. The report will provide analytical descriptions of technology, feedstocks and sources, markets, industrial organization and structure, and financing and regulation, with special attention to issues related to costs and benefits of proposed investments in Alaska. The report is to be written in lay language, as a background for policy deliberations by state officials, legislators and other citizens. The reports, together with the report described in (B) of this Clause, will be similar in scope and style to the 1978 ISER report, "Introduction to the Gas Industry, with Special Reference to the Proposed Alaska Highway Gas Pipeline." The Contractor shall deliver to the Project Director a draft of the report by January 15, 1981. The Contractor shall deliver the final fuels refining report by January 31, 1981.

(B) The second general report shall be a primer on hydrocarbon processing and petrochemicals manufacture. The report will provide analytical descriptions of technology, feedstock and sources, markets, industrial organization and structure, financing and regulation, with special attention to issues related to costs and benefits of proposed investments in Alaska. The report is to be written in lay language, as a background for policy deliveries by state officials, legislators and other citizens. The report, together with the report described in (A) of this Clause, will be similar in scope and style to the 1978 ISER report, "Introduction to the Gas Industry, with Special Reference to the Proposed Alaska Highway Gas Pipeline." The contractor shall deliver to the Project Director a draft of the report by February 15, 1981. The final petrochemicals manufacture report shall be delivered by February 28, 1981.

(C) The Contractor shall also prepare three topical reports on policy issues of immediate Alaska concern. These three reports are intended to be issues or discussion papers, ranging from fifteen to thirty pages in length.

(i) The first topical report will examine possible methods of governmental assistance to proposed development in Alaska based on the use of Prudhoe Bay natural gas and natural gas liquids. The report will examine the policy and broad economic implications of the following types of governmental assistance: the state giving priority for instate processing for royalty hydrocarbon disposal; the State giving priority for instate marketing for royalty hydrocarbon disposal; tax exemption options; state loan guarantees; tax-exempt financing; construction and operation of infrastructure facilities; provision of state or local services, e.g. provision or authorization of promotional rates for utility services; state purchase guarantees for a portion of plant output; and other means of state assistance. The draft of the first topical report will be delivered by March 15, 1981. The final version of the first topical report will be delivered by March 31, 1981.

(ii) The second topical report will be an examination of the interrelationship of the proposed gas-based petrochemical project(s) and the Alaska Natural Gas Pipeline Project, with special attention to any unreasonable burden or jeopardy the pipeline project might encounter through development of the petrochemical projects, and means by which any burden or jeopardy might be alleviated. The draft of the second topical report shall be delivered by April 15, 1981, with the final report delivered by April 30, 1981.

(iii) The Contractor shall also provide a third topical report at the request of the Project Director on behalf of the Joint Gas Pipeline Committee. It will be completed within two months of its being requested.

(D) The Contractor will keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE III - PROJECT DIRECTOR

The Project Director shall be Duncan Read, Director, House Research Agency, or his designee, acting on behalf of the Joint Gas Pipeline Committee.

CLAUSE IV - PERIOD AND DATES OF PERFORMANCE

The work under this Contract shall commence August 15, 1980, and expire on June 30, 1981. Performance may be extended for additional periods by mutual written agreement of the parties.

CLAUSE V - COMPENSATION AND METHOD OF PAYMENT

(A) Total payments for the work described in Clauses I and II shall not exceed \$50,000 (Fifty Thousand Dollars, inclusive of all expenses.

(B) Payment for the work referenced in Clause II(A), the first general primer on refining, shall be due and payable to the Contractor on delivery of the report in the amount of \$16,525 (Sixteen Thousand, Five Hundred and Twenty-five Dollars). In the event that the report is delivered late, the penalty charge described in Clause I(C) shall apply.

(C) Payment for the work referenced in Clause II(B), the second general primer on petrochemicals manufacture, shall be due and payable to the Contractor on delivery of the report in the amount of \$16,525 (Sixteen Thousand, Five Hundred and Twenty-five Dollars). In the event that the report is delivered late, the penalty charge described in Clause I(C) shall apply.

(D) Payment for the work referenced in Clause II(C), the three topical reports, shall be due and payable to the Contractor on delivery of each of the reports in the amount of \$5,650 (Five Thousand, Six Hundred and Fifty Dollars) for each report delivered. In the event that any report is delivered late, the penalty charge described in Clause I(C) shall apply.

CLAUSE VI - RECORDS, DOCUMENTS AND AUDIT

The Contractor shall maintain accurate records, as may be required by the Agency. The records are subject to inspection by the Agency at all reasonable times.

CLAUSE VII - CONFLICT OF INTEREST

(A) The Contractor affirms that it does not represent, own any beneficial interest in, or have any professional business relationship with:

Northern Natural Gas Company
Northwest Energy Corporation
Panhandle Eastern Pipe Line Company
Pacific Gas and Electric Company
Pacific Interstate Transmission Company
United Gas Pipeline Company
The Standard Oil Company (Ohio)
British Petroleum
Exxon Corporation
Atlantic Richfield Company

or any firm or organization holding an interest in natural gas reserves in the Prudhoe Bay Field.

(B) The Contractor shall immediately notify the Project Director in writing of any events that would require an amendment of this affirmation or tend to create a conflict of interest.

CLAUSE VIII - LOBBYING DISCLAIMER

The Agency and the Contractor agree that the only services to be provided under this contract are the provision of information, analysis, and advice to the Legislature; the Contractor, nor any subcontractors, is not authorized or permitted under this Contract to represent the Legislature, its members, committees or staff agencies before Congress or any other legislative, administrative, or judicial institution.

CLAUSE IX - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates indicated below.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY

Lee Gorsuch 9/30/80
Date
INSTITUTE OF SOCIAL
AND ECONOMIC RESEARCH
Lee Gorsuch, Director
IRS I.D. # _____

Date
M. R. CHARNEY
EXECUTIVE DIRECTOR

Accepted:

Approved as to form:

Date
DUNCAN READ, DIRECTOR
HOUSE RESEARCH AGENCY

Date
BILLY G. BERRIER
AGENCY LEGAL COUNSEL

Mike Colletta 30 Sept 80
Date
Senator Mike Colletta
Co-Chairman Joint Gas
Pipeline Committee

Howard Cutler 9/30/80
Date
HOWARD CUTLER
CHANCELLOR, UAF

Bill Miles 10/2/80
Date
Representative Bill Miles
Co-Chairman Joint Gas
Pipeline Committee



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

June 30, 1981

MEMORANDUM

TO: File (at request of Susan Brody)
FROM: Mark Wittow, AA
Joint Gas Pipeline Committee *MW*

I have talked with Lee Gorsuch of ISER several times throughout the past three months concerning ~~this~~ contract. We agreed that it would be wise for ISER to conduct oral briefings in late summer or early fall on the substance of their primer and topical reports. We also agreed that the review draft of the primer would receive scrutiny and comment and that a final report would be turned in by August 30, at the latest.

We also agreed that a third topical report on worker health and safety issues should be completed by mid-summer. No firm dates were established.

A draft of the topical report submitted under clause II(c)ii was submitted in early June and was returned with comments and suggested revisions.

The topical report required under Clause II(c)i of the contract has been replaced by Chapter 8 of the primer, which discusses in detail the same issues. This section of the primer is above and beyond what is required for either the primer or topical report.

All of the above discussions took place before June 10, 1981.



Alaska State Legislature

Jt. Gas Pipeline Committee
1024 West Sixth Ave.
Anchorage, Alaska 99501
907-279-1243

December 12, 1980

Peter Lewis
Lazard Freres & Co.
One Rockefeller Plaza
New York, NY 10020

Dear Mr. Lewis:

Clause I of your contract with the committee states that you are to provide the committee with quarterly reports on the progress of financing arrangements for the gas pipeline. You submitted your first quarterly report to the committee in September 1980, in written form. The second and third reports are to be submitted by January 21, 1981 and April 15, 1981, respectively. Since the legislature will be in session at that time, those reports may be delivered as oral presentations to interested legislators and the project director at a date within a few weeks of the dates stipulated in the contract.

Because of the sensitive nature of the financial discussions between the advisors to the Prudhoe Bay producers and Northwest Energy Co., we understand that you may be unable to publicly provide frank reports of the financial discussions. Please take whatever precautions are necessary to ensure your long-term effectiveness as the state's advisor.

Sincerely,

A handwritten signature in cursive script that reads "Mark Wittow".

Mark Wittow
Study Manager

cc: Senator Mike Colletta
Representative Terry Gardiner
Duncan Read, House Research Agency
Robert LeResche, Commissioner of Natural Resources

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

and

BIRCH, HORTON, BITTNER & MONROE
1127 West Seventh Avenue
Anchorage, Alaska 99501

IT IS MUTUALLY AGREED THAT THE CONTRACT BETWEEN THE ABOVE
PARTIES DATED October 1, 1979, IS HEREBY AMENDED AS FOLLOWS:

CLAUSE III Paragraphs (A)⁽¹⁾ & (A)⁽²⁾ Page 1 is amended to read:

CLAUSE III - COMPENSATION AND METHOD OF PAYMENT

55,000

(A) (1) Total payment for the work referenced in
Clause I shall not exceed \$~~25,000~~, inclusive
of all expenses, which, for the work under
Clause I, shall be the sole responsibility
of the Contractor.

(A) (2) Payment for the work referenced in
Clause I and described in the Contract
shall be due and payable to the Contractor
in accordance with the following schedule:

²² monthly payments of \$2500.00 each,
the first payment due and payable on
September 30, 1979 and successive
payments due on the last day of the
succeeding months thereafter.

IN WITNESS WHEREOF, the parties have executed this amendment
to this agreement on dates indicated below.

BIRCH, HORTON, BITTNER & MONROE

LEGISLATIVE AFFAIRS AGENCY

Ronald G. Birch
Ronald G. Birch
Date 5/27/80

M. N. Charney
M. N. Charney
Executive Director
Date 7/12/80

Approved:

Approved as to form:

Bill Miles 9/1/81
Representative Bill Miles Date
Project Director

Billy G. Berrier
Billy G. Berrier Date
Agency Legal Counsel

Mike Colletta 28 Aug 80
Senator Mike Colletta Date
Project Director

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

602

CONTRACT BETWEEN

STATE OF ALASKA - LEGISLATIVE AFFAIRS AGENCY
Pouch Y - State Capitol
Juneau, Alaska 99811

AND

LARRY ORSINI ASSOCIATES
P.O. Box 869
528 5th Avenue - Suites 216-218
Fairbanks, Alaska 99707

The parties to this agreement are the LEGISLATIVE AFFAIRS AGENCY, hereinafter referred to as the "AGENCY," and LARRY ORSINI ASSOCIATES, hereinafter referred to as the "CONSULTANT."

THE PURPOSE OF THIS AGREEMENT is to provide the Agency an economic and engineering feasibility study of using Alaska's North Slope natural gas; to implement the legislative direction and intent expressed in Chapter 80 SLA '79. Specific emphasis will be placed on developing potentials for maximizing job opportunities for Alaskans.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I - STATEMENT OF WORK

(A) The Consultant shall determine and present a written report on the economic and engineering feasibility of utilizing North Slope natural gas for in-state power generation. The report shall contain a statement of the determination reached and shall include a statement of the alternatives and factors considered in arriving at the determination. Further, the Consultant will identify and be prepared to present documentation and testimony to the legislature and/or appropriate regulatory agencies as to matters covered in the report. The Consultant agrees to be available for the presentation of documentation and testimony under this clause and section for a number of days, not to exceed twenty (20), during a two (2) year period beginning on the date this contract is executed.

(B) The Consultant shall determine and present a written report on the economic and engineering feasibility of utilizing North Slope natural gas for in-state residential and commercial use. The report shall contain a statement of the determination reached and shall include a statement of the alternatives and factors considered in arriving at the determination. Further, the Consultant will identify and be prepared to present documentation and testimony to the legislature and/or appropriate regulatory agencies as to matters covered in the report. The Consultant agrees to be available for the presentation of documentation and

testimony under this clause and section for a number of days, not to exceed twenty (20), during a two (2) year period beginning on the date this contract is executed.

CLAUSE II - PERIOD AND DATES OF PERFORMANCE

The work under this contract shall be performed between June 30, 1980 and September 28, 1980 unless extended by mutual agreement of the parties.

CLAUSE III - PROJECT DIRECTOR

The project director shall be Senator George Hohman.

CLAUSE IV - COMPENSATION AND METHOD OF PAYMENT

(A) Total payment under this contract shall not exceed \$150,000.00 (One hundred and fifty thousand dollars.)

(B) \$30,000.00 (Thirty thousand dollars) shall be due to the Contractor on the date this contract is executed.

(C) \$60,000.00 (Sixty thousand dollars) shall be due to the Contractor on the date the project director accepts the Contractor's report required under section (A), CLAUSE I-STATEMENT OF WORK.

(D) \$60,000.00 (Sixty thousand dollars) shall be due to the Contractor on the date the project director accepts the Contractor's report required under section (B), CLAUSE I-STATEMENT OF WORK.

CLAUSE V - TERMINATION

This contract may be terminated by either party upon express written notice.

CLAUSE VI - OFFICE SPACE, EQUIPMENT, CLERICAL SUPPORT

Office space, equipment and clerical support of the Consultant that will be necessary to carry out the completion of this contract shall be supplied by the Consultant at no cost to the Agency.

CLAUSE VII - RECORDS, DOCUMENTS, AUDIT

The Consultant shall maintain accurate records, including detailed time records, as may be required by the project director. The records are subject to inspection by the Agency or the project director at all reasonable times. All documents, reports and writings generated as a consequence of the work done under this contract shall become the property of the State of Alaska and, on completion of the work or at the termination of this contract, shall be delivered to the project director.

CLAUSE VIII - RIGHTS

The Consultant shall keep the project director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by the project director.

CLAUSE IX - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates indicated.

CONSULTANT

LEGISLATIVE AFFAIRS AGENCY

LARRY ORSINI June 26, 1980 M. R. CHARNEY 6/30/80
Date Date

ACCEPTED

GEORGE H. HOHMAN June 26, 1980 BILLY G. BERRIER 6/30/80
Project Director Legal Affairs Agency Date

OPINION AND RECOMMENDATION

Regarding the State of Alaska
requisitioning further study
of the utilization of North
Slope natural gas for electric
generation, residential and
commercial use in Alaska

Submitted to:

LARRY ORSINI ASSOCIATES
Fairbanks, Alaska

By:

D. J. MOORE
Anchorage, Alaska

September 8, 1980

CONTENTS

<u>Section</u>	<u>Page</u>
Summary and Opinion	1
Scope of Work	4
Discussion Participants	5
Meeting Summaries	6
Task I-A Paragraph (a), Scope of Work	
Reference Material	11
Discussion	12
Task I-B Paragraph (b), Scope of Work	
Reference Material	14
Discussion	15
Task I-C Paragraph (c), Scope of Work	
Reference Material	11, 15
Discussion	16

Supplement A - Reference Materials (under separate cover)

SUMMARY

and

OPINION

Before a meaningful study can be conducted, as set out in Section I - Statement of Work to be Performed, Items (a) and (b), several crucial items must first be determined:

(1) At what point does the State of Alaska obtain title to its royalty share of North Slope natural gas, either in kind or dollar value.

(2) What specifically is the chemical composition of Alaska's royalty share of North Slope natural gas. Each component of this gas and its thermal value to the whole should be identified with the total thermal value of each unit of natural gas.

(3) What is the price of the gas, and at what point.

(4) What right does, or could the State of Alaska have to natural gas or components of separator gas, conditioned gas or pipeline gas belonging to shippers or producers of such gas downstream of the separator, conditioning plant, or in the Northwest Pipeline.

The problems associated with utilizing Alaska's North Slope royalty natural gas to the highest and best advantage are complex, with decisions to be made from legal, political, engineering and economic viewpoints.

One approach to Alaska's decision-making problem is to study the Province of Alberta's progress in the industry. Alberta

encountered very similar conditions and, with trial and error, together with economic and engineering procedures, has to date resolved the highest and best use of their natural gas to the satisfaction of all concerned.

Both Dow Chemical Canada and Dome Petroleum, Ltd. have world-scale operations in Alberta relating to pipeline gas and its components, with the Alberta Energy Corporation owning 33 1/3 percent of the ethane pipeline system. Alberta Energy Corporation is 50 percent owned by the Province of Alberta.

A physical survey of Alberta's integrated natural gas and oil industry by the State of Alaska Legislative Affairs representative would be extremely helpful in formulating a plan for Alaska, or for Alaska to obtain useful information as to a comparison relating to resultant studies by the Dow-Shell group, pertaining to their recently signed Memorandum of Understanding and Intent with the State of Alaska, over the signature of the Commissioner of Natural Resources.

Further, should the economics of Northwest Pipeline and the Dow-Shell study and related projects prove that, to economically market Alaska natural gas or components therefrom, the wellhead price may have no value or even be a minus amount, then the State of Alaska at least has the following options:

- (1) A rigid oil and gas conservation policy, requiring the producer to maintain a natural gas formation pressure maintenance program to return the gas to the formation, thus stimulating oil production, and in turn, the State's royalty.

(2) Obtaining a similar right to gas users in Canada (TIAS 9030) by way of an order so stating, from the Federal Energy Regulatory Commission. Swapping on a zero-BTU balance basis, methane for ethane, in amounts enabling the State of Alaska to supply gas processors in world-scale quantities at a reduced rate, or even zero cost, in which case, the State should then enjoy an equity position in consideration.

In any case, the State of Alaska should pursue the acquisition of the right, from the Federal Energy Regulatory Commission, equal to the right of Canadian users (TIAS 9030), to extract gas from Northwest Pipeline and swap on a zero-BTU basis. The aforementioned right would probably assist the Dow-Shell economics relating to their current study, in bargaining with the producers for residual amounts of ethane, propane, or butane, to satisfy necessary feedstocks for world-scale petrochemical operations.

We strongly recommend that the Legislative Affairs Department send a qualified and responsible delegation to Alberta for the purpose indicated above.

We will, as an ancillary addendum to our task, make the necessary arrangements and conduct a tour of Alberta's integrated natural gas industry, together with scheduling meetings with pertinent legal, political, engineering and business people.

SCOPE OF WORK

(a) The Consultant shall determine and present a written report on the economic and engineering feasibility of utilizing North Slope natural gas for in-state power generation.

(b) The Consultant shall determine and present a written report on the economic and engineering feasibility of utilizing North Slope natural gas for in-state residential and commercial use.

(c) Work to be performed in Section I, clauses (a) and (b) will be limited to the review of pertinent material received by the Department of Natural Resources, State of Alaska, Oil and Gas Division, as of this date, together with the Consultant's opinion regarding said material as justification for the State of Alaska to requisition formal studies as set out in clauses (a) and (b), Section I of this document.

DISCUSSION PARTICIPANTS

Mr. Robert Huffman, President Golden Valley Electric	Fairbanks, Alaska
Dr. C. E. Bhelke State of Alaska Pipeline Coordinator	Fairbanks, Alaska
Mr. William Richards, President Dome Petroleum, Ltd.	Calgary, Alberta.
Mr. Jack Bockman, Area Manager Northwest Pipeline Corporation	Fairbanks, Alaska
Mr. W. A. McBean, President W. A. McBean and Partners, Ltd.	Calgary, Alberta.
Mr. Dale Rusnell Chief of Power Development State of Alaska, Dept. of Commerce and Economic Development	Anchorage, Alaska

MEETING SUMMARIES

August 4, 1980

A meeting was held at 2:00 p.m. this date in the office of Mr. Robert Huffman, President of Golden Valley Electric. Present were Mr. Huffman, representing Golden Valley Electric, and Mr. D. J. Moore, representing Larry Orsini Associates. Purpose of the meeting was to discuss the feasibility of generation of electricity by utilizing North Slope gas as the energy source.

Mr. Huffman advised that while there may be many plus factors by the utilization of natural gas, the key to this scenario is missing, which is, the cost of the natural gas.

Mr. Huffman also stated that coal was costing approximately \$1.06 per million BTU's, with fuel oil \$3.40 per million BTU's. He indicated that with each 10 percent drop in the fuel cost, this would be reflected in a 3 percent - 5 percent drop in the electric rate.

The Federal Fuel Utilization Act 1977 indicates that except in special cases and existing electric generating plants, natural gas shall not be used as an energy source. Alaska is exempt from this ruling until 1990.

Golden Valley Electric will not compile economic feasibility studies with natural gas as an energy source until they can determine the cost of the gas at their plant gate.

August 5, 1980

A meeting was held at 2:00 p.m. in the office of the State of Alaska Pipeline Coordinator, Fairbanks, Alaska. Present were

Dr. C. E. Behlke, State Pipeline Coordinator, and Mr. D. J. Moore, representing Larry Orsini Associates of Fairbanks.

Purpose of the meeting was to discuss the utilization of North Slope natural gas for residential and commercial use.

Dr. Behlke advised that final design meetings regarding the gas conditioning plant and Northwest Pipeline were to be held in Fluor's Irvine, California offices, starting August 12.

He also advised that provision for the following pipeline taps would be made at the aforementioned meetings:

- one at Fairbanks
- one at Delta
- one at Agricultural area, Delta
- one at Dot Lake
- one at Tok
- one at Northway

He also advised that the chemical analysis of the pipeline gas, at current evaluation, would be as follows:

- 1 percent - carbon dioxide
- 91 percent - methane
- 4.4 percent - ethane
- 1.7 percent - propane
- .5 percent - butane
- 1.2 percent - iso-butane
- .2 percent - pentane and plus

The gas is expected to have a thermal value of 1100 BTU's per cubic foot.

Dr. Behlke also advises that the current line operating criteria is 2 billion cubic feet per day at 1260 pounds per square inch

minus ten degrees Fahrenheit.

No wellhead price has yet been established for the gas.

August 6, 1980

A meeting was held in the office of Northwest Pipeline at 9:00 a.m. Present were Mr. Jack Bockman, representing Northwest Pipeline, and Mr. D. J. Moore, representing Larry Orsini Associates.

Purpose of the meeting was to discuss provisions being adopted by Northwest Pipeline to enable North Slope gas to be utilized within the State of Alaska.

Mr. Bockman advised that pipeline taps would be provided for six communities, but that the cost of installation of the taps was not yet included in the capital cost of the pipeline.

He further advised that the cost of the pipeline had not yet been determined, nor had transportation charges been established.

August 22, 1980

A meeting was held in the office of W. A. McBean and Partners, engineers and designers of oil, gas and petrochemical facilities, on August 22, 1980. Present were W. A. McBean, representing his company, and Mr. D. J. Moore, representing Larry Orsini Associates.

Purpose of the meeting was to recap evaluations of the reference material

Conclusions promulgated by Mr. McBean and Mr. Moore were as follows:

(1) What right does the State of Alaska have to gas other than its 12½ percent royalty gas.

(2) At what point does the State of Alaska obtain title to its 12½ percent royalty gas.

(3) What components are included in a unit of the State of Alaska's royalty gas and the component's relation by volume to the whole unit.

(4) What is the price of the gas.

(5) What is the disposition of C-5 components and heavier, and how does the State of Alaska enjoy a highest and best use of these.

August 24, 1980

A meeting was held August 24th in the office of William Richards, President of Dome Petroleum, Ltd., Calgary. Present were Mr. Richards, representing Dome, and Mr. D. J. Moore, representing Orsini Associates.

Purpose of the meeting was to discuss the potential that Dome could see with regard to petro- and agri- chemical development from the State of Alaska.

Mr. Richards indicated that the interest that Dome would have was subject to the following:

(1) Price of the natural gas and components thereof.

(2) Availability of sufficient ethane to satisfy an olefin complex.

September 8, 1980

A meeting was held in the office of Mr. Dale Rusnell, Chief of

Power Development for the Department of Commerce and Economic Affairs, State of Alaska. Present were Messrs. Rusnell and Eblom representing the State of Alaska, and D. J. Moore, representing Larry Orsini Associates.

The purpose of this meeting was to discuss Section (a) of the Scope of Work (Page 4). Mr. Rusnell was concerned regarding two items:

(1) The number and location of proposed pipeline taps that would enable North Slope gas to be utilized for the generation of electricity; and

(2) The cost of the gas at the pipeline tap.

It was the opinion of Mr. Rusnell that Fairbanks was probably the only community that could be feasibly serviced by electricity derived from North Slope gas energy. However, this conclusion was merely hypothetical and dependent upon the cost of the gas at the pipeline tap. Conclusions reached from our discussions indicated that until the above indicated price was determined, that no meaningful approach to the generation of power by North Slope gas could be arrived at.

TASK I-A

Reference Material

TASK I-A Reference Material

1. Federal Energy Regulatory Commission Northwest Pipeline Pressure and Systems Design - Inquiry Paper, By John Adger, September, 1978.
2. S. 2470, Powerplant Fuels Conservation Act of 1980.
3. Introduction to Electric Power Supply Planning, by Arlon R. Tussing and Associates, May 9, 1980.
4. Northwest Alaska Pipeline filing with Federal Energy Regulatory Commission - Pipeline Taps.
July 1, 1980.

TASK I-A

Summaries of the meetings, as set out on Pages with Mr. Huffman, President of Golden Valley Electric, and Mr. Rusnell of the State of Alaska Department of Commerce and Economics, and a perusal of the reference material (page clearly indicate that an economic and engineering feasibility study of this task would be meaningless, and until a price for gas at the pipeline gate can be established, the economics of such a proposal are impossible to determine.

Notwithstanding the foregoing, Congress has virtually eliminated natural gas as an energy source for the generation of power, by S. 2470.

The State of Alaska enjoys exemption from this law for established generating plants until December 31, 1990.

Congress has also made funds available (H.R. 6930) not to exceed 10 billion dollars, for the Fiscal Year ending September 30, 1982, to be used as grants for conversion of gas-fired power plants to coal energy and related expenditures.

The possibility of utilizing North Slope natural gas as an energy source in power plants is remote. Coal is simply the most economical at present, and North Slope natural gas is a unique composition, components of which can readily be converted to substances in market demand having an add-on value greatly exceeding their value as a power generating energy source.

However, the following tables are of interest:

(1) Summary of power load growth along the proposed Northwest Pipeline route to Big Delta, being approximately 90 percent of the projected energy requirements (El Paso); and

(2) Existing utility plant indicating generating capacity in the Tanana Valley.

Tok, Dot Lake and Northway have relatively small diesel energized plants.

Table 20

Summary of Load Growth Projections for Civilian and Military
Requirements Along Proposed Pipeline Route, 1980, 1990
By 1974 Alaska Power Survey

	Generation 1972		Projected Requirements			
	Peak Demand 1000 KW	Annual Generation Million KWH	1980 Peak Demand 1000 KW	1980 Annual Generation Million KWH	1990 Peak Demand 1000 KW	1990 Annual Generation Million KWH
<u>Civilian</u>						
<u>Location and Utility Abbreviations</u>						
Fairbanks Area ^{1/}						
City of Fairbanks (FMUS)	21.0	90.0	51.8	221.0	161.1	687.3
Tanana Valley (GVEA)	45.9	211.0	131.0	610.0	379.0	1,790.0
Glennallen (CVEA) ^{1/}	1.2	5.4	3.2	14.0	5.2	22.8
Valdez (CVEA) ^{1/}	1.5	6.4	4.2	18.3	6.9	30.0
Cordova (CU) ^{2/}	1.3	5.8	2.3	10.1	4.6	20.2
<u>Military</u>						
<u>Location^{3/}</u>						
Fort Wainwright	15.0	50.1	15.8	52.8	17.4	58.1
Eielson Air Force Base	11.5	58.5	NE ^{4/}	65.0	NE ^{4/}	75.6
Fort Greely	3.5	14.3	4.1	16.6	4.9	19.9

Source: 1974 Alaska Power Survey, "Economic Analysis and Load Projections," pp. 63.- 77.

1/ Utility estimates from REA power requirements studies, and consultant's studies, generally through 1982, and extended to 1990 by APA at same growth rate.

2/ APA estimate based on 1972 generation and various growth assumptions.

3/ Data compiled by Headquarters, Alaskan Command, for 1974 Alaska Power Survey.

4/ Not estimable.

D. J. Miller

Table 21

Estimates of Annual Electric Utility Load Growth Projections
Prepared by the 1974 Alaska Power Survey

Estimate:	<u>Assumed Annual Growth Rate</u>		
	<u>1972-1980</u>	<u>1980-1990</u>	<u>1990-2000</u>
Higher Range	14.8%	9%	8%
Likely Mid-Range	12.3%	7%	6%
Lower Range	9.8%	6%	4%

EXISTING UTILITY PLANT AND ORGANIZATION: FAIRBANKS — TAHANA VALLEY

5.5.9

UTILITY	SERVICE AREA	CUSTOMERS	TYPE OF UTILITY	PRESENT AND PLANNED GENERATING EQUIPMENT	PEAK LOAD	DEMAND FORECAST
TAHANA VALLEY ELECTRIC ASSOCIATION (GVEA)	Fairbanks North Star Borough, including part of Fairbanks city; North Pole, Ester, Delta Junction, Healy, Clear, Anderson, Cantwell, Rex, McKinley Park, Ft. Wainwright, Eilson AFB.	15,000 retail	REA coop	Coal-fired steam turbine (Healy) 25 MW; Six oil- fired gas turbines 179 MW; 10 diesel 22 MW --- Total 226 MW Interconnections: FMUS, Fort Wainwright, Eilson AFB, U. of A.	850 KWH/mo/ customer (1979)	1983: 900 KWH/mo/ customer 1988: 100 kwh/mo/ customer
FAIRBANKS MUNICIPAL UTILITY (FMUS)	Fairbanks city limits	5,615 retail (1979)	Municipal utility owned by city of Fairbanks	Four steam turbines 8 MW Two oil-fired gas tur- bines 32 MW; three diesel 8 MW --- Total 68 MW Interties: GVEA, U of A	28.7 MW (1979)	n.a.

TASK I-B

Reference Material

TASK I-B Reference Material

1. Statement of Position Regarding Selection of Pipe, for the Whitehorse, Yukon to Caroline, Alberta Segment of the Foothills Pipeline System
2. Natural Gas Pipeline, Treaty between Canada and U. S. (TIAS 9030) (extraction)
3. Northern Pipeline Act, April 12, 1978, passed by the Canadian Government.
4. Alaska Natural Gas Transportation Act of 1976, U. S. Public Law 94-586
5. Alaska Statute 44.55.100, Alaska Gas Pipeline Financing Authority
6. Alcan Project - Cost Estimates, prepared by Exxon Company
7. Preliminary Proposal for Assuring the Future Availability of Natural Gas for Use in the State of Alaska, August 11, 1980, prepared by Alaska Gas and Service Company.
8. Alaskan Arctic Resources Project, prepared by Alaskan Arctic Resources Group, June, 1980.
9. Basic Considerations for Manufacture of Petrochemicals in Alaska, El Paso.
10. State of Alaska, Utilization of Royalty Gas, prepared by Bonner & Moore Associates, January 23, 1978, for the Department of Revenue.
11. Sales Gas Conditioning Facilities, Prudhoe Bay, Alaska, September 1978 Study Report, prepared by Ralph M. Parsons Group.
12. Memorandum of Understanding and Intent, signed by Dow-Shell and the State of Alaska.

TASK I-B

At the meeting with Mr. Huffman, Dr. Behlke, Mr. Bockman, Mr. Richards and Mr. McBean (Pages 6-10), together with a perusal of the refernce material (Page 14), the following must be accomplished before meaningful economics or feasibility can be determined:

- (1) Determination of North Slope natural gas price and/or its individual components.
- (2) Point or points of delivery of North Slope natural gas for this purpose.
- (3) Chemical content of the gas to be delivered.

The following references indicate potential in-state residential and commercial utilization of North Slope natural gas:

- (1) North Slope gas reserves.
- (2) Alaska Highway Pipeline Project map.
- (3) Expected gas composition at liquefaction plant.
- (4) Schematic flow diagram.
- (5) AARD exhibits and scenario.
- (6) Alaska Gas and Service Co. estimated 1980 natural gas demand for Fairbanks.

The communities of Delta, Agricultural Project at Delta, Tok, Dot Lake and Northway, are presently being considered for a pipeline tap facility and will be serviced with natural gas provided results of economic and engineering studies permit.

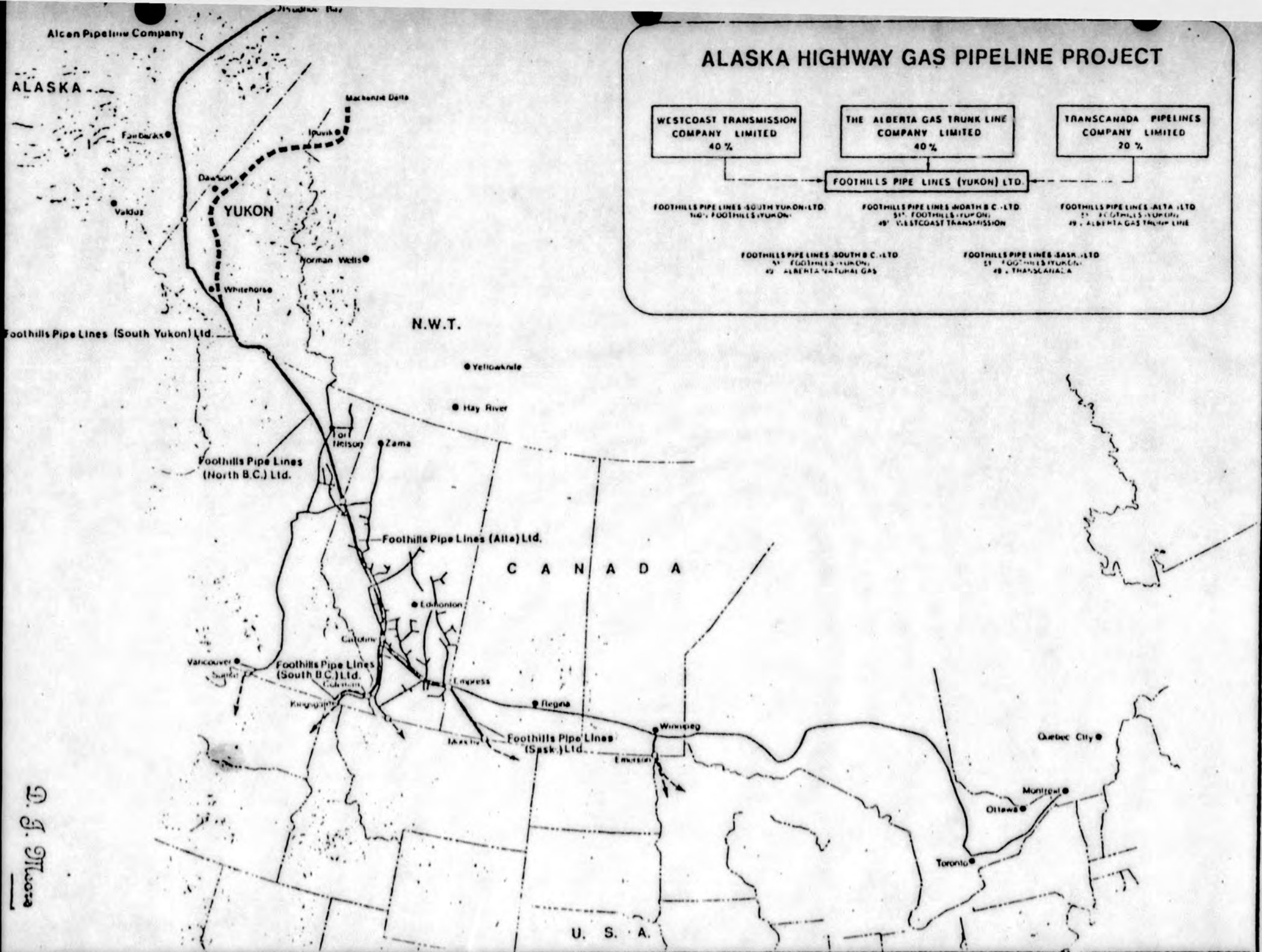
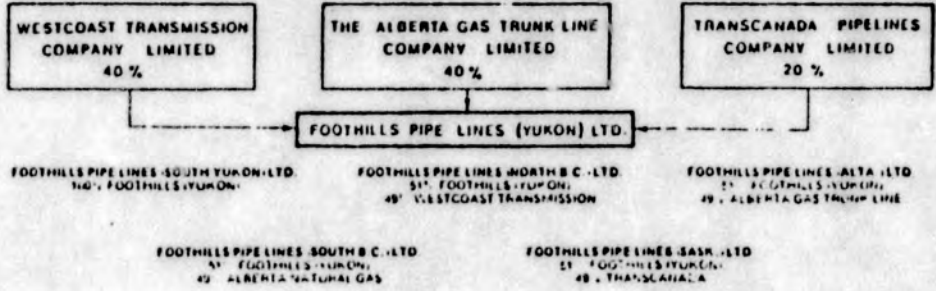
Table 1 - COOK INLET NATURAL GAS RESERVE

Estimates from the American Gas Association "Reserves of Crude Oil, Natural Gas Liquids and Natural Gas in the United States and Canada as of December 31, 1977," Volume 32, June 1978.

<u>Field</u>	<u>Ultimate Recovery (Trillions of Cubic Feet- 14.73 psia at 60° F)</u>	<u>Comments</u>
Total Alaska	33.241,606	Non-Associated and Associated-Dissolved
Prudhoe Bay	-26.000,000	(These fields are not in the Cook Inlet region.)
Kavik	- .300,000	
S. Barrow	- .025,000	
Gubik	- .004,000	
E. Umiat	- .008,000	
Subtotal	-26.337,000	
Cook Inlet	6.904	(Total Alaska minus non- Cook Inlet fields.)

Note: The engineers who compiled the above report did not include any estimate of natural gas in the following fields in Cook Inlet: Birch Hill, Falls Creek, North Fork and West Foreland. For reserve estimates made by other engineers in these fields, see Table 2.

ALASKA HIGHWAY GAS PIPELINE PROJECT



D. J. Moore

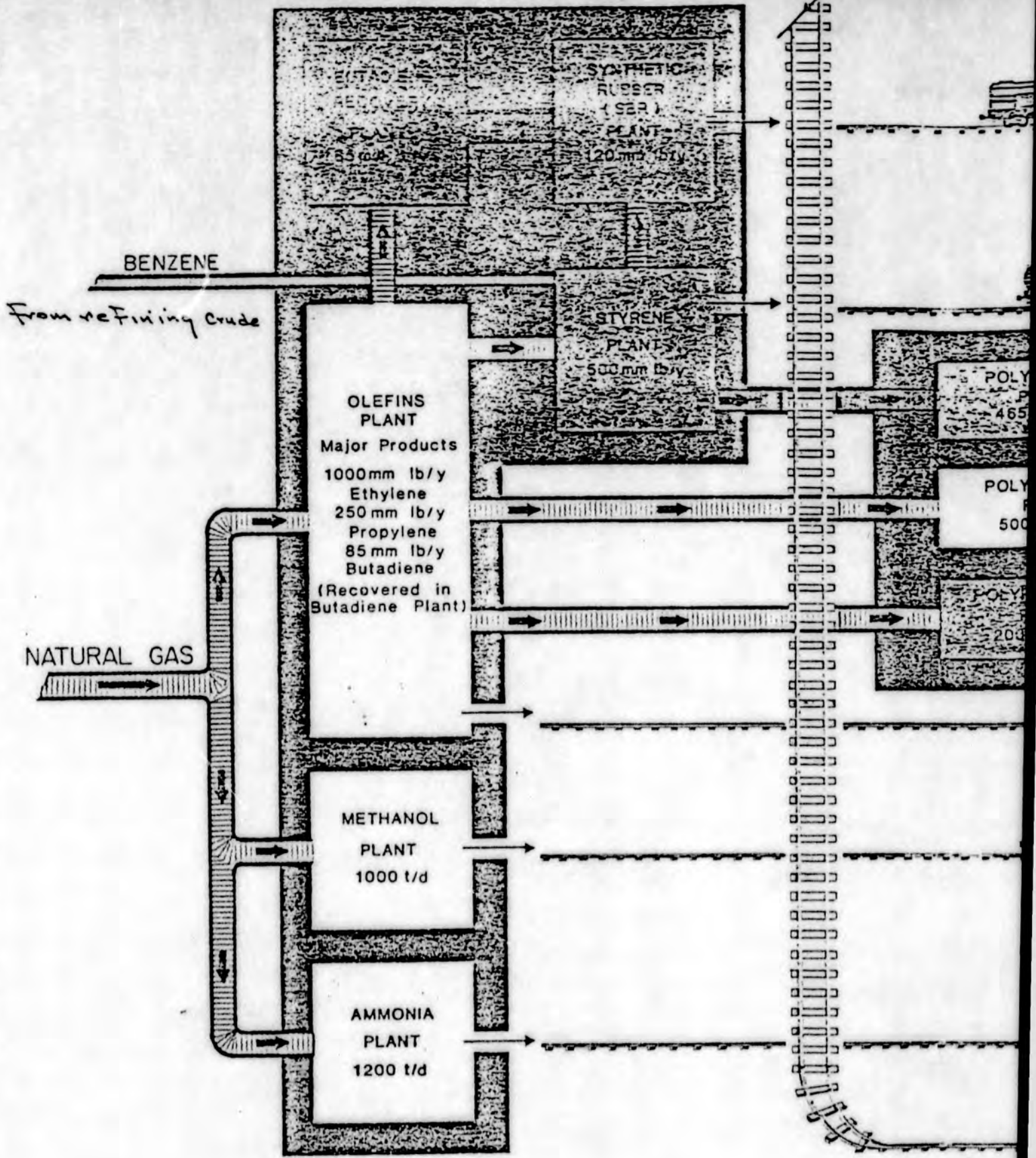
Expected Gas Composition
at Liquefaction Plant Inlet

<u>Component</u>	<u>Volume %</u>
CO ₂	1.02
N ₂	.75
CH ₄	85.91
C ₂ H ₆	7.77
C ₃ H ₈	3.93
I-C ₄ H ₁₀	.26
N-C ₄ H ₁₀	.30
C ₅ Plus	.06

Recoverable Liquids Per Billion SCF/Day
Leaving 1022.4 BTU/SCF Gas

<u>Component</u>	<u>Barrels Per Day</u>
Ethane	39,467
Propane	25,689
Butane	4,267
Gasoline	533
Remaining Gas	.882 Billion SCF/Day

Figure 5



TYPICAL UP
PETRO

END PRODUCTS

Tires
Elastomers
ABS Resins (Plastics)

Chemicals
Flavors

Plastics

Plastics

Plastics

Antifreeze
PVC
Ethyl Alcohol

Antifreeze
Inhibitor
Solvent
Formaldehyde

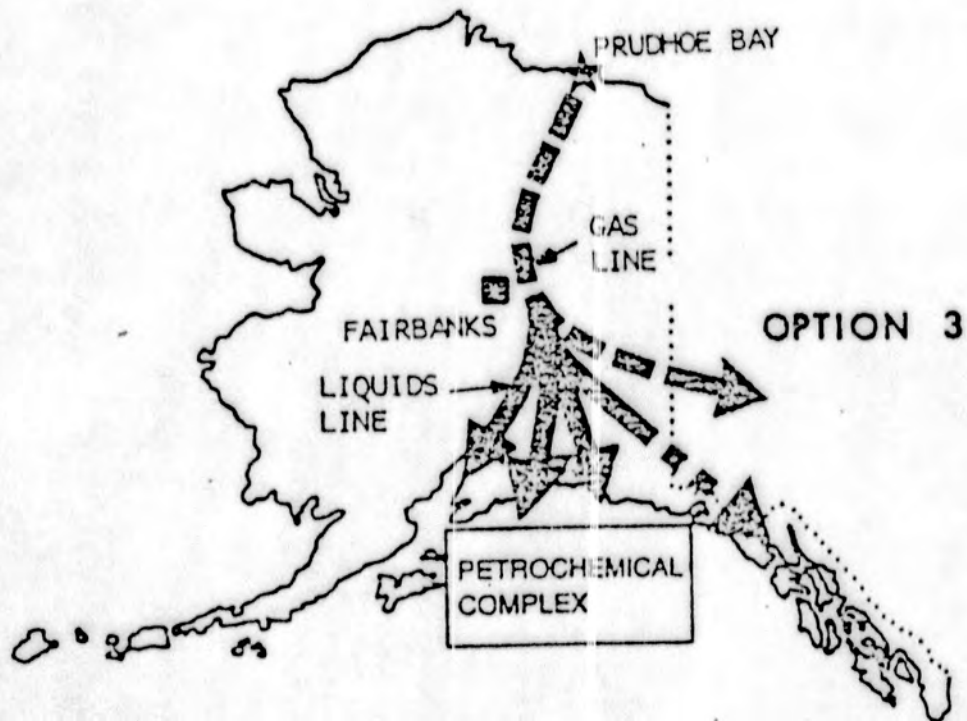
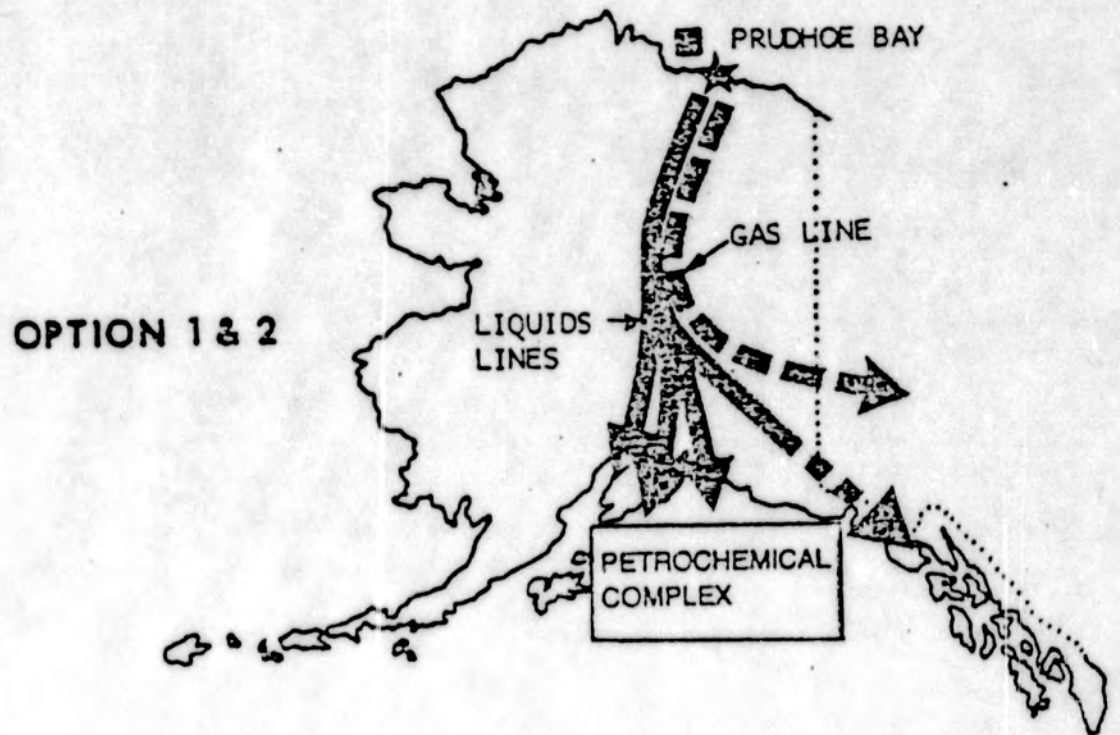
Fertilizers
Nitric Acid
Explosives
Fibers

UNITED STATES GULF COAST
CHEMICAL COMPLEX

D. J. Moore

FIGURE 1

ALASKAN ARCTIC RESOURCES PROJECT



D. J. Moore

★ CONDITIONING PLANT

■ EXTRACTION PLANT

ALASKAN ARCTIC RESOURCES PROJECT

INITIAL PROJECT OPTIONS

OPTION 1

Pre-Natural Gas Pipeline

- o CO₂ Extraction Plant — Prudhoe Bay
- o Gas Liquid Extraction Plant — Prudhoe Bay
- o Gas Liquids Pipeline — Prudhoe Bay to Tidewater
- o Fractionation, Storage and Marine Loading Facilities at Tidewater
- o Petrochemical Complex at Tidewater

OPTION 2

In Conjunction with Gas Pipeline

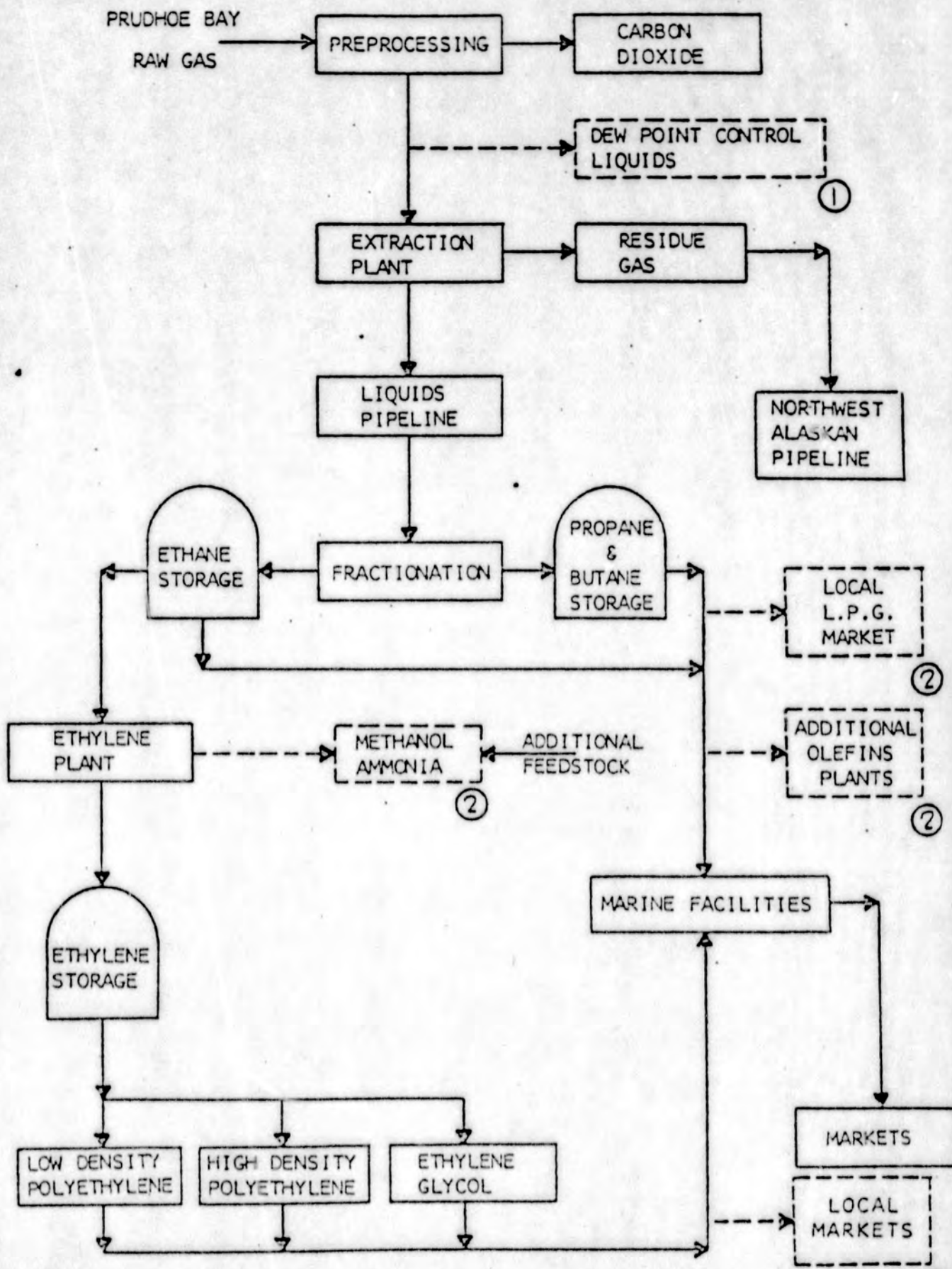
- o CO₂ Extraction Plant — Prudhoe Bay
- o Ethane Plus Extraction Plant — Prudhoe Bay
- o Gas Liquid Pipeline — Prudhoe Bay to Tidewater
- o Fractionation, Storage and Marine Loading Facilities at Tidewater
- o Petrochemical Complex at Tidewater

OPTION 3

In Conjunction with Gas Pipeline

- o CO₂ Extraction Plant — Prudhoe Bay
- o Dew Point Control Plant — Prudhoe Bay
- o Straddle Plant — Fairbanks
- o Gas Liquids Pipeline to Tidewater
- o Petrochemical Complex at Tidewater

ALASKAN ARCTIC RESOURCES PROJECT



① LIQUIDS REMOVED AT PRUDHOE BAY FOR DEW POINT CONTROL IF EXTRACTION PLANT IS AT FAIRBANKS

1. (a) What products and by-products, and in what volumes, would your proposed project produce?

The initial facilities would consist of a world scale size ethylene unit, the output of which would be processed into such readily marketable products as high density polyethylene, low density polyethylene and ethylene glycol in compatible world-scale sized derivative plants. The second, third and subsequent ethylene production facilities could include further processing into such products as polyvinyl chloride (PVC), styrene, polypropylene, and other high demand petrochemicals as the markets dictate.

Hydrogen rich off-gas from the ethylene unit plus any locally available natural gas could be converted to ammonia and methanol for sale in the Pacific Rim market.

The initial plant size would be as follows:

<u>Product</u>	<u>Plant Capacity</u>
Ethylene	1,200 million pounds per year
Low density polyethylene	500 million pounds per year
High density polyethylene	300 million pounds per year
Ethylene glycol	400 million pounds per year

Consideration will be given to the manufacture of linear low density polyethylene if the demand for this product expands rapidly.

1. (b) What products would be available for in-state use and consumption?

Polymers and ethylene glycol could be used locally. Availability of these products in Alaska will stimulate development of local industry requiring these products. Certain participants in the Group have substantial experience in converting these intermediate petrochemicals into higher value products, and would assist local businesses in developing appropriate facilities, or pursue such further processing independently.

Gas liquids will also be available for such in-state uses as LPG markets, possible use of the liquids to develop residential and industrial gas distribution systems prior to natural gas availability, and butanes and natural gasoline for refinery consumption. Gas liquids in excess of in-state demand would be exported from Alaska.

3. What feedstocks would be needed, and in what volume?

Pending the final conclusions reached, it is estimated the initial ethylene cracking facility and derivative plants will require the following feedstocks:

<u>Plant</u>	<u>Feedstock</u>	<u>Volume</u>
Ethylene	Ethane	35,000 barrels per day
Low Density Polyethylene	Ethylene	515 million pounds per year
High Density Polyethylene	Ethylene	315 million pounds per year
Ethylene Glycol	Ethylene	370 million pounds per year

Available information would suggest the following volumes of natural gas liquids in barrels per day will be available from each project option:

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
	<u>Pre Natural Gas Pipeline</u>	<u>Post Natural Gas Pipeline</u>	
		<u>Maximum Liquids</u>	<u>Minimum Liquids</u>
Ethane	54,100	101,000	82,000
Propane	30,500	57,000	41,000
Butane	18,800	35,000	17,000
Gasoline	<u>16,600</u>	<u>31,000</u>	<u>4,000</u>
Total Production	120,000	224,000	144,000

It is anticipated that the maximum amount of liquids available at Prudhoe Bay will be required to support the high costs of facilities to extract, transport, and store these natural gas liquids in each case.

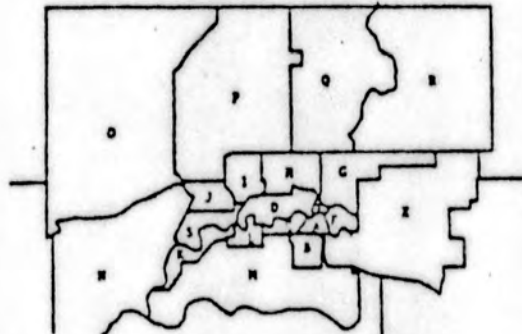
	(1) TOTAL POTENTIAL CUSTOMERS	(2) EXPECTED CUSTOMERS	(3) ANNUAL PER CUSTOMER (MCF)	(4) EXPECTED AVERAGE CONSUMPTION (MCF/YEAR) (MCF/DAY)		(5) PEAK CONSUMPTION (MCF/DAY)
RESIDENTIAL	5,880	5,000	300	1,500,000	4,110	10,686
COMMERCIAL	880	750	2,000	1,500,000	4,110	10,686
SUBTOTAL	6,760	5,750	N/A	3,000,000	8,220	21,372
ELECTRIC GENERATION	3	3	N/A	2,786,000	7,500	13,500
TOTAL	N/A	N/A	N/A	5,736,000	15,720	34,872

Notes:

- (1) Total Potential Customers. Estimated customer base for the areas of Fairbanks which could initially be served. Specifically, these are 13 planning areas (A through L and S) as defined by the Planning Department of the Fairbanks North Star Borough, as indicated below.

POPULATION AND DWELLINGS
BY PLANNING AREA

FAIRBANKS
October, 1978



	ESTIMATED POPULATION	MOBILE HOMES DUPLEXES SINGLE FAMILY	MULTI- FAMILY	TOTAL (INCLUDING HOTELS)
A Central City	3,034	674	583	2,039
B Southside	3,783	803	768	1,946
C Lathrop	2,493	535	500	1,056
D Phillips	413	74	90	164
E Slaterville	801	197	127	324
F Hamilton Island	2,554	710	294	1,004
G Birch Hill	431	159	10	169
H Creumers	3,486	781	651	1,492
I College	1,588	503	84	587
J Campus	691	-	-	-
K Pike	599	206	16	242
L Westgate	1,971	533	279	831
S Geist	2,946	638	546	1,184
TOTAL	24,790	5,813	3,948	11,038

Notes: (contd)

- (2) Expected Customers. 85% of Potential Customers. The rate of conversion to gas will largely depend upon the customer's anticipated cost savings.
- (3) Annual Consumption Per Customer. Based upon monthly calculation of degree and consumption days for each customer category as summarized below:

	<u>Anchorage</u>		<u>Fairbanks</u>	
	<u>Annual Total</u>	<u>Monthly Average</u>	<u>Annual Total</u>	<u>Monthly Average</u>
Degree Days	10,534	878	14,279	1,190
Consumption/Customer (Mcf)				
Residential	229	19	300	24
Small Commercial	837	70	1,312*	109
Large Commercial	6,408	534	7,587*	632

*Average commercial consumption of 2,000 Mcf/Customer in Fairbanks derived by assuming the Anchorage ratio of 11% small and 89% large commercial.

- (4) Expected Average Consumption. (2) x (3)
- (5) Peak Consumption. Based upon analysis of daily consumption patterns adjusted to reflect Fairbanks weather.

TASK I-C

It is our considered opinion, after a perusal of all of the reference material (Page 11-15) and consultations with the discussion participants (Page 5), that the State of Alaska should not at this time requisition formal studies as set out in the SCOPE OF WORK, but should instead consider the suggestions as set out in the SUMMARY AND OPINION (Pages 1-3).

To further exemplify the Alaska Arctic Resource proposed project regarding North Slope natural gas (as set out in Task I-B, page 15e, which is similar to the Dow-Shell proposal), a review of the vertical integration of separator gas in Alberta is of interest:

Separator gas is conditioned at many gas field plants in Alberta to meet pipeline specifications. The pipeline gas is then gathered in a vast pipeline network owned and operated by Alberta Gas Trunkline Co. Ltd. (a free enterprise corporation with original stock issues limited to Albertans and bonded debt carried by the Province of Alberta) and conveyed to border processing plants.

In the late 1950's, under Premier Ernest C. Manning's leadership, authority was enacted under the Energy Resources Conservation Board Legislative Act of the Province of Alberta, to strip all hydrocarbons other than methane from export gas thus setting the stage for a profitable series of events for free enterprise.

At present and for some years, the gas leaving Alberta is stripped of ethane (C_2), propane (C_3), butane (C_4) and heavier components by gas processing straddle plants at Empress on the Saskatchewan-Alberta boundary for southeastern export, and at Cochrane for gas leaving in a southwesterly direction. These straddle plants processing the gas are owned by free enterprise participants. Two products lines, one carrying C_2 and the other C_3 , and heavier, then convey these components to centralized plants for further processing and marketing. Alberta Energy Corporation owns 33 1/3 percent of the ethane pipeline system, and in turn is 50 percent Alberta government owned.

Free enterprise (Alberta Gas Trunkline) converts the C_2 to ethylene at Joffre, with the ethylene then being conveyed to a world-scale petrochemical plant at Fort Saskatchewan owned by free enterprise (Dow Canada). Surplus ethane, propane, butane and heavier is in turn batch-shipped by Cochin Pipeline, also owned by free enterprise, to other world-scale petrochemical plants in Eastern Canada and the United States, with a full spectrum of manufacturing products then entering the marketplace.

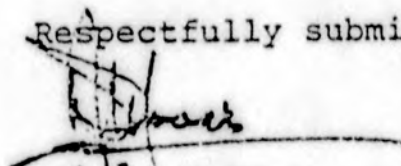
Upon perusal of the Dow-Shell submission by worthy and well-qualified representatives of the State of Alaska, a productive economic and engineering critique, together with recommendations, can then be provided. To accept any study without the foregoing is somewhat related to "having a fox determine the operation and management of a henhouse".

D. J. Moore

We respectfully submit that now is the time to expend every effort to obtain the highest and best use of North Slope natural gas for Alaskans, one of which could be to look over the fence and peruse the neighbor's plus and minus efforts in the self-same game.

Should the State of Alaska determine positively, the right to swap gas on a zero balance BTU basis, which is a right of Canadian users of North Slope gas (TIAS 9030), prior to and in conjunction with completion of the Dow-Shell study, an obvious advantage is to be obtained by providing the feedstock requirements (C_2) supplementary to Alaska's in-kind royalty portion of C_2 , thus satisfying said feedstock requirements of a world-scale olefin plant, by swapping methane (C_1) for ethane (C_2).

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "D. J. Moore", is written over a horizontal line. The signature is somewhat stylized and overlaps the line.

D. J. MOORE

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

CONTRACT

Between

STATE OF ALASKA, HOUSE RESEARCH AGENCY

and

ZINDER ENERGY PROCESSING

The parties to this agreement are the HOUSE RESEARCH AGENCY on behalf of the Alaska State Legislature's Joint Gas Pipeline Committee, hereinafter referred to as the "Agency", and ZINDER ENERGY PROCESSING, hereinafter referred to as the "Contractor."

The PURPOSE OF THIS AGREEMENT is to provide the Alaska State Legislature with specialized consulting services regarding the economic feasibility of a petrochemicals industry in Alaska.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE 1.—STATEMENT OF WORK

(A) The Contractor will prepare an economic evaluation computer model in which combinations of costs and prices can be evaluated to determine thresholds of economic feasibility, projected income statements and real returns on investments over a 20 to 25 year period for a gas liquids based petrochemicals industry in Alaska. This computer model will incorporate feasible ranges of financing, feedstock, transport, construction and operating costs and world market prices. The following factors will be ranged:

feedstocks--available volumes of various composition, prices charged by the State and private producers, and tariffs

construction costs--conditioning plant, extraction (straddle) plant, pipelines, and world-scale petrochemicals plant (with special attention to factors that influence construction costs in Alaska)

investment considerations--charges under various financing schemes, real and inflated discount rates

operating costs--labor, maintenance, and fuel

product prices, marketing and transport costs--for both domestic and Pacific Rim markets.

In ranging factors, assumptions reflecting sensitivity to oil pricing and supply will be provided by the contractor. The Agency will assist in establishing parameters on all ranges, except those pertaining to investment considerations, marketing considerations, and product pricing. The alternative scenarios listed in Appendix A to this contract will be used as the basis for ranging transport and construction costs. Current federal and State taxation will be used for the model.

The economic evaluation computer model will be designed in such a manner as to permit the later incorporation of public financial incentives, subsidies, investments, changes in federal and State taxation, and risk aversion factors.

- (B) The Contractor will develop the computer model in Fortran IV to be run on an IBM System/370 Model 3033. The tape, source code and documented input data coding form will be provided to the Agency by the Contractor following completion of the project.
- (C) The Contractor will prepare a two volume report. The first volume will contain a non-technical narrative explaining the computer model and the results of the computer runs. The report will identify those sets of circumstances which would have to prevail within the ranges of factors, if a petrochemical industry in Alaska is to be economically feasible. The second volume will contain the output from the computer runs.
- (D) The Contractor will attend two on-site consultations with the Agency, for a total of six (6) days. One meeting will occur at the outset of the study to establish the research design. Prior to this meeting, the contractor will submit a memorandum to the Agency which describes the information needed from the study team to range the factors. The second meeting will follow completion of the draft report to interpret data and identify possible policy applications of the study findings.

CLAUSE II.--PERIOD OF PERFORMANCE

- (A) A draft of the report required under Clause 1(C) will be delivered to the Project Director by August 15, 1980. A final report incorporating comments from the Agency, will be delivered to the Project Director by September 5, 1980.
- (B) Unless extended by written agreement, this contract expires on September 30, 1980.

- (C) The contract may be terminated by the Agency on seven (7) days advance written notice to the Contractor. In the event of termination, the Contractor shall receive a lump sum payment determined by multiplying the contract price (\$43,500) times the proportion of the total work completed by the Contractor.

CLAUSE III.--PROJECT DIRECTOR

The Project Director will be Duncan Read, Director of the House Research Agency.

CLAUSE IV.--PROGRESS REPORTS

The Contractor will keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him, including estimates of the proportion of total work completed by the Contractor.

CLAUSE V.--COMPENSATION AND METHOD OF PAYMENT

- (A) Total compensation under this contract, inclusive of expenses, shall not exceed \$43,500, except that this amount shall be reduced by 10% if the work specified in Clause I is not completed by September 5, 1980.
- (B) The Contractor will be compensated at the billing rates specified in Appendix B.
- (C) Billings for all work and requests for reimbursement of expenses shall be submitted monthly to the Project Director and shall specify the number of hours worked by each of the Contractor's principal staff people.

CLAUSE VI.--CHANGES IN CONTRACT SCOPE

If there is any significant change of scope to consider products beyond those based on natural gas liquids, additional compensation may be negotiated between the two parties to this agreement.

CLAUSE VII.--RECORDS, DOCUMENTS, AUDIT

- (A) The Contractor shall maintain accurate records of the time worked and such other records as may be required by the Project Director. The records of time worked are subject to inspection by the Agency or the Project Director at all reasonable times.

(B) All documents, reports and writings, and computer tapes, generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract, such material, or copies thereof, shall be delivered to the Agency. Nothing herein prevents the later use of such material by Contractor.

CLAUSE VIII.--ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties of this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

ZINDER ENERGY PROCESSING

STATE OF ALASKA
HOUSE RESEARCH AGENCY

Philip E. Kean

5/2/80
Date

Duncan L. Read

DUNCAN L. READ

5/28
Date

Accepted: JOINT GAS PIPELINE COMMITTEE

Approved as to form.

Bill Miles

BILL MILES, Co-Chairman

Philip J. ... June 6, 1980

Agency Legal Counsel

Mike Colletta

MIKE COLLETTA, Co-Chairman

APPENDIX A

ALTERNATIVE SCENARIOS

1. Conditioning plant at Prudhoe Bay; separate liquids line from Prudhoe Bay to tidewater at location on the Gulf of Alaska; petrochemicals complex at tidewater.
2. Conditioning plant at Prudhoe Bay; separate liquids line from Prudhoe Bay to Fairbanks; petrochemicals complex at Fairbanks; product transportation from Fairbanks to tidewater by rail or other mode of transportation.
3. Conditioning plant at Prudhoe Bay; all gas in main gasline from Prudhoe Bay to Fairbanks; liquids extraction/straddle plant at Fairbanks; petrochemical complex at Fairbanks; transportation of product from Fairbanks to tidewater.
4. Conditioning plant at Prudhoe Bay; all gas in main gasline from Prudhoe Bay to Fairbanks; liquids extraction/straddle plant at Fairbanks; separate liquids line from Fairbanks to tidewater; petrochemicals complex at tidewater.
5. Minimum conditioning facility at Prudhoe Bay; all gas in main gasline to Fairbanks; conditioning plant at Fairbanks, with liquids extracted for petrochemicals complex at Fairbanks, transportation of product from Fairbanks to tidewater.
6. Minimum conditioning plant at Prudhoe Bay; gas in main gasline to Fairbanks; conditioning and extraction plants at Fairbanks, with separate liquids line from Fairbanks to tidewater and petrochemicals complex at tidewater.

APPENDIX B

BILLING RATES
ZINDER ENERGY PROCESSING

	<u>Per Day</u>
Theodore Davis	\$700
Philip Keown	\$550
Lamente Long	\$550
Betty Cook	\$175

AMENDMENTS TO CONTRACT

Between

STATE OF ALASKA, HOUSE RESEARCH AGENCY

and

ZINDER ENERGY PROCESSING

It is mutually agreed that Clauses I, II, and V of the contract between the above parties, dated June 6, 1980, is hereby amended to read as follows:

CLAUSE I -- STATEMENT OF WORK (A) is amended to read:

(A) A new paragraph is inserted to read:

For each alternative scenario listed in Appendix A, the following three ethylene production cases will be analyzed:

1. One ethylene plant
2. Two ethylene plants
3. Maximum ethane feedstock ethylene production

CLAUSE I -- STATEMENT OF WORK (D) is amended to read:

(D) The Contractor will attend three on-site consultations with the Agency, for a total of nine (9) days. One meeting will occur at the outset of

the study to establish the research design. Prior to this meeting, the Contractor will submit a memorandum to the Agency which describes the information needed from the study team to range the factors. The second meeting will follow completion of the first draft of the report to interpret data and review project methodology. The third meeting will follow completion of the second draft of the report to identify possible policy applications of the study findings and initiate computer training.

CLAUSE II -- PERIOD OF PERFORMANCE is amended to read:

- (A) A first draft of the report required under Clause I(C) will be delivered to the Project Director by August 18, 1980. A second draft of the report, incorporating comments from the Agency, will be delivered to the Project Director by September 30, 1980. The second draft will be reviewed by the Agency and representatives of both the executive and legislative branches from October 1 through October 8, 1980. The Contractor will then prepare a final report, incorporating review comments, and deliver an original of the final report to the Project Director by October 24, 1980.
- (B) Unless extended by written agreement, this contract expires on November 30, 1980.

CLAUSE V -- COMPENSATION AND METHOD OF PAYMENT is amended to read:

(A) Total compensation under this contract, inclusive of expenses, will be a fixed fee of \$61,500. If the work specified in Clause I is not completed according to the schedule in Clause II (A), the Agency may withhold from payment \$500 per day for each day that the work is delayed.

(C) Billings for all work and requests for reimbursement of expenses shall be submitted to the Project Director as follows:

1. 15 percent of the total contract price on June 30, 1980
2. 30 percent of the total contract price on July 30, 1980
3. 20 percent of the total contract price on August 30, 1980, contingent on receipt of the first draft of the report.
4. 20 percent of the total contract price on September 30, 1980, contingent on receipt of the second draft of the report.

5. The remaining 15 percent of the contract price on October 30, 1980, contingent on receipt of the final report.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted.

ZINDER ENERGY PROCESSING

STATE OF ALASKA
HOUSE RESEARCH AGENCY

Date

Duncan L. Read 9/17/80
DUNCAN L. READ Date

Accepted: JOINT GAS PIPELINE COMMITTEE

Approved as to form

Bill Miles 9/17/80
BILL MILES, Co-Chairman Date

Agency Legal Counsel Date

Mike Colletta 17 Sept 80
MIKE COLLETTA, Co-Chairman Date

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

STUDY OF THE IN-STATE USES OF THE STATE OF ALASKA'S ROYALTY
SHARES OF PRUDHOE BAY NATURAL GAS (AND NATURAL GAS LIQUIDS) (added)
PROPOSED CHANGES IN SECOND DRAFT PROPOSAL

Overall scope: Study will consider all hydrocarbons produced as part of the gas stream at Prudhoe Bay ($C_1 - C_6$) to the extent they may be used or processed for final use within the state. It would consider, for example, the possible residential and commercial distribution of natural gas in Fairbanks, the distribution of propane as "bottle gas" for Alaska consumption, the use of natural gas liquids (NGLs) as fuel for electric utility boilers or turbines in Alaska, and the conversion of natural gas (and associated CO_2) to fuel-grade methanol or fertilizers for in-state use. The study would not, however, deal with the conversion of methane to methanol or urea, ethane to ethylene, or butanes to MTBE, for export (even where local use may be an incidental effect), except to the extent that plans for export-oriented processing investments may influence options for in-state use.

Introduction: The introduction would devote some attention specifically to the Dow-Shell agreement with the State and its possible influence on the availability of gas and NGLs for in-state use.

Sequence of tasks: I would divide the subtasks differently --- as follows:

- a. Detailed work plan.
- b. Introductory overview --- a companion-piece in scope and style to the primers on refining and petrochemicals.
- c. Raw materials assessment --- identification and quantification of the proved and probable supplies of natural gas and NGLs; their ownership, contractual, and regulatory status; their cost and opportunity value to those controlling the supplies; and their likely field prices.
- d. Primary processing, conditioning, and transportation assessment --- identification and analysis of the alternative combinations of gas processing and conditioning systems, transportation arrangements, and choice of ANS local fuels, with respect to their effect on the availability and cost of natu-

① Status
② Bonner Moore
③ Strickland & Pelt

al gas, NGLs, and products (like methanol) for final consumption in various parts of Alaska.

e. Distribution assessment --- description and analysis of potential distribution systems (natural gas, bottle gas, methanol, etc.), with particular attention to the effects of scale and density of consumption; and of the probable cost of distribution.

f. Market analysis --- estimation of the volume of potential in-state demand for natural gas, NGLs, and products processed from them, and their market value (as determined by the prices of alternate fuels, or the same fuel from other sources.

g. Economic and financial analysis --- using inputs from tasks c - f, identify plausible opportunities to lower fuel costs or provide other benefits to Alaska consumers (residential, commercial, and industrial) by in-state use of Alaska natural gas, NGLs, and methanol. Perform conventional cash flow and investment analyses to select the most promising systems.

h. Sensitivity and risk analyses --- using decision analysis, Monte Carlo techniques, or other methods of manipulating probabilistic inputs and uncertainty, determine the market and financial risks, and the sensitivity to specified variables, of the viability of the systems chosen in g.

i. Policy options --- identify and analyze state policy issues relevant to the study topic, and the policy implications of the findings of tasks g and h. Compare plausible policy options.

Consumer
benefits →

Schedule. The full program, either in the second draft, or as described here, cannot be carried out competently in the time allowed. I propose that task b, the Introductory Overview, be scheduled for completion by mid-Session, but that the full technical analyses be delivered at mid-year (i.e., by June 30).

Subcontracts. I don't know whether NERA is the right subcontractor for the task assigned them. I would prefer to use local talent (e.g., Fred Boness) for regulatory legal analyses, and allow them to consult with specialized out-of-state talent as necessary.

For both the regulatory analysis and the engineering inputs, I suggest that the proposal simply describe the capabilities we are seeking in the subcontractors, and specify that the Contract Officer for the Committee have the right to review and approve subcontractors designated by ISER.

Staff and budget: These considerations are intimately linked to the work program. I have not had time to consider them in detail, but will work up a generalized plan for you to flesh out.

MARK

THIS IS AN UNEDITED DRAFT WHICH NEITHER SCOTT NOR ARNON HAVE YET TO REVIEW. IT WILL BE REVISED AND THE BUDGET LAID OUT BY TOMORROW AFTERNOON. WE'LL ALSO IDENTIFY THE ENGINEER WE HOPE TO USE. NORMALLY I WOULDN'T RELEASE A FIRST DRAFT FOR OUTSIDE REVIEW BUT WILL IN THIS INSTANCE TO FACILITATE GETTING YOUR COMMENTS BACK.

A STUDY OF THE IN-STATE USES OF THE STATE OF ALASKA'S
ROYALTY SHARES OF PRUDHOE BAY NATURAL GAS

THE DRAFT IS NOT FOR DISTRIBUTION.

(Lee Gorsuch)

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
UNIVERSITY OF ALASKA

OCTOBER 1980

Do Not
Distribute

Background and Purpose

Alaska's economy is based largely on the extraction and export of natural resource commodities, the most important of which is petroleum.¹ As in most countries and regions with a similar economic base, many Alaska business and political leaders advocate policies to encourage the local upgrading, refining, or processing of indigenous crude materials prior to their exportation. Additional in-state petroleum processing could take the form of fuels refining, liquefaction of natural gas for export as LNG, or conversion of crude oil refinery products, natural gas, and/or NGLs into primary or secondary petrochemicals.²

During the past two years the issue of in-state processing of Alaska oil and natural gas has captured statewide attention. North Slope crude oil is now flowing through the Trans-Alaska Pipeline at the rate of 1.5 million barrels each day; and except for about 80,000 daily barrels that are refined in Alaska, the oil all leaves the state in crude form. This fact, coupled with the traumatic fall in employment following completion of the oil pipeline, has generated an enthusiasm within business and government for adding "wordscale" refining and petrochemical operations to the Alaska economy.^{3,4} The Alaska Legislature's approval of the Alpetco contract, to refine in Valdez approximately, 100,000 b/d of the state's royalty oil substantiates this desire and intent to add value to the state's extracted resources prior to exporting them.

In addition, planning for the transport of North Slope gas and gas liquids adds an element of urgency to state policymaking: Negotiations among the interested parties, including the State of Alaska, are presently underway with respect to decisions about the Alaska Highway Gas Pipeline design and the transportation tariff. The outcome of those decisions could virtually preclude the upgrading of those resources in Alaska unless a commitment to process some portion in-state is made before pipeline construction plans are finalized.

Several important studies which bear on the state's efforts to secure options to use or process portions of its royalty share in-state include an engineering and design study related ^{participation in the} to the gas pipeline and ^{for the} the gas conditioning plant; an examination of the feasibility of using the state's share of royalty gas/gas liquids to support an Alaska based petrochemical industry; a study to design and estimate the costs (and tariffs) associated with constructing an exclusively gas liquid pipeline; and a research project to develop a microeconomic model of a workscale ^{id} petrochemical facility. In addition to these projects, the state is sponsoring a series of energy-related studies designed specifically to address the questions of how the state can best meet its projected energy requirements given the various alternative sources of energy supplies in Alaska.

All of these efforts bear directly or indirectly on the more narrowly focused policy questions related to the alternative in-state uses of the state's royalty gas, minus the liquids which may have been stripped from the gas stream as a part of the conditioning of gas for transmission. They serve as a policy context as well as a source of pertinent information.

Because one-eighth of oil and gas produced on state land (including the Prudhoe Bay field) is owned by the state as royalty, state government interest in where Alaska hydrocarbons are processed and/or how they are used is inescapable. While it is conceivable that Alaska policy-makers might accept a passive role with respect to what private oil companies choose to do with their working interest in the hydrocarbons, public officials cannot avoid considering in-state use and processing as they decide how to dispose of the state's own royalty share.

Currently, the expressed policy of the Hammond administration (and the apparent policy of the Legislature) is to promote in-state processing of Alaska crude oil, natural gas, and NGLs, but only so far as they do not require direct or indirect state subsidies, or the waiver of environmental standards. Assistance to Alpetco, for example, has been limited to the sale of royalty oil--at full market value--plus technical assistance and a strong symbolic endorsement of the project by state officials.

The proposed study of in-state uses of the state's royalty shares of natural gas from the Prudhoe Bay field will be consistent with this policy framework. However, the study will examine the relative significance of selected policy options as they affect the overall feasibility and benefit-cost assessments of using the state's royalty gas in-state. The state could, for example, entertain several alternative ways of organizing and financing the distribution of gas for in-state uses, with varying effects on both feasibility and benefit-cost assessments.

Scope and Method of Work

To examine whether or not it is feasible for the State of Alaska to use its royalty shares of natural gas for in-state consumption involves a series of sequentially related questions, the answers to which are often interdependent. The characteristics of the natural gas and the terms under which it would be available circumscribe many of the questions concerning the demand for natural gas and its by-products. The demand for various uses, in turn, establishes the parameters for sketching the design, organization, and financing of alternative gas distribution and consumption options. These distribution and consumption options determine the price and value of the in-state use which can be compared to other marketing options and ^{the cost of} other energy sources.

The scope of the proposed project will explicitly examine (a) the potential demand for direct residential and commercial use of natural gas both along the pipeline corridor and within the railbelt region; (b) the potential industrial demand, with particular attention to the energy requirement of the developing agricultural industry and the potential feedstock uses of natural gas by amonia/urea plants and for the stripping of propane and butane from the gas stream; and (c) other potential market demand within Alaska, with a particular examination of a possible swap of the state's royalty gas with that of the Cook Inlet producers'. Throughout the examination of each of these three

topics attention will be devoted to the statutory and regulatory framework affecting each of these potential uses and to the policy decisions and options available to the State of Alaska. An integral part of the study method will be the sensitivity to the technical, economic, and regulatory uncertainties confronting the potential demand and use of the state's royalty shares of natural gas.

The following series of research tasks set forth the basic approach and methods ISER will employ to accomplish the objectives of the study and to address each of the topics cited above.

Task 1 - Finalize the Study design

ISER will review the proposed study plan with the legal and technical consultants who are representing the State of Alaska in the FERC proceedings concerning the gas pipeline and with its consultants from the National Economic Research Associates. Adjustments will be made in the study, subject to the approval of the project monitor, to ensure that the study design addresses the economic concerns likely to be raised during the proceedings and that the study take full cognizance of the legal and regulatory parameters potentially affecting the use of the state's royalty shares of natural gas in-state.

Task 2 - Establish Supply Estimates

Estimates of the quantities of natural gas, its condition, and wellhead value all need to be established as a data base of available supplies of natural gas. Similarly the uncertainties regarding the reservoir which affect production estimates needed to be taken into account and the alternative outcomes of pending negotiations over the gas conditioning plant which will affect both the character or composition of the gas properties available for in-state use as well as the wellhead value of the gas also need to be documented.

The various legal and regulatory constraints which potentially affect both the production and value of Prudhoe Bay natural gas will be identified and described. To the extent practicable these constraints will be defined in terms of the range of the impacts possible changes in these constraints may have in the estimates of both the quantities and value of Prudhoe Bay natural gas.

The product resulting from this task will be a working paper setting forth the range of production estimates of natural gas, the alternative set of properties the gas supplies will have once it has entered the gas pipeline, and range of wellhead values of the gas. The paper will highlight the policy decisions affecting these production and value estimates and the actual properties of the gas.

Task 3 - Specify In-state Uses and Project Demand for Such Uses

The actual properties of natural gas at the tap will define whether or not some uses such as selected industrial feedstocks is feasible. However, in general the likely categories of uses include both residential and commercial use for such purposes as space heating, cooking, water heating, transportation, industrial uses either as feedstocks or process heating, and power generation uses associated with public utilities. Once each of these categories have been specified in adequate detail estimates of demand both present and projected through the estimated life of Prudhoe Bay gas production will be generated for the following localities and regions:

Communities along the pipeline corridor, including Bettles, Anah-tuvak Pass, Fairbanks, Big Delta, Delta Junction, Ft. Greely, Dot Lake, Tetlin, Tanacross, Tok, the Delta Barley project area, and Northway.

The railbelt region, including the Greater Anchorage area, Cook Inlet, and the Kenai area.

ISER's energy end-use model will be used to generate demand estimates, augmented by a peak load analysis, for each of the localities and regions. The model is, however, appropriate for forecasting only demand for residential, commercial, and power generation uses.

Separate analyses, appropriate for each of the specific industrial uses will be required and will be performed by Mr. Kent Miller, an experienced industrial analyst.

The product of this work task will be a use and location specific demand forecast appropriate for each scenario.

Task 4 - Contract Technical Supply Scenario and Cost Estimates

For each type of use ISER will subcontract with a consulting engineering to sketch the design and cost of the necessary distribution and/or processing system required to meet the projected demand. Gas taps for community residential and commercial uses will be performed on a prototype basis using community size and distance from the gas pipeline as the variables considered in selecting two or three applications. Separate analyses will be performed for both Fairbanks' and the railbelt regions and for the various industrial uses.

A composite, aggregate analysis will then be performed in an effort to assess the overall configuration of the various uses and to attempt to achieve as much technical integration as is possible. The organization and financing of the various supply alternatives will be a separate but integral task, the outcome of which will yield estimates of the price at which the projected demands can be met by using portions of the state's royalty gas.

Task 5 - Compare Prices of Alternative Energy Sources

Drawing upon numerous existing studies pertaining to alternative energy sources and analyses of existing energy supplies ISER will compile a cost schedule of alternative energy supplies for and within the various energy markets and analyze the cost differences. Assumptions necessary to derive such cost estimates will be specified. The more significant technical, legal, environmental, and economic differences among the energy alternatives will also be discussed. This analysis will for all practical purposes establish an opportunity cost for the in-state use of natural gas.

Task 6 - Conduct a Benefit/Cost Analysis

Building upon the preceding task, ISER will perform a benefit/cost analysis of the in-state use of Prudhoe Bay natural gas. The analysis will include changes in consumer costs, employment levels, and property valuations. Consideration will also be given to changes in equipment, technology, maintenance, reliability of services, and expansion potential. Safety as well as environmental and regulatory concerns will also be addressed. The task will conclude with a synopsis of the major benefits and costs associated with the various in-state uses.

11

Task 7 - Summarize Policy Options

A concluding work paper will be prepared summarizing the policy issues and options that underly and directly affect the overall decision of using all or portions of the state's royalty gas for in-state purposes. The paper will address not only this overall issue but also delineate the subsequent choices implicit in the decision the state will confront in implementing its decision, i.e., the organizational, financial, and regulatory issues surrounding the various uses of natural gas.

WORK PLAN AND SCHEDULE

The following chart identifies both the task to be performed, the person principally responsible for performing the task, and projected date of completing the task.

<u>Task</u>	<u>Person Responsible</u>	<u>Completion Date</u>
1.		
2.		
3.		
4.		
5. Alternative Price Study		
6. Benefit/Cost Analysis		
7. Policy Options		

BUDGET

<u>Personnel</u>	<u>No. Days</u>	<u>Daily Rate</u>	<u>Total</u>
------------------	-----------------	-------------------	--------------

Tussing, Arlon
 Goldsmith, Scott
 Rowe, Phil
 Dignan, Terry
 Siver, Darla

Fringe

Overhead

Subcontractors

Miller, Kent
 Harrison, Gordon
 National Economic
 Research Association
 Engineer

Travel and Related Expenses

Office and Related

Communications
 Xeroxing
 Computer
 Supplies
 Miscellaneous

V. QUALIFICATIONS

This section outlines the qualifications to perform the work proposed. The general area of ISER's expertise is provided along with a listing of previous relevant projects and resumes of key individuals to be employed in the effort. Additionally, a description of subcontractors and their qualifications is provided.

Institute of Social and Economic Research

The primary mission of the Institute of Social and Economic Research is to study and provide information on the contemporary issues confronting the state's economy, population, and social and political institutions. It investigates such issues as the economies of natural resource development, principally petroleum and fisheries, and of land-use alternatives, the social and economic impacts of proposed resource developments such as oil or gas pipelines, petrochemical facilities, and hydroelectric projects; the effectiveness of federal and state programs operating in Alaska; the state's transportation and energy requirements; the development of human resources; and the effects of modernization on Alaska Native people and cultures and on the overall quality of life in Alaska.

Established by the Alaska State Legislature in 1961, the Institute of Social and Economic Research (ISER) is administratively a part of the University of Alaska, Fairbanks, but has staff based at three campuses-- Fairbanks, Anchorage, and Juneau. Computer terminals at the Fairbanks

15

and Anchorage offices link the institute to the university's computer system. The ISER staff is multidisciplinary, comprising economists, sociologists, anthropologists, social workers, political scientists, demographers, planners, educational psychologists, and geographers. In addition to the work of its permanent staff, ISER conducts research in collaboration with other university faculty members, private businesses, and other U.S. universities. It is currently engaged in a continuing research agreement with the Harvard-MIT Joint Center for Urban Affairs.

The following is a partial listing of research ISER and the proposed principal investigators have performed in recent years which is relevant to the proposed study:

1. "Federal Policies Affecting the Wellhead Value of Prudhoe Bay Crude Oil," (for the Alaska Legislative Council's Subcommittee on Oil and Gas Leasing and Taxing Policies, Ninth Alaska State Legislature), March 28, 1977, 120 pp., by Arlon Tussing.
2. "Energy Intensive Industry for Alaska," (for Department of Commerce and Economic Development), 1978, 339 pp., by Oliver S. Goldsmith and Kent Miller.
3. "An Introduction to the Gas Industry, with Special References to the Proposed Alaska Highway Gas Pipeline" and "Marketing and Financing Supplemental Gas, the Outlook for, and Federal Policy Regarding, Synthetic Gas, LNG, and Alaska Natural Gas," (A report to the Alaska Legislature), October 25, 1978, 309 pp., by Arlon R. Tussing and Connie C. Barlow.
4. "Oil and Gas Consumption in Alaska, 1976-2000," (for Alaska Royalty Oil and Gas Development Advisory Board and 1978 Alaska State Legislature), January 1978, 1200 pp., by Oliver S. Goldsmith and Tom Lane. This report is to be updated this year by Dr. Goldsmith under subcontract to the Department of Natural Resources.

5. "The Alaska Highway Gas Pipeline: A Look at the Current Impasse," (for the Legislative Affairs Agency), January 12, 1979, 72 pp., by Arlon R. Tussing and Connie C. Barlow.
6. "Financing the Alaska Highway Gas Pipeline: What is to be Done?" (for the Legislative Affairs Agency), April 1979, 120 pp., by Arlon R. Tussing and Connie C. Barlow.
7. "Petrochemical Development Study," Alaska Division of Policy Development and Planning, by Arlon R. Tussing, 1978.
8. "Royalty Oil and Gas Export Study" February 22, 1978, Alaska Department of Natural Resources. Paper presented to State Royalty Oil and Gas Board, February 22, 1978, by Arlon R. Tussing.
9. Consulting to Alaska Legislature and Joint Alaska-California Interagency Group seeking solution to the West Coast oil surplus. Arlon R. Tussing. 1978-1979.
10. Consulting to State of Alaska (Commissioners of Natural Resources and Revenue) concerning negotiations for Alaska-Japan-Mexico oil swap. Arlon R. Tussing, 1979.
11. "The Alpetco Petrochemical Proposal: An Economic Impact Analysis" (a report to the Alaska State Legislature), April 1978, 174 pp., by Oliver S. Goldsmith and Lee Huskey.
12. Evaluation of and proposed amendments to Alaska preleasing procedures for oil and gas, by Arlon R. Tussing. (Sponsored by one of the oil producers, but intended as assistance to DNR).
13. "Electric Power Requirements for the Railbelt," Alaska Legislature, House of Representatives' Special Committee on Power Alternatives and the Alaska Power Authority. March 1980, ___ pp., by Oliver S. Goldsmith.
14. "The Impact of Fuel Price Increases on Rural Alaska," the Alaska Growth Policy Council, in preparation, by Oliver S. Goldsmith.

17

In addition to these past studies, ISER will concurrently to the proposed research, be engaged in two other highly relevant research projects. For the Division of Policy Development and Planning of the Governor's Office, under subcontract to Battelle Memorial Institute Pacific Northwest Laboratories, ISER will be participating in the "Railbelt Electric Power Alternatives Study." The purpose of this study is to evaluate alternative sources of electric power supply and conservation in the railbelt region of Alaska and to prepare a comprehensive energy plan for this region. ISER's responsibility in this important project will be to test the sensitivity of various load forecasts to the various parameters and underlying assumptions of the various energy demand models. In addition, ISER will assist Battelle to improve the energy consumption data required to operate ISER's energy end-use model.

Under contract to the Alaska State Legislature's Joint Gas Pipeline Committee in collaboration with a grant from the Ford Foundation, ISER will be generating a series of reports related to fuels refining and hydrocarbon processing and petrochemicals manufactured in Alaska. Two primers will be developed on these subjects to analytically describe the nature of the associated technology, the feedstocks, markets, industrial organization, and the financing and regulation of these industries. The primers will be written in lay language, highlighting the issues related to the costs and benefits of proposed investments in Alaska and designed to serve as background material for policy deliberations by state officials, legislators, and other citizens.

In addition to the two primers, topical reports will also be prepared which examine (a) the possible methods of governmental assistance to proposed developments in Alaska based on the use of Prudhoe Bay natural gas and natural gas liquids and (b) the inter-relationship of the proposed gas-based petrochemical project(s) and the Alaska Natural Gas Pipeline Project, with particular emphasis on any jeopardy a petrochemical facility might impose on the pipeline (and how it could be alleviated).

A primary advantage in using ISER to perform the proposed work is the cumulative knowledge of the Alaska economy and of energy economics. All of ISER's proposed principal researchers have extensive professional experience in Alaska and maintain an active and on-going involvement in Alaska energy-related and economic development-related issues.

ISER's two principal investigators responsible for designing, directing, and conducting the research are:

Dr. Arlon Tussing, adjunct Professor of Economics and noted authority on petroleum economics.

Dr. Scott Goldsmith, associate Professor of Economics and a specialist in energy economics and fiscal policy.

Resumes for both Dr. Tussing and Dr. Goldsmith are attached as Appendix A.

Assisting ISER will Dr. Gordon Harrison and Mr. Kent Miller.

Dr. Harrison a former ISER faculty member is a consulting socio-economic consultant with a range of consulting experience pertaining to Alaska's oil and gas resources. Mr. Miller has been a frequent ISER subcontractor as an industrial economist. He performed a feasibility study of a natural gas distribution study in Fairbanks for Doyan LTD. and has extensive corporate experience with energy-intensive industries.

To assist in study design and review of findings ISER will subcontract with the National Economic Research Associates, NERA, based in New York. NERA has considerable experience before the Federal Energy Regulatory Commission and will be helpful in guiding the design of the project within the appropriate regulatory framework.

ISER will also subcontract with an independent engineer to assist in the instruction and cost estimation of technical scenarios associated with the design of facilities to transport and process natural gas for in-state uses.

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

LAZARD FRÈRES & Co.

ONE ROCKEFELLER PLAZA
NEW YORK, N.Y. 10020

CABLE ADDRESS 'LAZARD NEW YORK'
TELEPHONE (212) 489-6600

NEW YORK

*Please send
to Sharon if
this is ok.
Thanks. Susan*

July 24, 1981

Mr. Mark Wittow
Study Manager
Alaska State Legislature
Joint Gas Pipeline Committee
1024 West Sixth Avenue
Anchorage, Alaska 99501

Dear Mark:

Enclosed is our bill in the amount of \$75,000.00 as fee plus \$2,911.46 in out-of-pocket expenses to cover the period of July 1, 1980 through June 30, 1981 under Contract between the State of Alaska and Lazard Freres & Co. dated October 1, 1980.

As you will note we have reduced our fee by \$25,000 to reflect the fact that the financing program of the Alaska Natural Gas Transportation System has been making slower-than-expected progress, and the required activity specifically called for under our Contract was consequently lessened.

You are aware that considerable work was performed by this firm on matters not specifically covered by the Contract language but anticipated by the contract officers. This work included, but was not limited to, advice and consultation regarding ALPETCO, the Strategic Petroleum Reserve, the selection of the Dow-Shell team. No charges have been billed for these additional efforts.

Our work included consultation with Commissioner LeResche, Robert Loeffler, various members of their staffs and members of the Legislature. Our work for this period included trips to Washington, D. C., Alaska and California. You should note that when trips were taken in conjunction with other assignments on the West Coast, we have not billed the State for such travel expense.

Sincerely,


Peter A. Lewis

PAL:g
Enclosure

LAZARD FRÈRES & CO.
ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

AUGUST 12, 1981

FEE UNDER CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

AND

LAZARD FRERES & CO.

FEE (JULY 1, 1980 - JUNE 30, 1981)	\$75,000.00
TRAVEL EXPENSES	<u>2,911.46</u>
TOTAL	<u>\$77,911.46</u>

*OK to pay 8/24/81
Susan Brody*

Yours truly,

per pro. LAZARD FRERES & CO.

John J. Hunt F. Hattenbach

TRAVEL EXPENSES COVERING TRIPS AS FOLLOWS:

<u>DATE</u>	<u>LOCATION</u>	<u>AMOUNT</u>
July 24-25, 1980	Washington, DC	\$ 366.46
August 4-8, 1980	Juneau, Anchorage	574.29
September 27-28, 1980	San Francisco, Calif.	391.91
December 5, 16, 1980	Washington, DC	159.00 157.00
January 13, 1981	Washington, DC	154.00
March 8-9, 1981	Washington, DC	270.66
March 10-12, 1981	Juneau, Alaska	292.14
April 2, 1981	Washington, DC	166.00
April 28, 1981	Washington, DC	214.00
May 5, 1981	Washington, DC	166.00

	<u>T O T A L:</u>	<u>\$2911.46</u>

NO CHARGES HAVE BEEN BILLED FOR TRAVEL FROM NEW YORK TO THE WEST COAST.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

TO: Files

FROM: Susan Brody *SB*

RE: Lazard-Freres Contract

DATE: 8/12/81

Peter Lewis of Lazard-Freres called me today regarding their contract with the Jt. Gas Pipeline Committee. He and Mark Wittow met with Rep. Halford in July and discussed whether the final report under the contract should be presented in oral or written form. It was Halford's preference that a written report be prepared. Mr. Lewis indicated that 6 copies of the report were mailed from his New York office on Monday, August 10th to Mark Wittow, with one copy designated for the House Research Agency. He also believed that a separate copy had been mailed directly to Rep. Halford.

In July, Mr. Lewis had discussed with Mark Wittow the amount of the final billing on the contract. He had indicated to Mark that they would like to bill \$75,000 rather than the full \$100,000 under the contract for several reasons. The primary reason being that the gas pipeline project had not progressed as quickly as had been anticipated and therefore there was less work required of the consultants. Mark had told Mr. Lewis that he would let him know exactly what kind of a billing would be acceptable to the committee, but Mr. Lewis indicated that Mark agreed that something around \$70,000 to \$75,000 would be appropriate.

As Mark has not yet gotten back to Mr. Lewis and will be out of town until August 24th, I told Mr. Lewis to send a bill for \$75,000 to me and that I would review it with Mark as soon as he returned.

LAZARD FRÈRES & Co.

ONE ROCKEFELLER PLAZA
NEW YORK, N.Y. 10020

CABLE ADDRESS 'LAZARD NEW YORK'
TELEPHONE (212) 489-6600

NEW YORK

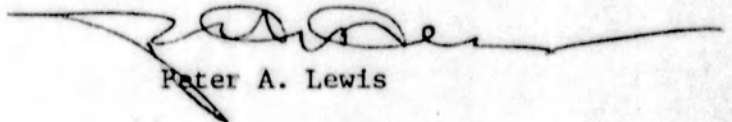
August 10, 1981

Mr. Duncan Read
House Research Agency
Pouch Y
Juneau, Alaska 99811

Dear Mr. Read:

In accordance with the Contract between Lazard Freres & Co. and the State of Alaska, dated as of June 30th, 1980, and subsequent discussions with Representative Halford, I submit herewith six (6) copies of a final report on the status of the financing of the Alaska Natural Gas Transportation System.

Very truly yours,



Peter A. Lewis

PAL/mmc
Enclosures

10010
RECEIVED JAN 0 8 1982

MEMORANDUM

State of Alaska

TO: Governor's Committee
on Gas Pipeline Financing

DATE: January 5, 1982

FILE NO:

TELEPHONE NO:

FROM: Mary Halloran *MARY*
Special Assistant
to the Commissioner
Natural Resources

SUBJECT: Contract with Kidder Peabody

Attached is a copy of the proposed contract between the State and the investment firm of Kidder Peabody. Because much of their work will depend upon the amount and quality of information to be made available, we will probably be redefining their tasks early in February.



**DEPARTMENT OF ADMINISTRATION
STANDARD AGREEMENT FORM
FOR PROFESSIONAL SERVICES CONTRACT**

This contract, which is effective only if it is approved by the Department of Administration, is between the State of Alaska,

Department of **Natural Resources** *hereafter, The State, and*

Contractor **Kidder Peabody** *hereafter, the Contractor*

Mailing Address **10 Hanover Square** City **New York** State **New York** Zip Code **10005**

Alaska Business License Number _____ Internal Revenue Service Number _____

This is a contract for professional services. AS 44.37.020 authorizes the State to make this contract. The parties to the contract agree as follows:

ARTICLE 1. Appendices. Appendices referred to in this contract and attached to it are considered part of it.

ARTICLE 2. Performance of Services.

- 2.1 Appendix A, Articles 1 through 16, governs the performance of services under this contract.
- 2.2 Appendix B sets forth the services to be performed by the contractor.

ARTICLE 3. Period of Performance. The period of performance under this contract begins January, 1982, and ends June 30, 1982. Performance may be extended for additional periods by the written agreement of the parties.

ARTICLE 4. Consideration.

- 4.1 In full consideration of the Contractor's performance under this contract, the State shall pay the Contractor in accordance with the provisions of Appendix C.
- 4.2 When billing the State, the Contractor shall refer to the State Contract Number and send the billing to:

Department of **Natural Resources** Attn: Division of **Commissioner's Office**

Mailing Address **Pouch M, Juneau, Alaska 99811**

C O N T R A C T O R **S T A T E**

Name of Firm **Kidder, Peabody & Company** Department or Agency **Natural Resources**

Signature of Authorized Representative _____ Signature of Certifying Officer _____

Typed or Printed Name of Authorized Representative _____ Typed or Printed Name of Certifying Officer **Jeff Haynes**

Title _____ Title **Deputy Commissioner**

APPROVAL BY THE DEPARTMENT OF ADMINISTRATION

NOTICE! This contract has no effect except as an offer by the Contractor until it is approved by the Department of Administration.

Signature of Authorized Official of the Department of Administration _____ Date _____

Typed or Printed Name of Authorizing Official _____ Title _____

APPENDIX A

Article 1. Definitions.

- 1.1. In this contract and appendices, "Certifying Officer" means the person who signs this contract on behalf of the Department and includes a successor or authorized representative.
- 1.2 "Department" means the agency for which this contract is to be performed and for which the Certifying Officer acted in signing this contract.

Article 2. Inspection and Reports.

- 2.1 The Department may inspect, in the manner and at reasonable times it considers appropriate, all the Contractor's facilities and activities under this contract.
- 2.2 The Contractor shall make progress and other reports in the manner and at the times the Department reasonably requires.

Article 3. State Saved Harmless.

The Contractor shall indemnify and hold and save the State, its officers, agents and employees harmless from liability of any nature or kind, including costs and expenses, for or on account of any and all legal actions or claims of any character whatsoever resulting from injuries or damages sustained by any person or persons or property arising from its performance of this contract in any way whatsoever.

(OVER)

Article 4. Disputes.

4.1. Any dispute concerning a question of fact arising under this contract which is not disposed of by mutual agreement shall be decided without bias by the Director of the Department's Division of Administrative Services (or, if none, the Department's Administrative Officer), who shall reduce his decision to writing and mail or otherwise furnish a copy of it to the Contractor. The decision of the Director is final and conclusive unless, within 30 days from the date of receipt of that copy, the Contractor mails or otherwise furnishes to the Certifying Officer a written appeal addressed to the Commissioner of the Department. The Commissioner shall appoint a three-person board from the Department to hear the appeal, none of whom may be from the Division of Administrative Services. The decision of the board is final and conclusive, unless it is fraudulent or not supported by substantial evidence. In any proceeding under this article, the Contractor has a right to be heard by an unbiased panel and to offer evidence in support of his appeal. Pending final decision of a dispute, the Contractor shall proceed diligently with the performance of the contract and in accordance with the Director of the Division of Administrative Services decision.

4.2 This disputes article does not preclude consideration of questions of law in connection with decisions provided for in paragraph 4.1 above. However, this article does not make the decision of any administrative official, representative or board on a question of law final or conclusive.

Article 5. Equal Employment Opportunity.

5.1. The Contractor may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, or marital status, change in marital status, pregnancy or parenthood when the reasonable demands of the position do not require distinction on the basis of age, physical handicap, sex, or marital status, changes in marital status, pregnancy, or parenthood. The Contractor shall take affirmative action to insure that the applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, ancestry, age, sex, or marital status. This action must include, but need not be limited to, the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. The Contractor shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this paragraph.

5.2. The Contractor shall state, in all solicitations or advertisements for employees to work on State of Alaska contract jobs, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, or marital status.

5.3 The Contractor shall send to each labor union or representative of workers with which the Contractor has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' representative of the Contractor's commitments under this article and post copies of the notice in conspicuous places available to all employees and applicants for employment.

5.4. The Contractor shall include the provisions of this article in every contract, and shall require the inclusion of these provisions in every contract entered into by any of its subcontractors, so that those provisions will be binding upon each subcontractor. For the purpose of including those provisions in any construction, maintenance, or service contract or subcontract, as required by this contract, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.

5.5. The Contractor shall cooperate fully with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful discrimination, and with all other State efforts to guarantee fair employment practices under this contract, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.

5.6. Full cooperation in paragraph 5.5 includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of the Contractor to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting in inspection of the Contractor's facilities; and promptly complying with all state directives considered essential by any office or agency of the State of Alaska to insure compliance with all federal and state laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.

5.7 Failure to perform under this article constitutes a material breach of the contract.

Article 6. Termination.

The Certifying Officer, by written notice, may terminate this contract, in whole or in part, when it is in the best interest of the State. The State is liable only for payment in accordance with the payment provisions of this contract for services rendered before the effective date of termination.

Article 7. No Assignment or Delegation

This contract is personal and the Contractor may not assign or delegate this contract, or any part of it, or any right to any of the money to be paid under it, except with the written consent of the Certifying Officer.

Article 8. No Additional Work or Material

No claim for additional services, not specifically provided in this contract, performed or furnished by the Contractor, will be allowed, nor may the Contractor do any work or furnish any material covered by the contract unless the work or material is ordered in writing by the Certifying Officer and approved by the Department of Administration.

Article 9. Independent Contractor.

The Contractor and any agents and employees of the Contractor act in an independent capacity and are not officers or employees or agents of the State in the performance of this contract.

Article 10. Payment of Taxes.

As a condition of performance of this contract, the Contractor shall pay all federal, state, and local taxes incurred by the Contractor and shall require their payment by any subcontractor or any other persons in the performance of this contract. Satisfactory performance of this paragraph is a condition precedent to payment by the State under this contract.

Article 11. Workmen's Compensation Insurance.

During the life of this contract, the Contractor shall provide and maintain, for all employees of the Contractor engaged in work under this contract, workmen's compensation insurance as required by AS 23.30. The Contractor shall require any subcontractor to provide and maintain for its employees workmen's compensation insurance as required by AS 23.30. That coverage must remain in force from the day services begin under this contract and shall provide for written notice to the Certifying Officer at least 30 days before cancellation or non-renewal. Failure to furnish satisfactory evidence of insurance or lapse of the policy is a material breach and grounds for termination of the Contractor's services. Before performing under this contract, the Contractor shall furnish the Certifying Officer with certificates of insurance as proof of compliance with this article. The certificates of insurance must include an All States' Broad Form Endorsement.

Article 12. Insurance.

Before this contract may be approved, the Contractor shall furnish a certificate of liability insurance evidencing coverage satisfactory to the Risk Manager of the Department of Administration.

Article 13. Ownership of Documents.

All designs, drawings, specifications, notes, and other work developed in the performance of this agreement are and remain the sole property of the State of Alaska and may be used by the State for any other purpose without additional compensation to the Contractor. The Contractor agrees not to assert any rights and not to establish any claim under the design patent or copyright laws. The Contractor, for a period of three years after final payment under this contract, agrees to furnish and provide access to all retained materials at the request of the Certifying Officer. Unless otherwise directed by the Certifying Officer, the Contractor may retain copies of all the materials.

Article 14. Governing Law.

This contract is governed by the laws of the State of Alaska.

Article 15. Officials not to Benefit.*

No member of or delegate to Congress, United States Commissioner, or officials of the state or federal government may be admitted to any share or part of this contract or to any benefit to arise therefrom.

Article 16. Covenant Against Contingent Fees.

The Contractor warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, contingent fee, or brokerage except employees or agencies maintained by the Contractor for the purpose of securing business. For the breach or violation of this warranty, the State may terminate this contract without liability or in its discretion deduct from the contract price or consideration the full amount of the commission, percentage, brokerage, or contingent fee.

* Articles 15 and 16 are to be used only if the professional services contract is federally funded.

KIDDER PEABODY CONTRACT

APPENDIX B. SERVICES TO BE PERFORMED.

GENERAL

Assist the State in its decision-making as to whether the State should participate in the financing of the Alaska Natural Gas Transportation System, and, if so, in what manner.

Gather information as is required to develop indepth analysis of possible State participation in the financing of ANGTS.

Develop computer model to evaluate economic viability of ANGTS and carry out risk analysis related to State financial participation.

Prepare and submit written report on above.

Assist in review of other reports being prepared by State agencies related to the issues of ANGTS financing.

WORK TASKS

1. Review documentary record of ANGTS, the State's relationship with the project, and the financial position of the State.

2. Discuss with State personnel the State's policy considerations and options, including the State's financing capabilities and alternative investment opportunities, and, if needed, develop a more detailed work plan.

3. Meet with Northwest Alaska and Northwest's investment bankers to obtain additional information as to the content and structure of Northwest's project financing plan, including their computer models' output, tariff structure, terms of debt and equity instruments, and other necessary data.

4. Meet with major commercial banks to obtain necessary data.

5. Information gathered through meetings between the North Slope gas producers and the State will be provided to Kidder Peabody, and additional meetings between the Producers and Kidder Peabody will be scheduled, if needed.

6. Develop computer model with work to focus on risk analysis for State, including comparison of State's risks and rewards to those of other project financing participants, and evaluation of incremental benefits as well as overall benefits. The risk sensitivity and related reward opportunity will be developed in light of three to five roles which the State might play in the ANGTS financing.

7. Analyze the results and make recommendations, if appropriate, for further action.

8. Prepare a written report for submission to the Governor and Legislature.

9. Assist in review of other reports being prepared by State agencies related to ANGTS financing issues.

10. Present supporting testimony before various public bodies, including the Alaska State Legislature, if requested.

PRODUCTS AND TIMELINE

By January 8, 1982	Task No. 1
By January 15, 1982	Task No. 2
By January 22, 1982	Tasks No. 3, 4 & 5
By January 31, 1982	Task 6 (Develop computer model)
By February 15, 1982	Task 6 (Complete risk analysis), Task 7 & Task 8 (First Draft)
By March 1, 1982	Task 8 (Revise and complete draft, and submit to State) Task 9
By March 15, 1982	Task 10

The products and timeline outlined above assume the submission to the State and Kidder Peabody of adequate information by Northwest Alaska, its investment bankers and others to proceed with an indepth analysis. If such information is not forthcoming or is not submitted in a timely fashion, the products and timeline will be adjusted through mutual agreement between the State and the Contractor. More express directions on the tasks will be provided by the State at suitable intervals.

APPENDIX C. CONSIDERATION.

In full consideration of the Contractor's performance hereunder, the State shall pay the Contractor a fee not to exceed \$100,000, inclusive of expenses. Upon submission of certified billing and the State's acceptance of the work, payments will be authorized as follows:

Upon completion of Tasks 1, 2, 3, 4, and 5, payment will be authorized for January, 1982, at an amount not to exceed \$25,000, exclusive of out-of-pocket expenses and computer time.

Upon completion of Tasks 6, 7 and 9, payment will be authorized for February, 1982, at an amount not to exceed \$25,000, exclusive of out-of-pocket expenses and computer time.

Upon completion of Tasks 8 and 10 (with the mutual understanding that Task 10 takes place not later than March 15), final payment will be authorized for an amount not to exceed \$37,500, exclusive of out-of-pocket expenses and computer time. At this time, the Contractor will also present billing for out-of-pocket expenses and computer time in an amount not to exceed \$12,500.

The Contractor stipulates that if the advisory work for the State results in the Contractor's selection as a managing underwriter or placement agent for securities issued as part of the ANGTS financing plan, the Contractor will repay the State amounts paid to the Contractor for work performed under this Contract to the extent that the amounts repaid do not exceed 50% of the Contractor's share of the management and underwriting fees for placing such securities.

Professional services for this work will be performed by the following principals: Joseph M. Schell, Kenneth Seplow, Roger N. Pyle, and Otto Lowe, Jr.

The payment schedule outlined above assumes the ability of the Contractor to abide by the products and timeline presented in Appendix B. If information is not forthcoming from Northwest Alaska and other parties or is not submitted in a timely fashion, the compensation schedule, as well as the products and timeline, will be adjusted by mutual agreement between the State and the Contractor.

Fiscal Data: Amount of this contract: \$100,000
Program activity: Northwest Gas Pipeline
Account Code: 110 10 44 9 137 300

Budgeted funds are available for the period and purpose of this expenditure.