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ALL ALASKA WEEKLY February 13, 1981

McMillian Says Gas Pipeline Is Set Firmly in Place

2/13/81

"With the advent of construction in the U.S. and Canada, the Alaskan Natural Gas Transportation System is set firmly in place and well along the road toward completion."

So said John G. McMillian, chairman and chief executive officer of Northwest Alaskan Alaskan Pipeline Company at a ceremony held at Spokane, Washington on Feb. 9 commemmorating construction of the first U.S. portion of the 4,800-mile pipeline system that will extend from Alaska's North Slope through Canada to markets in lower 48 states.

According to McMillian, "regulatory approvals from both U.S. and Canadian agencies in 1980 authorized construction of approximately 1,500 miles, or more than 30 percent, of the total Alaskan system. These portions have been financed and construction is underway."

Western leg segments in Canada and the U.S. will be completed by the fall of 1981. The new facilities will transport up to 300 million cubic feet of Alberta gas per day to consumers in southern California, he said.

McMillian noted that construction also has begun on the initial phase of the eatern leg of the pipeline system which, when completed in the fall of 1982, will deliver daily appproximately 800 million cubic feet of Canadian gas to pipelines in the midwest, south and east.

Both systems will transport natural gas from Alaska's Prudhoe Bay field beginning with the 1985-86 winter heating season, he said.

"Early construction of the western and eastern legs will provide several advantages to the overall Alaskan project," McMillian said. "It will allow an increase in needed near-term gas supplies to U.S. markets, avoid higher inflation in construction costs and provide a lower cost of service via earlier depreciation of facilities."

"In addition, this construction will help reduce the project's impact on labor materials and capital by spreading the demand for those items over a greater period of time," he said.

The initial phase of the U.S. western leg involves construction by the Pacific Gas Transmission Company (PGT) of 160 miles of 42-inch diameter pipeline paralleling its existing system between Kingsgate, British Columbia, on the U.S.-Canada border, and Stanfield, Oregon. Estimated cost of this construction is $186 million.

From Stanfield the Canadian gas will be delivered through the expanded facilities of Northwest Pipeline Corporation. Pacific Interstate Transmission Company, a unit of Pacific Lighting Corporation, Los Angeles, has contracted to purchase an average of 240 million cubic feet per day of the imported gas over a 12-year period for the southern California market.

Highlight of the Spokane ceremony was a banquet attended by U.S. and Canadian government officials, project sponsors, and state, county and civic leaders from throughout the Pacific Northwest. The keynote speaker was Idaho Senator James A. McClure, chairman, U.S. Senate Committee on Energy and Natural Resources.

ANCHORAGE TIMES, March 2, 1981

Canada wants U.S. gas line commit

by Betty Mills
Times Washington Bureau

Washington — The Canadian government is seeking assurances from President Reagan that the U.S. is committed to the completion of the Alaska Highway natural gas pipeline, Canadian Ambassador Peter Towe said today.

At a breakfast briefing with reporters here, Towe said the Canadians would like a letter from the White House that emphasizes its support for the project, similar to the one provided by former President Carter.

"President Carter wrote a letter to Prime Minister Trudeau indicating he is in favor of the (pipeline) agreement and the construction of the pipeline, and its conclusion before 1985," Towe said.

"We would like, and the financial markets and private industry would like, that same kind of commitment from President Reagan. We want to make sure this executive branch is as interested as the previous administration."

The 4,800-mile gas pipeline project will be among the topics discussed by Reagan and Trudeau when they confer in Ottawa next week, Towe said. President Reagan will make a two-day state visit to Canada on March 10-11.

Towe said the Canadians "want the project as much as we ever did, and we want it even more because we went ahead with the pre-building."

After receiving the letter from Carter and a joint resolution from Congress expressing support for the project, the Canadian government gave the go-ahead last summer for construction of the southern pre-built segments of the line.

That will allow the export of surplus natural gas from Alberta through 1987 until the pipeline is completed and Alaskan gas is flowing.

"If the main pipeline is not built, we're stuck with a stub," Towe said. "And that makes no economic or political sense."

Towe noted that a decision by the White House to decontrol natural gas immediately "would be very detrimental to the proje

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ANCHORAGE TIMES, March 4, 1981

Endorsement of gasline urged

by Betty Mills
Times Washington Bureau

Washington — President Reagan is continuing to receive pressure to express the commitment of his administration to the Alaska gas pipeline project, from Alaska's congressional delegation and in a Washington Post editorial today.

On Monday, Canadian Ambassador Peter Towe called on Reagan to issue a letter reinforcing the commitment of the U.S. government to completion of the pipeline project.

In a letter to the President Tuesday, the Alaska delegation echoed Towe's plea, saying: "The successful completion of this project depends in large part on the cooperation and support of both the United States and Canadian governments.

"While details as to the financing of this project have not as yet been worked out, and while the appropriate involvement of the federal government remains unclear, we believe it is important for the new administration to reiterate the strong expression of support for this project given to the Canadian government by the previous administration," the Alaskans said.

Both Towe and a White House spokesman confirmed that the gas line project is on the agenda for discussions beween President Reagan and Prime Minister Pierre Trudeau when the two confer in Ottawa next week.

In an editorial today, the Washington Post expresses support for the gas pipeline, and urges Reagan to focus attention on the project.

"The Alaskan gas pipeline ought to be built," the editorial said. "Although the risks and the doubts are real and worth noting, the decision has already been made. The United States has committed itself to the project. It cannot change its mind now without severely damaging its standing in Canada, and diminishing the value of pledges on more subjects than energy."

The editorial notes the expensive nature of the project, with a pricetag estimated at $25 billion, and the thorny nature of the financial negotiations now under-way between the sponsors and the North Slope producers.

In another development, Energy Secretary James B. Edwards Tuesday reiterated the federal government's belief that the project must be privately financed.

Edwards said that if the prospect of federal aid was even proposed, "it would hold up the project for years."

The statement came at a House hearing on an unrelated energy matter, in response to a question from Rep. Bruce Vento, D-Minn.

ANCHORAGE DAILY NEWS, March 11, 1981

A state of mind like Spenard deserves notice on maps

mark godwin

Let's put Spenard right where it belongs — back on the map.

For the past 10 years, whenever I gazed at my Kroll Map Co. map of Alaska, I could always count on my heart being warmed when I saw the black dot that represented Spenard. Ah, such comfort to see it sitting there just south of Anchorage, a civilized landmark in the wilds of the last frontier.

It was a good-sized black dot, too, not one of those nearly invisible little dots that represent your smaller no-account communities. The Spenard black dot was a bold, robust black dot, firmly planted on the landscape of our state. It was a bigger black dot than the black dots allotted Palmer, Wasilla, Nenana or Big Delta, and that was only fitting, I thought.

Then how come they took it off the map? I am not using my words carelessly, either. I say "took it off" because I do not believe that the absence of Spenard from my present map was a sin of omission. No way. I think somebody with a misguided sense of civic pride got to the cartographer and persuaded him to leave Spenard off the map on purpose. Shocking, I know, but probably true.

The problem is one of image. Many people think of Spenard as nothing more than a combination of Sodom and Gomorrah with no zoning laws. These people, most of whom live in split-entry homes on the east side of town, think Spenard is Spenard Road and nothing more. They think Spenard is a ramshackle hodgepodge of trailer courts, sleazy bars and massage parlors, and they probably thought they were doing Anchorage a favor by taking Spenard off the map.

In fact, they were doing Anchorage a great disservice, because Spenard is much more than a hood-filled neighborhood. Spenard is a way of life. Spenard is a state of mind.

Spenard is also a real good chunk of Anchorage, and if Anchorage is your basic All-American City, then Spenard is certainly your All-Anchorage community.

Consider the boundaries of Spenard and then decide if it should be on the map. Spenard is bounded on the north by Fireweed Lane and West High, on the east by the New Seward Highway, on the south by International Airport Road and on the west by Cook Inlet. Takes in a lot of territory, doesn't it?

It takes in Turnagain, the creme de la creme of subdivisions. It takes in the Sears Mall and University Center. It takes in our burgeoning business district, midtown Anchorage. It even takes in Anchorage International Airport.

Ha! The truth finally comes out. Spenard is the crossroads of the air world, and now it's not even on the map.

Sure, the folks in Turnagain wince when you mention Spenard. Sure the folks in the midtown business district ignore Spenard in hopes it will go away. Sure Spenard sometimes appears to be the Old Pickup Truck Burial Ground of the greater Northwest. Sure Spenard is the place that all stray cats and dogs originally called home.

But hey, Spenard has even worked its way into the Alaska dialect, which is something that Oceanview, Muldoon and College Village haven't been able to do. There is the chic "Spenard tuxedo," which some people mistakenly think is nothing more than an unfashionable down vest. There is the "Spenard divorce," which eliminates the need for lengthy property settlements. There is even a special brand of "Spenard urban renewal," in which a huge fire converts a dilapidated eyesore into a charred landmark in a matter of minutes. Yes, Bobby McGee's was in Spenard.

Spenard has the best bar in town. Spenard has the best Mexican restaurant in town. Spenard has the best racquetball courts in town. Spenard has just about ALL the lumberyards in town. Spenard had the FIRST McDonald's in town. Spenard has the ONLY "class" strip joint in town.

Spenard has a green elementary school. Spenard has the largest float-plane base in the world. Spenard has the municipal sewage treatment facility. Spenard has the community mental health center. Spenard will even have a golf course, again, in the near future. Spenard has discos and roller rinks, bowling alleys and antique shops. There's an ad agency in Spenard. There's even a combination Oriental grocery/tailor shop in Spenard. A library too.

Doesn't that sound like a vibrant, exciting neighborhood? Doesn't that sound like a thriving community? Doesn't that sound like a place where there are things to do, places to go and people to see?

Doesn't that sound like a place that should be on the map?

Study of gas line alternatives suggested

By JON MATTHEWS
Daily News reporter

JUNEAU — The Alaska Legislature should be prepared for possible failure of efforts to get private financing for the Alaska natural gas pipeline, says an internationally known energy consultant.

The state should study alternatives to the pipeline — possibly including construction of an in-state gas liquids pipeline — so it can make a more knowledgeable decision if it is again asked to provide financial help for the natural gas pipeline project, said consultant Milton Lipton.

Otherwise, Lipton told lawmakers, state leaders eventually might feel they were faced with either supporting the natural gas pipeline, or having no pipeline at all.

One possible alternative to the natural gas project, the consultant said, could be converting the North Slope natural gas to gas liquids, piping the liquids to Alaska's southern coast via in-state pipelines, and then shipping the product to market.

"The decision could better be made if you see the alternatives," Lipton said.

Lipton, of the New York-based W.J. Levy Consultants Corp., is appearing this week before various legislative committees tackling the gas pipeline and other major oil and gas issues looming in Alaska's future. Lipton has advised the state and many nations on oil and gas matters for years.

The Alaska natural gas pipeline, according to a recent Wall Street Journal article, may cost up to $35 or $40 billion, and more and more state officials are questioning whether the line can be built without private financing — if it can be built at all.

House Finance Chairman Sam Cotten, D-Eagle River, told Lipton Tuesday that the widely publicized start-up of construction of the Lower 48 segments of the 4,800-mile natural gas pipeline had led many to believe that the Alaska segment of the project would now be built.

"But now you suggest there's a great likelihood it will never come to pass," Cotten said.

But Lipton told the committee that the Lower 48 "pre-built" segments of the pipeline system could operate without the Alaska segment ever being built, by carrying Canadian natural gas to the Lower 48.

"The pre-built segments can survive — albeit with some financial problems — if the Alaska segment is never built," Lipton said.

ANCHORAGE DAILY NEWS, March 11, 1981

Anticipating the gas line project

Alaskans have held their breath in anticipation of gas pipeline construction for some time now. Even before the frenzied era of oil pipeline construction was concluded, we began looking forward — with varying levels of trepidation and anticipation — to another massive construction project.

The coming gas line has been a major assumption about life in Alaska, despite nagging worries over financing, marketing and construction. Every so often a minor roadblock is cleared — a permit granted, a tariff determined, a contract negotiated — and the project seems a bit closer to fruition. Not everyone wants to see another period of upheaval like the one surrounding the oil pipeline boom, but somehow it has always seemed inevitable.

Construction already has begun, in fact, on the Canadian and some Lower 48 portions of the line; the Canadians are understandably eager for further assurances of American commitment to the project. For a long time now, we've been assuming that commitment was sure; only the details seemed in doubt.

That's why reports that the line's price tag could reach $40 billion — according to the Wall Street Journal — give cause to stop and think. The legislature is doing so this week, with briefings from consultants and industry officials on the likelihood of prompt construction. What was scheduled to be the biggest private construction project in history may now be beyond the capacity of private sources to finance.

"It's very likely that the people of Alaska may be counting on a project that may never happen," says Sen. Ed Dankworth, R-Anchorage.

The situation makes evident the wisdom of legislators who counseled restraint two years ago, when the state was pressured to contribute to the financing package. To be stuck with such commitments now clearly would reduce the state's options for other uses of the money. Alaskans will continue their skepticism toward contributing to a project that private industry so far cannot finance itself.

At any rate, we'll be watching to see what the legislature learns this week. Sen. Dankworth suggests the state should set a time limit on its efforts to support the current trans-Canada pipeline project — after which the state could pursue alternate projects. Such a time limit may be wise.

There also may be hidden value to the current re-examination of gas line prospects: consideration of an Alaska *without* a gas line forces consideration of other opportunities and challenges still at hand.

And that endeavor will shed light on the shape of things to come regardless of the gas line project. For whether this project comes to fruition or not, the day will come when Alaska cannot plan on further gigantic construction projects to sustain it. Our assumptions then will focus on making good of long-run, sustainable opportunities — not breathless anticipation of another boom.

Somehow that prospect doesn't seem so bad.

ANCHORAGE TIMES, March 11, 1981

Consultant: all-liquids line a possibility

by Dave Carpenter
Times Juneau Bureau

Juneau — The Legislature should consider the possibility of an all-liquids pipeline from Prudhoe Bay to tidewater in case financing for the natural gas pipeline doesn't work out, a New York-based consultant told lawmakers Monday.

Milton Lipton of Walter J. Levy and Associates said legislators and the oil and gas industry might even want to build the all-liquids line if the gas line is built but turns out to be uneconomical.

"If for some reason the pipeline should fail, the state of Alaska is in a dire situation," Lipton told a joint meeting of House and Senate Resources members. He urged them to consider alternatives now.

"If you don't look at it (an all-liquids line) as an alternative, then everything hinges on the completion of the gas line" and extreme cost increases would have to be met.

An all-liquids line would transport methanol — not liquefied natural gas — to the Valdez area and then to the Lower 48 by ship. Lipton said there would be no point in taking a liquids line through Canada, like the proposed gas line, so costs would be much cheaper.

"You lose something in the conversion process but you gain something in the transportation process."

The longtime oil and gas consultant to the Legislature stressed that an all-liquids line "would not be inconsistent with petrochemical development" since all the liquids needed for petrochemical processing would still be present.

The consultant said the value of Alaska gas is bound to be "very, very much higher" in the future, both because it's underpriced now and because development of coal as an alternate to gas will drive the price up.

Lipton also said the Legislature, in addressing its immediate $7.5 billion risk involved in its legal battle with the oil industry, will be leaving itself open to more court challenges if it tries to make up that potential loss by hiking other oil taxes.

"I would expect any intelligent and alert corporation that objects to paying four times as much in taxes (under the oil tax law being litigated) is going to test the legality of any variation you introduce," Lipton said.

However, he recommended that lawmakers try to resolve the tax battle with the oil industry before the courts do, which could be another six years.

"That's a hell of a thing" for the oil companies to face if they win the legal battle but have their billions in contested tax dollars extracted by the state in another fashion, he said.

"The uncertainty is as devastating for the industry as it is for the state."

ANCHORAGE TIMES, March 9, 1981

Legislature to zero in on gas line issues

by Jean Kizer
Associated Press Writer

Juneau — Amid growing doubts about financing, the proposed natural gas pipeline will take center stage in the Legislature this week as lawmakers hear from oil and gas consultants and Northwest Alaskan Pipeline Co. officials.

Several joint hearings have been scheduled by House and Senate committees to touch on a range of pipeline-related issues, including the all-important question: Can the multibillion dollar project be built with private financing?

As cost estimates for the line continue to soar, state and industry officials are growing increasingly skeptical that the project can be built without federal loan guarantees or some other kind of aid.

"I think they're going to need everything to make it go — the companies putting in equity . . . possibly state equity participation . . . and they may need some kind of federal guarantee for the line," said Rep. Terry Gardiner, D-Ketchikan, co-chairman of the House-Senate Joint Gas Pipeline Committee.

"The financial community has never forgotten the Alyeska line and the huge cost overruns."

Gardiner said this week's hearings are intended to "bring us up to date" on the project. Although the subject of state financial aid will be discussed, Gardiner does not foresee any action this session.

Senate President Jalmar Kerttula, D-Palmer, co-chairman of the gasline panel, agreed. Kerttula said today he thinks most Alaskans remain "skeptical" of state involvement in financing the line.

Lawmakers will hear testimony from the Legislature's longtime oil and gas consultant, Milton Lipton of the firm of Walter J. Levy and Associates of New York and two Washington D.C.-based consultants hired by the gasline committee.

Two Northwest Alaskan officials — Darrell McKay, vice president for government and regulatory affairs, and Harold Moles, vice president in charge of Alaska operations — are scheduled to appear before the committee Friday.

The existing plan approved by Congress in 1977 for building the gasline precludes federal financial assistance. It also prohibits equity investment in the project by the oil companies that control the vast natural gas reserves at Prudhoe Bay.

A recent Wall Street Journal article now making the rounds of the state capitol said cost estimates for the project have reached $35 billion to $40 billion, up from $25 billion last year. The newspaper quotes supporters of the line saying they believe it cannot be built without substantial financial assistance from the federal government.

Gardiner said the state must answer two key questions before deciding whether to help finance the project: Would state financial assistance be a good business deal for the state, and would it make a difference in helping get the beleaguered project underway?

The questions will be difficult to answer, Gardiner said, until the Reagan administration indicates what approach the new president will take toward the line. "Reagan really hasn't taken a position on it. That's going to be a key," said Gardiner.

Whatever financing package is worked out must be submitted to Congress, where some lawmakers have questioned the feasibility of the project. Rep. John Dingell, the Michigan Democrat who heads the House Energy Committee, recently asked congressional researchers to study a number of possible alternative methods of moving the gas out of Alaska.

Such methods could include shipment by tankers and on-site conversion to methanol or other products, which could then be shipped to the West Coast.

The 4,800-mile gasline is proposed to run south from Prudhoe Bay parallel to the trans-Alaska oil pipeline to Delta Junction, south of Fairbanks. From there the gasline will head southeast into Canada, following the Alaska Highway to the Lower 48. Just north of Calgary the line will split, with one leg going to California and the other heading east to Illinois.

Northwest proposes to complete the pipeline by 1985, with gas scheduled to flow beginning in 1986. But most state officials say continued financing problems likely will delay the timetable. The line is designed to carry 2.5 billion cubic feet of gas daily.

JUNEAU EMPIRE, March 10, 1981

Gas pipeline

Alternatives suggested

By The Associated Press

Alaska should study alternatives to the proposed natural gas pipeline, such as converting the gas to liquids at Prudhoe Bay for transportation to tidewater, an international oil and gas consultant has told lawmakers.

Because the gasline represents "a tremendous risk" to finance, the state likely will be called on to provide some type of loan guarantee, in which case "that decision should be better made in the light of knowledge about alternatives," said Milton Lipton.

Although he did not discuss various alternatives in detail, Lipton mentioned the possibility of converting the gas to liquids at Prudhoe Bay, building a line to tidewater and then shipping the liquified natural gas south. "It's worth very, very careful consideration," he said.

Lipton's New York based firm of W.J. Levy Consultants Corp. has been advising the state — any many foreign nations — on oil and gas matters for several years.

Lipton briefed lawmakers today and Monday on the international oil situation and answered questions on a number of topics.

On the subject of the state's current legal battle with the oil industry over Alaska's oil and gas corporate income tax enacted in 1978, Lipton recommended the state negotiate a settlement with the oil companies.

"This a a devastating thing for the state to live with...the uncertainty. It's as devastating for the oil industry as it is for the state," he said of the pending litigation.

If the state loses the case, officials estimate the state could b[illegible]red to repay the major Prudhoe Bay producers $7 billion — the amount of money the state is expected to earn from the tax by 1985, when litigation may be complete.

"I would be very surprised if anyone gains by leaving this so long unresolved," he said.

However, Lipton said he doubts statements made by the oil companies that they are confident of winning the case. "They are not really so certain as I think their public statements insist," Lipton said.

He also noted that any attempts to rewrite Alaska's corporate income tax likely will be subject to litigation.

Lipton expressed doubt that the refinery proposed by Alaska Oil Company (formerly Alpetco) ever will be built.

DAILY NEWS MINER - FAIRBANKS, March 9, 1981

Legislators wait joint gas line hearings

By JEAN KIZER
Associated Press Writer

JUNEAU—Amid growing doubts about financing, the proposed natural gas pipeline will take center stage in the Legislature this week as lawmakers hear from oil and gas consultants and Northwest Alaskan Pipeline Co. officials.

Several joint hearings have been scheduled by House and Senate committees to touch on a range of pipeline-related issues, including the all-important question: Can the multi-billion dollar project be built with private financing?

As cost estimates for the line continue to soar, state and industry officials are growing increasingly skeptical that the project can be built without federal loan guarantees or some other kind of aid.

"I think they're going to need everything to make it go—the companies putting in equity, possibly state equity participation, and they may need some kind of federal guarantee for the line," said Rep. Terry Gardiner, D-Ketchikan, co-chairman of the House-Senate Joint Gas Pipeline Committee. "The financial community has never forgotten the Alyeska line and the huge cost overruns."

Gardiner said this week's hearings are intended to "bring us up to date" on the project. Although the subject of state financial aid will be discussed, Gardiner does not foresee any action this session.

Senate President Jalmar Kerttula, D-Palmer, co-chairman of the gas line panel, agreed. Kerttula said today he thinks most Alaskans remain "skeptical" of state involvement in financing the line.

Lawmakers will hear testimony from the Legislature's longtime oil and gas consultant, Milton Lipton of the firm of Walter J. Levy and Associates of New York and two Washington D.C.-based consultants hired by the gas line committee.

Two Northwest Alaskan officials—Darrell McKay, vice president for government and regulatory affairs, and Harold Moles, vice president in charge of Alaska operations—are scheduled to appear before the committee Friday.

The existing plan appoved by Congress in 1977 for building the gas line precludes federal financial assistance. It also prohibits equity investment in the project by the oil companies that control the vast natural gas reserves at Prudhoe Bay.

A recent Wall Street Journal article now making the rounds of the state capitol said cost estimates for the project have reached $35 billion to $40 billion, up from $25 billion last year. The newspaper quotes supporters of the line saying they believe it cannot be built without substantial financial assistance from the federal government.

Gardiner said the state must answer two key questions before deciding whether to help finance the project: Would state financial assistance be a good business deal for the state, and would it make a difference in helping get the beleaguered project under way.

The questions will be difficult to answer, Gardiner said, until the Reagan administration indicates what approach the new president will take toward the line. "Reagan really hasn't taken a position on it. That's going to be a key," said Gardiner.

Whatever financing package is worked out must be submitted to Congress, where some lawmakers have questioned the feasibility of the project. Rep. John Dingell, the Michigan Democrat who heads the House Energy Committee, recently asked congressional researchers to study a number of possible alternative methods of moving the gas out of Alaska.

Such methods could include shipment by tankers and on-site conversion to methanol or other products, which could then be shipped to the West Coast.

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Lawmakers question gas line funding

By JON MATTHEWS
Daily News reporter

JUNEAU — Some key Alaska lawmakers say too many crucial questions remain unanswered for the state to invest this year in the proposed Alaska Highway natural gas pipeline project.

And some legislative leaders question whether the gas pipeline — with its skyrocketing cost estimates — can be built without federal loan guarantees or other aid, or built at all. A few say the state should considering investing in possible alternative in-state pipeline projects.

The statements Monday came as legislative committees prepared to sit down this week for a series of meetings with consultants, officials and industry representatives to discuss the current status of the gas pipeline project.

Construction on Lower 48 segments of the 4,800-mile pipeline system already is underway, but Northwest Alaskan Pipeline Co. has yet to obtain massive private financing needed to build the Alaska portion of the line to carry Prudhoe Bay natural gas south.

A recent Wall Street Journal article said some cost estimates of the project have mushroomed to between $35 billion and $40 billion, up from $25 billion a year ago.

"If the cost is running into numbers like that, then there are some real questions" about financing the project, said Rep. Hugh Malone, D-Kenai.

"It's very likely that the people of Alaska may be counting on a project that may never happen," said Sen. Ed Dankworth, R-Anchorage and co-chairman of the Senate Finance Committee, also citing high cost estimates.

Malone and Dankworth said Monday that the state should look at possible investment in other natural gas projects. Malone said the state could study converting the natural gas at Prudhoe Bay into gas liquids, then shipping the liquids through the existing oil pipe-

See Back Page, LAWMAKERS

Lawmakers question state involvement

Continued from Page A-1

line. Dankworth said he would favor a look at state investment in the once-defeated all- Alaska natural gas pipeline route.

The federal legislation authorizing Northwest to build the Alaska Highway pipeline prohibits federal aid for the project, or direct investment by the major North Slope producers of the natural gas.

Rep. Terry Gardiner, D-Ketchikan and co-chairman of the joint House-Senate gas pipeline committee, said the state should not be "the first one into the (project financing) game."

Gardiner said the state needs to know if private investors are willing to put up money for the line, and whether the Reagan administration would consider changes in the federal law before Alaska agrees to offer any direct investment. Those questions probably won't be answered in time for legislative action this year, he said.

Senate President Jay Kerttula, D-Palmer and co-chairman of the committee, agreed, saying he was "skeptical" of whether the state should invest in the Northwest pipeline and whether state residents favored such a move.

"The state is not an expert at building pipelines," Gardiner said. "We have to look at whether state investment would be a good business deal for the state and whether the timing is appropriate."

Gardiner recalled previous attempts by Northwest to get state investment in the line. "Look what's happened to the cost of building of the project since then. If we had put a couple billion in two years ago . . . we'd sure look silly now, wouldn't we."

"We should wait and see and stay on top of the issue. This week's hearings are a basic review," Gardiner said.

Chuck Kleeschulte, press secretary to Gov. Jay Hammond, said Northwest officials have not approached Hammond recently for state aid.

Two Northwest officials are scheduled to appear before the legislature this week to detail the status of the project.

Sen. Frank Ferguson, D-Kotzebue, said he believes the legislature should consider investment in the Northwest gas pipeline, but only after Northwest and federal officials make clear their position on the project.

Ferguson said he had not yet made up his mind on the question.

Cautioning that he still has to hear out various officials during this week's hearings, Dankworth said he seriously questions state investment in the Northwest project.

Dankworth said he questions whether Northwest can get the needed financing and whether the gas could be transported at a reasonable cost to the Lower 48.

Dankworth said he would favor a time limit on Northwest's attempts to get the project built, after which the state might be able to concentrate on an alternative project.

"I would entertain a proposal to use state funds to finance a good portion of an all-Alaska pipeline," he said.

CITIZENS PARTICIPATION CONFERENCE

TENTATIVE AGENDA

MONDAY, March 16

8:00 to 9:30 a.m.	Registration (Baranof Hotel Lobby)
9:30 to 10:00 a.m.	Welcome! Introductions, Opening Remarks (Gold Room)
10:00 to 10:30 a.m.	Governor Hammond (tentatively) with Questions and Answers
10:30 to 11:30 a.m.	Introduction to issues by workshop spokespersons; Other announcements.
11:30 to 1:00 p.m.	LUNCH
1:00 to 5:00 p.m.	WORKSHOPS - Alcoholism, Nugget Room - Child Development, Gastineau Suite - Energy, Gold Room - Subsistence & Natural Resources, American Legion Hall
7:00 to 9:00 p.m.	Introduction/Training on Legislative Process

TUESDAY, March 17

8:45 to 9:00 a.m.	Conference Announcements (Gold Room)
9:00 to 9:30 a.m.	Guest Speaker (To Be Announced)
9:30 to 12:00 noon	Workshops Continue (As assigned above)
12:00 to 1:00 p.m.	LUNCH
1:00 to 5:00 p.m.	Workshops Continue

WEDNESDAY, March 18

8:45 to 9:00 a.m.	Conference Announcements (Gold Room)
9:00 to 9:30 a.m.	Guest Speaker (To Be Announced)
9:30 to 1:00 p.m.	Workshops finalize recommendations
1:00 to 2:00 p.m.	LUNCH
2:00 to 5:00 p.m.	Individuals meet with Legislators and attend Committee Meetings of Legislature

Aim for 'balance,' says oil consultant

An international oil consultant said today that resource-rich Alaska must balance economic necessity with environmental concern.

Milton Lipton, president of Walter J. Levy and Associates of New York, said unique development opportunities exist here in the wake of escalating world oil prices, but they must be compatible with maintaining a healthy environment.

Speaking before a Commonwealth North breakfast gathering, Lipton said: "By all means make haste, but with deliberate speed."

To drive his point home, Lipton recalled an Arab parable: "Even with nine wives, you can't make a baby in a month."

Lipton, who has long served as an adviser to the Legislature on oil policy matters, said Alaska will be forging its own direction this decade "in a world whose major source of energy — oil — is going to be in tight supply."

World oil prices, Lipton said, will continue to rise. However, the consultant predicted that energy consumption is likely to slow down. Further, coal, nuclear energy — at least outside the U.S. — and other alternative energy sources will be used widely as substitute for oil.

However, Lipton said the world still will consume 20 billion barrels of oil each year for the forseeable future.

Consequently, Alaska will continue to reap the benefits of world energy shortages.

Ironically, had the oil shortage not become so pronounced in the mid-1970s with the ensuing political instablity in the Middle East, Alaska could have remained resource rich but economically poor, Lipton said.

During a question and answer period, Lipton said the future of the

MILTON LIPTON
Legislative adviser

Alaska natural gas pipeline remains clouded.

Inflation, financing and deciding which route the pipeline should take are the biggest problems, Lipton said.

Lipton said Alaska must soon decide "whether the candle is worth burning." Although the value of natural gas will continue to increase as the price of oil spirals upward, Lipton said the financial risk for potential pipeline investors is going up disproportionately.

Lipton suggested pipeline financing may be impossible without the help of the federal government.

The consultant also said that perhaps the Legislature should explore alternative ways to tap its vast supply of natural gas.

On Tuesday, Lipton told lawmakers in Juneau to consider the possibility of an all-liquids pipeline from Prudhoe Bay to tidewater in case financing for the natural gas pipeline falls through.

Consultant paints rosy picture of gas line prospects

by Dave Carpenter
Times Juneau Bureau

Juneau — The proposed Alaska natural gas pipeline will "almost certainly" be built but construction won't start before 1983 and probably not until 1984, according to a Washington, D.C., consultant.

Joseph H. Chomski, in remarks prepared for delivery before the Joint Natural Gas Pipeline Committee, painted a fairly rosy picture of gas line prospects.

"The Alaska gas pipeline project has had its problems, as all will admit," said the legislative panel's legal counsel.

"It still faces many tough ones, but the events of the last year cast an undeniable aura of optimism," he said. "In no year has progress been greater than the last one."

Chomski, a partner in the Alaska-based law firm of Birch, Horton, Bittner and Monroe, is one of several consultants and officials appearing before lawmakers this week for briefings on oil and gas matters.

The attorney said negotiations between North Slope producers and Northwest Alaskan Pipeline Co. officials in New York may result in an agreement on gas line financing within the next month.

In the meantime, he said, most of the federal governmental bodies involved with the pipeline are in a "watching and waiting" posture.

Chomski said it will be at least late 1981 and probably early next year before the Federal Energy Regulatory Commission's Alaska Gas Pipeline Office recommends whether to approve Northwest's application for final certification — thus clearing the way for construction.

The consultant also said:

— The Legislature probably will face in next year's session a proposal by the producers and sponsors of the gas line for the state to aid with the financing.

While not making recommendations on whether the state should invest in the line, Chomski indicated the consortium would need a loan more than equity participation. Estimates have placed the cost of the pipeline as high as $40 billion.

— In order to maintain the gas line's current construction and completion schedule, "significant progress on the conditioning plant must occur this year." Northwest says that purchase orders must be made by this summer or a year will be lost.

— It's too early to say what the Reagan administration stand on the pipeline is, but it's clear that it would provide many benefits in harmony with Reagan's domestic policies.

" . . . No one can yet possibly speculate whether he will break from his philosophical commitment of keeping government out of the hair of private business — as well as his budget austerity program — to provide financial support if that is essential to make the line occur," said Chomski.

"It would be hard for the president to sanction federal participation, but it would also be difficult to stand by and watch the project abandoned."

— Deregulation of natural gas, which could occur, could pose an "extremely serious" problem for the state.

"It is quite possible that North Slope gas will be higher priced than competitive gas and that state public utility commissions will not sanction rates including the high-priced Alaskan gas if cheaper gas can be purchased. In this event, North Slope gas will have to be discounted to be sold."

In other words, the state would be in "great jeopardy" of having to sell a couple of years' worth of royalty gas at a substantial discount or for perhaps almost no wellhead price at all.

— The gas line can "under no reasonable circumstances" be built, given current law. The realities of pipeline development now make amendment of President Carter's gasline guidelines "an apparent necessity."

— The issue of federal participation in financing the gasline will not be presented to Congress this year "unless producer-sponsor negotiations fall apart or unless Wall Street adamantly turns thumbs down on the proposal that may be made to them by the producers and sponsors."

ANCHORAGE DAILY NEWS, March 14, 1981

Gas line financing doubts surface

By GEORGE BRYSON
Daily News reporter

WASHINGTON — President Reagan's desire to decontrol the price of natural gas this year has raised "serious questions" about the wisdom of private investment in the Alaska natural gas pipeline, congressional and industry sources say.

It also has prompted a new show of concern by the Canadian government — now increasingly nervous that the $20 billion American portion of the gas line may falter for want of private financing.

During his trip to Ottawa Tuesday, President Reagan offered small comfort for those fears — endorsing the continent-spanning project, but sidestepping any offer of federal dollars to help finance the American share of the pipeline.

"We strongly favor prompt completion of this project based on private funds," the president said in an address to the Canadian House of Commons.

Later Tuesday, Secretary of State Alexander M. Haig Jr. — pressed on the issue by Canadian journalists — refused to say the U.S. would be willing to consider a financial stake in the pipeline.

"We're going to do all within our power to see that (private financing) is available," Haig said.

In the meantime, Republican support on Capitol Hill for decontrolling natural gas appears to be growing. And as it does, pipeline investors are considering what implications decontrol — and a predicted three-to-four-fold increase in the price of gas — will hold for the gas line.

Industry observers say three potential implications are worth noting:

• Higher prices may be good news for oil and gas producers (whose profits are based on price), but bad news for gas transporters, the principle financiers of the pipeline (whose profits are based on consumption). Decontrol of gas would likely cut gas consumption in America and, with it, the profits of the transporters.

See Back Page, GAS

Continued from Page A-1

• Pipeline investors had originally planned on averaging the cost of Alaska's "expensive gas" with less expensive Lower 48 fuel, thereby providing a winning price for natural gas at the marketplace. But with decontrol there will be expensive gas at both ends of the pipeline and that sort of subsidy will no longer be possible.

• There are possible solutions to both of the preceding arguments. But the overriding factor for the private investor, who is being asked to plunk down a cool $50 million, is the uncertainty that now prevails concerning the future of natural gas:

No one seems to know what the Reagan administration plans to do, or what the price of natural gas will be in 1984, when pipeline construction is supposed to begin. Such uncertainty is bound to have a dampening effect on private investment in the pipeline, at least for the short term.

Alaska Gov. Jay Hammond, meeting in Washington Friday with Idaho Sen. James McClure, chairman of the Senate Energy and Natural Resources Committee, emerged from that meeting with a similar opinion.

"Deregulation does not appear to enhance the viability of the pipeline," Hammond said. He added that decontrol now clusion, that the question now is simply when it will occur.

Hammond said he is philosophically opposed to the federal government subsidizing the project. But if worse comes to worst, he added, the state will probably lobby in favor of federal assistance.

Following a front-page story in the Washington Post this week about the Reagan administration's zeal for decontrolling gas this year, the general nervousness over the implications for the pipeline has spread.

"Everybody on the Hill this week wants to know what deregulation is going to do to the gas pipeline," said Joyce Morrison, a public information officer for the Federal Inspector's office that oversees the pipeline. "... The phone has really been ringing."

But congressional and industry sources say decontrol is unlikely this year, regardless of the wishes of some of Reagan's advisers. Congress, they say, is not in the mood to approve it so closely on the heels of the deregulation of crude oil prices.

McClure echoed that sentiment last week during a meeting with western reporters.

"Any prospect of the deregulation of natural gas evaporated," the Senate Energy committee chairman said, "when the oil companies raised the price of gas immediately after the decontrol (of crude oil) last

DAILY NEWS MINER - FAIRBANKS, March 13, 1981

No assurances given on gas line fi

By NANCY SHUTE
States News Service

WASHINGTON—Gov. Jay Hammond quizzed Senate Energy Committee Chairman James McClure today on the future of the Alaska gas pipeline, but he didn't get the assurances he wanted.

In a meeting with reporters after the morning session, Hammond said there was "simply speculation" on Capitol Hill about the progress of efforts to obtain private financing for the $25 billion project.

Hammond also voiced concern over the impact on the pipeline's financing of President Reagan's plan to decontrol natural gas, and said McClure, as Republican head of the Senate committee that sets energy and environmental policy, offered no administration time frame for decontrol.

"Decontrol does not appear to enhance the viability of the pipeline," Hammond said, noting that most of his information came from speculation by political figures, not industry sources.

Decontrol of natural gas is expected to nearly triple Lower 48 gas prices from their current average of $1.65 to $4.50 per thousand cubic feet, about as much as the current cost of imported Canadian gas.

Hammond again voiced support for private sector funding for the gas line, and said McClure gave no hint of Senate intentions for legislative changes in the pipeline's enacting legislation. Both items have been the center of speculation in the face of continuing uncertainty over financing.

McClure also told Hammond the Senate is taking a dim view of major changes in the Alaska lands act this session.

"He felt they weren't interested in opening up that can of worms again," the governor said. "But they might consider critical, exclusive amendments" focusing on specific issues, he said.

Hammond lobbied McClure on the state's concerns about accelerated offshore drilling schedules proposed by Interior Secretary James Watt, but got no commitments from the senator on a slowdown of drilling schedules proposed in environmentally sensitive areas.

Hammond and Alaska's Washington delegation have argued that areas like

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JUNEAU EMPIRE, March 13, 1981

Hammond says state is not to blame for delays in gas pipeline construction

By JEAN KIZER
Associated Press Writer

Gov. Jay Hammond fired off a telegram to the chairman of Northwest Alaska Pipeline Co. Wednesday warning Northwest not to blame the state for delaying completion of the proposed natural gas pipeline.

In a related development, a Washington D.C.-based gasline consultant to the Legislature has predicted that gasline construction probably will not start until 1984 — a year later than scheduled — and that decontrol of gas prices could cause serious problems for the line.

Hammond's telegram was the latest in a series of exchanges between the state and Northwest Chairman John McMillian resulting from a dispute over a site lease for a gas conditioning plant at Prudhoe Bay.

"I must emphasize that we are all aware of the state of progess with respect to" the gasline, Hammond said. "It is for that reason that we insist the state not be singled out for causing a year's delay in the scheduled completion date of the system when we all know that there are many causes for such delay if it should occur."

Hammond's telegram was in response to one from McMillian in which Northwest said "we perceive the state continues to refuse to process our application, which is ready to file... and we are effectively blocked by the state from proceeding further at this time."

Northwest wants a long-term lease for 2,000 acres at Prudhoe Bay. But Commissioner of Natural Resources Robert LeResche has said the state will grant a temporary site permit now — which he says would allow Northwest to do any needed work this summer — and then convert it to a long-term lease as part of the right-of-way lease the state grants for the entire project.

LeResche told the Legislature's Joint Gas Pipeline Committee that it is crucial to the state for the conditioning plant and the gasline to be considered as one project. Otherwise, there is a greater possiblity that costs of conditioning the gas will be deducted from the wellhead price, which could cost the state between $4 billion and $8 billion over the life of the field, LeResche said.

LeResche has proposed granting a temporary site lease that would terminate if a gasline financing plan is not completed this year or if an acceptable agreement is not reached on conditioning costs.

LeResche and a lawyer from Washington D.C. briefed the committee on the status of the gasline project, and both said considerable progress has been made during the past year.

"...the events of the last year cast an undeniable aura of optimism. In no year has progress been greater than the last one," said Joseph Chomski of the law firm of Birch, Horton, Bittner and Monroe. The firm has been advising the committee since 1978.

Chomski said the gasline "will almost certainly become reality some day," in part because of U.S. commitments to Canada.

JUNEAU EMPIRE, March 13, 1981

Senators offer no assurances of help for getting gasline going

Empire Washington Bureau

WASHINGTON — Gov. Jay Hammond quizzed Senate Energy Committee Chairman James McClure today on the future of the Alaska gas pipeline, but didn't get the assurances for which Alaskans have been hoping.

In a meeting with reporters after the morning session, Hammond said there has been "simply speculation" on Capitol Hill about the progress of efforts to obtain private financing for the $25 billion project.

Hammond also voiced concern over the affect on the pipeline's financing of President Reagan's plan to decontrol natural gas, and said McClure, as Republican head of the Senate committee that sets energy and environmental policy, offered no time for decontrol.

"Decontrol does not appear to enhance the viability of the pipeline," Hammond said, noting most of his information came from speculation by political figures.

Decontrol of natural gas is expected to nearly triple Lower 48 gas prices from their average of $1.65 to $4.50 per thousand cubic feet, about as much as the current cost of imported Canadian gas.

Hammond again voiced support for private funding for the gas line, adding McClure gave no hint of Senate intentions for legislative changes in the gas pipeline's enacting legislation. Both items have been the center of speculation in the face of continuing uncertainty over financing.

McClure also told Hammond the Senate is taking a dim view of major changes in the Alaska lands act this session.

"He felt they weren't interested in opening up that can of worms again," the governor said. "But they might consider critical, exclusive amendments focusing on specific issues," he said.

Hammond lobbied McClure about accelerated offshore drilling schedules proposed by Interior Secretary James Watt, but got no commitments from the senator on a slowdown of drilling schedules proposed for environmentally sensitive areas.

Hammond and Alaska's Washington delegation have argued areas like Bristol Bay should be taken off the accelerated list until after onshore areas like the National Petroleum Reserve-Alaska are developed.

McClure "seemed to feel all areas (on the accelerated OCS schedule) would be explored," Hammond said. "It won't play very well with this Congress to remove (the contested Alaska area) from the schedule totally."

As to Thursday's meeting between the Alaska delegation and Secretary of Interior James Watt, Hammond characterized its mood as "cautiously respectful."

At the session, Watt issued a series of policy statements on implementation of the Alaska lands act and elimination of work on a U.S.-Canadian caribou treaty.

The governor was "surprised" at the secretary's degree of sensitivity to environmental issues, he said, citing Watt's decision to shift responsibility for oil and gas exploration studies in the Arctic Wildlife Refuge from the Fish and Wildlife Service to the more resource production-oriented U.S. Geological Survey.

"He really took great pains to see that the studies in the Arctic Wildlife Refuge are done in accordance with the Wildlife Refuge Management Act," Hammond said, adding environmental groups seemed to be "painting a one-dimensional portrait" of Watt due to his ardent support of states' rights in his former capacity as head of the conservative Mountain States Legal Foundation.

Contact: J.N. Vallely, vice president, Public Relations
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FOR IMMEDIATE RELEASE

NORTHWEST ALASKAN SETS 1981 ALASKAN FIELD PROGRAM: MOVES TO LARGER QUARTERS IN FAIRBANKS

Fairbanks, March 13 -- Northwest Alaskan Pipeline Company recently relocated it's Alaskan project headquarters to the North Star Terminal facilities in Fairbanks, according to Harold Moles, vice-president, operations for Northwest Alaskan.

Northwest Alaskan is the lead partner in a consortium of eleven pipeline companies who will build and operate the 745-mile Alaskan segment of the 4,800-mile Alaska Highway Natural Gas Pipeline Project.

"Northwest Alaskan and Fluor (the gasline project management contractor) are expanding Alaskan operations in anticipation of increased Alaskan field activities and employees in 1981. Completion of this year's field work would allow us to basically finalize our project design," Moles stated.

Offices for both companies moved to a larger building at the North Star Terminals on 701 Douglas Avenue in Fairbanks. In addition, four temporary 78-man fly camps set up last year along the Haul Road have been reopened to support the 1981 field work.

- more -

According to Moles, there are currently 550 persons working on the project in Alaska: 51 Northwest Alaskan employees, 86 Fluor personnel, and 413 contractor personnel. "More than 81 percent of these have been local Alaska hires," Moles stated. Alaska employment on the gasline is expected to peak at more than 700 this year and approximately 250 of these would be located in Fairbanks, with the remaining in field locations along the pipeline route.

ALASKA FIELD STUDIES

The largest gasline field activity in 1981 in terms of employment in Alaska is route surveying. The survey program will employ approximately 150 people in Alaska. Fluor, Gulf Interstate/Michael Baker, Joint Venture, and International Technology Limited (Itech), Anchorage, will be doing most of the hiring on this program. The survey will provide data necessary for design of the pipeline, compressor and metering stations and temporary facilities. Pipeline centerline surveys will be done on 293 miles of the proposed alignment not completed in 1980. Other surveys include realignments, areas which may require additional data, compressor and metering station surveys, access roads, and material sites.

The second largest field activity in 1981 is the borehole drilling program to determine subsurface soil and frost conditions along the proposed route of the gasline. Two Alaskan firms, The Drilling Company (TDC), Anchorage, and a joint venture between Reading & Bates, Houston, and Doyon, Ltd., the Fairbanks-based regional native corporation, are conducting this program. Other firms working on the drilling program are Gulf Interstate/Michael Baker, Joint Venture, and Arctic Test Lab, Fairbanks.

Over the past six years, more than 2,600 boreholes have been drilled in Alaska for the gasline project. An additional 1,400 holes will be drilled this year. Approximately 125 people will be employed at the peak of the drilling program in Alaska during 1981. Drilling crews will be working in four separate spreads from Prudhoe Bay to the Canadian Border.

CHILL PIPE TESTS

Another major field activity is the frost heave testing program. At a test facility just outside of Fairbanks, tests are being conducted to demonstrate the behavior of chilled pipe buried in unfrozen soils. In addition, several, smaller test sites are being constructed along the proposed gasline route from Wiseman to the Canadian Border. A majority of the smaller sites will be operational by mid-April of this year and will require about ten people to operate all six sites. Each of the smaller sites consists of two 80-foot sections of 48-inch diameter pipe. Contractors on the frost heave program include Doyon Construction Company, Inc./Reading and Bates Construction Company, Joint Venture, Fairbanks; Professional Contractors, Inc., Anchorage; Modern Construction/Tamak, J.V., Fairbanks; C.R. Lewis Company, Inc., Anchorage; and Earthmovers, Fairbanks. Other Alaskan companies that received contracts on certain segments of the testing program include H.C. Price Company, Fairbanks and Doyon Construction Company, Inc./Ghemm Company, Inc., Joint Venture, Fairbanks.

Additional field studies to be continued this year in Alaska include controlled blasting and trench excavation, river and stream crossing surveys, weld testing, fault studies, work pad assessment, fisheries studies, cathodic protection studies, material site exploration, airport and temporary facility surveys, micro-earthquake monitoring, soil resistivity, terrain stability, bedrock study, hydrographic survey, water resources survey, and solid waste and hazardous waste disposal studies.

Environmental programs scheduled for 1981 include studies of archaeology, raptors, caribou, fish stream surveys, forest resource studies, and site assessment work.

Other gasline design and engineering planning activities are also taking place in Irvine, California and Houston, Texas. Irvine is the location of Fluor's headquarters. (Alyeska Pipeline Service Company, Northwest Alaskan and the project design contractor, Gulf Interstate/ Michael Baker, Joint Venture, are interfacing in the Houston office.)

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From: Northwest Alaskan Pipeline Co.
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DAILY NEWS MINER - FAIRBANKS, March 16, 1981

Northwest to complete design work in summer

Northwest Alaskan Pipeline Co. says the work it plans in Alaska this summer will complete what it needs for designing the Alaskan natural gas pipeline.

The company moved its headquarters in Fairbanks to the North Star Terminal March 2, and will soon reopen the four 78-man camps north of the Yukon River that it used last year.

"Northwest Alaskan and Fluor are expanding Alaskan operations in anticipation of increased Alaskan field activities and employees in 1981," said Alaskan vice president Harold Moles. Northwest is the lead partner in the 11-company group that is to build the 745-mile Alaskan segment of the pipeline, and Fluor is the project management contractor.

In the move to Northwest's larger offices, the state and federal offices that oversee the pipeline were left behind in the Tanana Valley Clinic building.

Moles said there are 550 persons now working on the pipeline project in Alaska: 51 Northwest Alaskan employees, 86 Fluor personnel and 413 contractor personnel.

"More than 81 per cent of these have been local Alaska hired," Moles claimed. Alaskan employment on the pipeline is expected to peak at more than 700 this year, and approximately 250 of these will be located in Fairbanks, Northwest estimates.

The major activity this summer will be pipeline route surveying, which will employ 150 persons. Fluor, a joint venture of Gulf Interstate and Michael Baker, and International Technology Limited (Itech) will be doing the surveys. The majority partner in Itech is Doyon Ltd., the Fairbanks-based Native regional corporation.

Surveys will cover 293 miles of the pipeline, Moles said, as well as metering stations, access roads, compressor stations and material sites.

Drilling programs testing soil and frost conditions will be done by two Alaskan firms, The Drilling Company of Anchorage and a joint venture between Reading and Bates of Houston and Doyon Ltd. Other companies involved with the program are the Gulf Interstate/Michael Baker joint venture and Arctic Test Lab of Fairbanks.

More than 2,600 boreholes have been drilled for the project over the past six years, Moles said, and 1,400 will be drilled this year. About 125 people will be employed in the program this year.

Several new frost heave test sites are to be finished along the pipeline route by next month.

Smaller studies will be conducted on the use of blasting for pipeline trench excavation, river crossings surveys, weld testing, fault studies, fisheries studies, material site exploration and other tests.

Price decontrol hurts gasline — official

By The Associated Press

Deregulation of natural gas prices, a goal of the Reagan administration, would quash chances for Northwest Alaska Pipeline Co. to get financing for the Alaska Highway gasline project, a top company official said Friday.

"Full decontrol of all natural gas would do severe damage to the project. It would inject into the natural gas market such uncertainty that...it would eliminate any real chance we have to finance" the proposed gasline, said Darrell MacKay, Northwest's vice president for government and regulatory affairs.

MacKay briefed the Legislature's Joint Natural Gas Pipeline Committee on the status of the mammoth project and attempts by Northwest, the consortium of 11 gas transmission companies proposing to build the gasline, to get financing.

Although President Reagan has not introduced gas deregulation legislation, the administration has made a public commitment to ask Congress to accelerate deregulation of gas prices. David Stockman, Reagan's budget chief, recently annunced the administration will launch a two-pronged effort to accelerate decontrol.

MacKay told lawmakers Northwest sticks by its estimate that the 4,800-mile gasline will cost "in the range of $17 billion in 1980 dollars excluding interest costs during contruction" and excluding the cost of a plant to condition the gas. He projected the cost of the Alaska segment of the line at $8.2 billion, not counting a gas conditioning plant.

Other estimates by government and industry officials have pegged the pricetag at more than twice Northwest's estimate.

For several months, Northwest and the major Prudhoe Bay oil and gas producers have been trying to negotiate a financing agreement that would call for the producers to help finance the line. Current law prohibits the producers from investing in the line, but there are indications Congress may be willing to amend the law.

MacKay declined to discuss the negotiations, but said a tentative financing plan may be completed within two months.

He said the plan being worked on does not require state assistance in financing the line, but that the plan "would be flexible enough to accommodate the state if it decides it wants to participate."

Northwest does not need need further equity investment in the line, but needs debt financing, MacKay said. Higher profits generally result from equity investment.

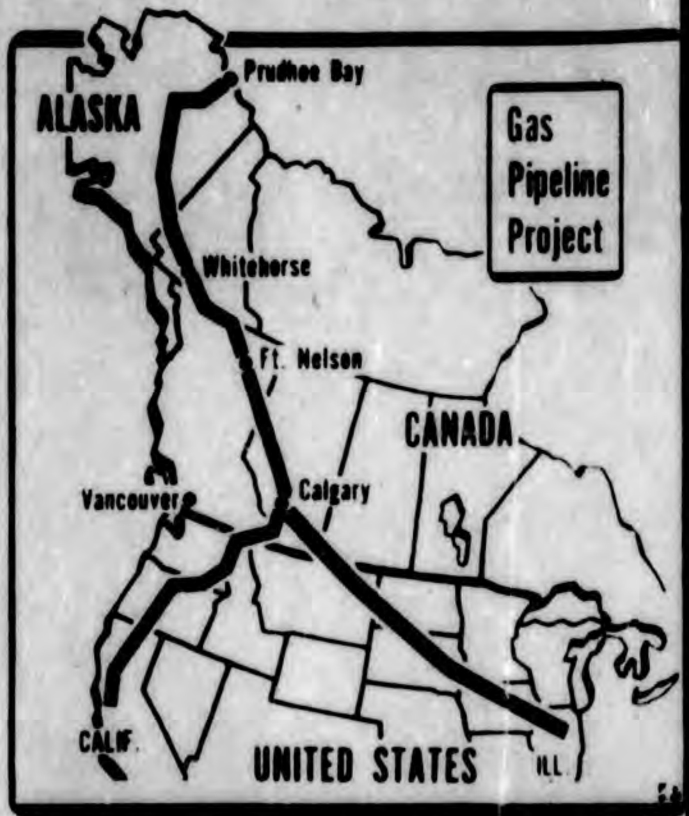
Part of Friday's briefing was taken up by a low-key, but intense discussion of the ongoing dispute between the state and Northwest over a site lease for a gas conditioning plant at Prudhoe Bay.

Rep. Brian Rogers, D-Fairbanks, said he is upset at Northwest for trying to make the state a "scapegoat...for delays, many of which are due to factors outside the control of the state or the company.

"Alaska is put in the position of being sort of a fall guy for delays in the project," Rogers said. "Isn't it the lack of financing that's causing the delay?"

"Not yet," MacKay responded. "It depends on the progress made during the next few weeks" of negotiations with producers, he added.

Northwest has accused the state of delaying construction of the line by refusing to grant a lease for a 2,000-acre site at Prudhoe Bay for a gas conditioning plant.



ANCHORAGE DAILY NEWS, March 17, 1981

Gas deregulation may slow pipeline

By BRUCE RAMSEY
Daily News correspondent

SEATTLE — Deregulation of natural gas could set the Alaska gas pipeline project back two years, John McMillian, chairman and chief executive of Northwest Alaska Pipeline Company said in Seattle Monday.

In remarks to a conference of 520 Seattle and Alaskan business people and government officials, McMillian said that the end of controls on the wellhead price of natural gas would cause chaos in the gas industry, disrupting contracts between gas producers and pipeline companies. Sharp increases in the price of "old" gas, in the face of a short term surplus in gas markets, could undermine the demand for expensive new gas.

Already, he said, with no delays in the project, Alaska gas will cost $6.50 per thousand cubic feet by the time it is delivered to the Lower 48. At this price, he said, "The gas supply will be competative in the marketplace when it arrives."

McMillian remained generally optimistic about the gas pipeline, arguing that proven reserves at Prudhoe Bay are 13 percent of domestic reserves —

See Back Page, PIPELINE

Pipeline construction could be delayed

Continued from Page A-1

an amount too large for the nation to write off.

He repeated his position that the gas line will be financed without U.S. government loan guarantees. He added that in any case, it would be politically impossible for energy companies to ask for subsidies in a year in which Congress is slashing the budget for food stamps.

McMillian was one of many decision makers in Alaska's economy to speak at the Seattle conference, which was sponsored by the Port of Seattle and by the Alaska and Seattle chambers of commerce.

Speaking to the group, which included more than 100 Alaskans, were executives of Arco Alaska, the Dow-Shell Group, Alaska Pacific Bank, Sealaska Corp. and Cook Inlet Region Inc. Also speaking were Lt. Governor Terry Miller and each member of Alaska's Congressional delegation.

Sen. Frank Murkowski proposed a deal between the state of Alaska and the federal government to rent Alaska royalty oil for use in the national petroleum reserve.

Murkowski said the federal government is committed to buying hundreds of millions of dollars of oil and pumping it into salt domes in Louisiana to cushion against a cut-off of foreign oil. The Reagan administration has proposed to spend $3.9 billion in fiscal 1982, an increase of $500 million over this year, to buy oil for the reserve.

"This proposal would allow Alaska to store part of its royalty oil and sell it in the future at future oil prices — a hedge against inflation for the state's oil resources," said Murkowski. "It would enable the federal government to fill the reserves without the expenditure of such enormous federal dollars. If Alaska committed 20,000 to 30,000 barrels a day for one year it would save the federal treasury between $500 million and $800 million at today's oil prices." Instead of paying Alaska cash for the oil, under Murkowski's plan, the federal government would lease or rent the oil allowing Alaska to retain ownership.

Murkowski said he discussed the idea with Harry Jones, deputy assistant energy secretary for the stratgic patroleum reserve. He said Jones "expressed strong interest" in it.

Lt. Governor Miller said Alaska's long-term policy is to use the royalty oil to lure petrochemical investment to Alaska, rather than to store the oil like a hoard of bullion. But he said Alaska probably will not be able to use the royalty oil as an incentive until the mid-1980s, so that Murkowski's plan might be appropriate for several years.

ANCHORAGE TIMES, March 17, 1981

Deferred income

WHEN MILTON Lipton spoke to an Anchorage breakfast audience last week, he suggested that Alaska might want to defer taking payments for its Prudhoe Bay royalty oil.

The deferred payments, the internationally famed oil economist said, would mean that the state would not collect dollars now when it has an abundance of petroleum riches. Instead, it would collect them some day in the future when the income from oil production might be tailing off.

Yesterday in Seattle, in an address at a big civic conference involving Alaskans and Washington State business and labor leaders, Sen. Frank Murkowski made a similar suggestion. The freshman Republican senator proposed that Alaska sell a portion of its uncommitted royalty oil to the United States for the Strategic Petroleum Reserve, with payments deferred as an inflation hedge.

THE IDEA certainly is worthy of examination. Obviously, Alaska currently has more income than it can handle. Rather than throw great gobs of money away on such things as give-away programs to send each Alaskan, regardless of need, a check for $193, it would seem to make good sense to reserve some of this income for the future.

Under the strategic reserve plan, the U.S. would hold a 45-day supply of oil in underground salt domes in southern Louisiana. The Reagan administration, Sen. Murkowski says, plans to place 230,000 barrels of oil a day into the reserve during the fiscal year beginning June 1.

ALASKA IS expected to have approximately 84,000 barrels of uncommitted royalty oil per day from July 1982 through the mid-1980s.

The senator suggested that between 20,000 and 30,000 barrels a day of this production be sold to the federal government for the strategic reserve, and the rest "used to encourage in-state development."

Milton Lipton might very well agree.

ANCHORAGE DAILY NEWS, March 19, 1981

Gas line sponsors expect plan

By ROBERT D. HERSHEY JR.
The New York Times

WASHINGTON — Sponsors of the Alaska Highway Pipeline Project say they expect to reach "conceptual" agreement by the end of the month on a plan to raise the $8.2 billion needed for the crucial Alaska leg on purely commercial terms.

The huge venture, which is to eventually bring natural gas from Prudhoe Bay to 33 other states, has faced rapidly escalating cost estimates of up to $40 billion that have prompted some industry and other sources to conclude it cannot be completed without federal loan guarantees or other aid.


John G. McMillian

But in an interview, John G. McMillian, chairman of the pipeline consortium, ruled out government help and insisted the line can be built without it.

"We think we have a plan developed that will allow us to finance the project privately," he declared.

"I think we'll reach an agreement."

While stressing that not enough information has yet been presented on which to base a decision, a New York banker involved with the project said there may be some combination of sponsor support that could induce banks, insurance companies and other private lenders to provide the required debt financing amounting to about 75 percent of the cost of the Alaska leg.

"Who's to say it won't go?" the banker remarked.

McMillian, who asserted it was idiotic to think that the Reagan administration would provide guarantees for a project involving some of the nation's biggest oil companies at a time of budget cutbacks, said he was confident, however, that a waiver would be obtained from the government so that the companies producing the gas could assume an equity position in the pipeline.

The law now precludes such stakes because of antitrust considerations.

Some other waivers, including one of tariffs, would also be needed, McMillian said.

His pipeline consortium met here Wednesday with the producers of the Alaska gas — Exxon, Arco and Sohio — to discuss, among other things, the nature and amount of each party's participation and to consider the producers' suggestion that a Prudhoe Bay processing plant to cost about $2.5 billion be included in it.

The key question, the banker said, is to what extent the producers will give their corporate backing to the needed debt.

McMillian also disputed suggestions that the prospect that natural gas may be substantially decontrolled would scuttle the project. This would pose a risk only if "old" as well as newly found gas were freed of price restraint, he said.

This, according to one academic expert, is possible but unlikely.

Meanwhile, the Federal Energy Regulatory Commission has disputed the consortium's $8.2 billion estimate for the Alaskan leg as too high. Instead of $7.3 billion as a base figure with $900 million for normal contingencies, the Federal Energy Regulatory Commission proposed $5.9 billion and $700 million, respectively, a reduction of $1.6 billion.

In addition the commission seeks to cut the so-called "center point" amount for abnormal contingencies.

Fuel Debate

Many Say Natural Gas Can Span Energy Gap, But Others Doubt It

Phased Decontrol Is Leading To Increased Discoveries, But How Much Is There?

A Shopping List for Reagan

By STEVE MUFSON
Staff Reporter of THE WALL STREET JOURNAL

Twenty-five years ago oil was so plentiful and natural gas so cheap that oil companies flared much of the gas—burned it uselessly into the atmosphere—to get rid of it.

One gas-company executive estimates that several trillion cubic feet of gas h[illegible] been flared in the U.S., enough to replace the nation's current oil imports for more than five years.

Today companies are scrambling to find natural gas. Buoyed by higher prices, firms are drilling at a record pace, and 1979 saw the first upturn in gas discoveries in a decade. A growing number of energy experts are saying that U.S. gas supplies could bridge the gap between the nation's dependence on high-priced foreign oil and its eventual reliance on another primary source of energy, be it solar power, nuclear power, synthetic fuel or coal.

"Natural gas can last long enough to buy time for new energy sources," says Roby Clark, president of the American Association of Petroleum Geologists and vice president of Diamond Shamrock Corp. Michel T. Halbouty, an independent oilman who headed the Reagan administration's energy transition team, adds: "We want more, more, more production. There are tremendous amounts of oil and gas left to be found in the U.S."

Big Demand Expected

Mr. Halbouty says that higher prices will bring huge increases in exploration and production. The industry sees a 50% rise in gas consumption by the end of the century. Developing the supplies to meet such demand could cost the industry more than $400 billion for new drilling rigs, pipelines, storage facilities and the like.

But many gas-industry members and observers say there just isn't that much natural gas available in the U.S. Skeptics point out that stepped-up exploration and discoveries in 1979 failed to replace even the gas used that year. Discoveries went up 35%, but that only replaced 70% of the 20 trillion cubic feet used. The figures for 1980 haven't been reported.

Whether or not the natural-gas boosters convince other Americans of the continuing availability of gas will have a lot to do with the shape of U.S. energy policy during the 1980s, a decade in which the nation's energy balance is likely to remain delicate.

A battle is already shaping up as gas producers bring their shopping list to President Reagan. One item they hope to win is a relaxation of existing limits on utility and industrial use of natural gas. The producers say gas could then replace two to three million barrels of oil a day by 1985. The new administration is receptive to the idea, but the regional gas shortages of the 1970s, which forced many school and business closings, and the supply problems in Massachusetts this winter might discourage many businesses from switching to gas.

Federal Lands

Second, the producers want the government to open up more of its lands for exploration. Many of the best gas prospects are on government-controlled lands in the West, offshore, and in Alaska. Although Carter administration members argued that companies hadn't even explored those few areas that had been opened up, it seems likely that James Watt, Interior Secretary, will go along with the producers. The lack of exploration on the bulk of federal lands has been a large unknown in reserve estimates. "It's like a guy who doesn't want to go to the doctor because he doesn't want to know what's wrong with him," says Bruce Lazier, an oil analyst at Paine Webber Mitchell Hutchins Inc.

Third, gas producers want to speed decontrol of prices. Most industry observers agree that natural gas's low price relative to oil is the reason that oil and gas companies haven't done more hunting for gas. Just eight years ago, a thousand cubic feet of natural gas cost little more than a local call from a pay phone. Gas still sells far below the equivalent price for oil, which is decontrolled. Old, or already-discovered, gas is controlled. So, at higher prices, is new shallow gas (gas 15,000 feet down or less). But new deep gas isn't; it was decontrolled by the Natural Gas Policy Act of 1978.

Under that act, controlled natural-gas prices will rise in stages until Jan. 1, 1985, when most gas will be able to obtain the market price. The price of controlled gas just before full decontrol will average an estimated $2.97 per thousand cubic feet. Oil and gas prices, so it was thought in 1978, would then be just about equal for an equivalent amount of energy.

Oil Has Soared

But the price of oil has jumped so far since 1978 that that future average of $2.97 is only half the equivalent *current* price of oil. This suggests that, unless the act is amended, gas prices will take a giant leap upon final decontrol. The producers want Congress to hasten decontrol of new shallow gas. The chairman of the Senate Energy Committee, James McClure, Republican of Idaho, says his panel will probably take up the issue this year, but he doesn't expect a Senate vote until 1982.

Gradual decontrol has already stimulated drilling. It led to 30% more seismic work, the first stage in exploration, in 1979. A record number of gas-drilling rigs were operating in 1980; in the first nine months, 11,000

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Fuel Debate: Many Experts Think That Natural Gas Can Span Energy Gap, but Others Remain Skeptical

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wells were completed, a 5.6% increase from the like period a year before.

Thanks to complete decontrol of new gas beneath 15,000 feet, much of the new drilling is down deep, generally considered one of the most promising areas because of the way gas is formed. Gas is more likely to be found farther down, in deeper, more expensive wells, where pressures and temperature are greater.

"The geology hasn't changed, the economics have changed," says Lawrence Funkhauser, vice president of exploration at Standard Oil Co. of California. "There are about 200 trillion cubic feet in proven reserves in the U.S. I believe there could be twice as much natural gas left to be found."

Natural gas now provides a quarter of U.S. energy needs. But its road has been a rocky one. Gas was first used commercially in Fredonia, N.Y., in 1821; it remained, however, an unwanted byproduct of oil wells for more than a century afterward. Even today, in many parts of the world outside the U.S., gas is flared by countries without gas-gathering systems.

In the 1930s the first interstate gas pipelines were constructed. After World War II, pipeline construction accelerated, linking the gas-rich Southwest with the energy-poor Midwest and Northeast.

Major oil companies remained relatively uninterested in gas, however, and a substantial part of the gas industry is held by smaller companies. In 1978, about 6,000 producers were selling to pipelines. Two dozen large companies, mostly integrated oil companies, accounted for half the production. The rest was sold by affiliates of pipeline companies, 500 large independent producers and 5,400 smaller independent producers.

Tax Is Feared

Some analysts say that speedier decontrol would spur more exploration. Others say that the existing decontrol schedule is incentive enough, but some companies fear that the government will pass additional taxes if the price jumps suddenly in 1985. "The gap between the price of natural gas and oil will be bigger at the end of the decontrol period than when Congress decided to close the gap," says John Bookout, the president and chief executive officer of Shell Oil Co. "If decontrol comes as now planned, there will be a big price jump on one day. I'm afraid of a windfall-profits tax on gas when that decontrol comes."

Even if exploration accelerates, some people think the U.S. will have to run faster just to stand in place. "We must increase activity just to maintain performance," says William Finger, coordinator for energy analysis at Exxon Corp., the nation's largest producer of natural gas. Mr. Bookout of Shell adds:

"We aren't saying there isn't a lot of gas left. There's almost as much as oil. But it is offshore in remote areas or in yet-undrilled provinces that won't be available in time to prevent the decline in reserves."

It isn't yet clear what effect still-higher prices will have on discoveries of natural gas, but their effect on consumers is relatively certain: Higher prices will probably lead to stingier use by individual customers. "Natural gas is the most ridiculous bargain on the market," says Mr. Clark of Diamond Shamrock. "The average price of gas is about $2 a thousand cubic feet. That equals $12-a-barrel oil. (Oil sells for about $37 a barrel.) If the natural-gas price went from $2 to $6 you'd get a lot more efficient usage. John Q. Public wastes until he can't pay the bills. The price isn't high enough to hurt yet."

Some Conservation

Some consumers think they've been hurt plenty. According to the American Gas Association, the average residential customer's gas bill was about $400 in 1980. This compares with $346.39 in 1979, $307.40 in 1978, $276.87 in 1977 and $155.73 in 1973. Such increases have led to some conservation. Although an additional 400,000 homes converted to natural gas in 1980, the gas association estimates that total consumption was flat. The average gas-consuming household used 95,000 cubic feet in 1978, down from 107,000 in 1974. Industry analysts believe that the figure now is below 90,000.

The controversy over gas's future is complicated by different opinions about possible sources outside the U.S. Right now the U.S. imports a small portion of its gas needs, roughly 5%. The gas association sees a sharp rise in imports, but many observers call this unrealistic. They say that other countries either won't want to part with so much gas or will set the price so high that the U.S. won't want to buy it.

Canada and Mexico have vast undeveloped natural-gas reserves and existing gas surpluses. Canada, especially in the western provinces, has a big surplus. The Canadian government sets the export price of the gas at $4.94 a thousand cubic feet, well above the U.S. price but well below the world oil price. Mexico sells the U.S. an even smaller amount of gas for $4.82 a thousand cubic feet. The export policies of the two neighbors are sure to be an important bargaining chip in their relations with the U.S.

Algeria is a third and less appealing source of imports. This member of the Organization of Petroleum Exporting Countries supplies the U.S. with small amounts of liquefied natural gas, ordinarily transported in special refrigerated tankers. Many of these shipments have halted recently because of a pricing dispute. Algeria has been seeking a price equivalent to the price of oil; figuring in LNG's high transportation cost, the price would be substantially higher than the price of an equivalent amount of imported OPEC oil. The U.S. and Algeria are still negotiating the matter. Many people argue that, in any case, it makes little sense to replace uncertain oil supplies with uncertain gas supplies.

Indonesia, another OPEC member, could also export LNG to the U.S.

ALL ALASKA WEEKLY, March 6, 1981

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McMillian, LeResche Squabble Over Lease; Terms for Plant Site

By Joe La Rocca

Juneau — Two critical decision have been reached in the development of plans to construct a $4 billion gas conditioning plant to prepare North Slope natural gas for shipment through the proposed Alaska gas pipeline. Both decisions contradict the state's long-standing contention that the conditioning plant can be located in the Interior rather than on Alaska's North Slope.

Although not yet publicly announced by the sponsor of the pipeline project, Northwest Alaskan Pipeline Co., the All-Alaska Weekly has learned that the Design and Engineering (D&E) Board for the project has decided on a plant design which uses a patented process known as "Selexol" to separate the gas liquids from the natural gas stream.

Northwest is expected to make the announcement shortly.

At the same time, the Alaska Department of Natural Resources has conceptually agreed to grant Northwest a lease or permit for a 2,000-acre site for the conditioning plant at Prudhoe Bay, although the state and Northwest are currently embroiled in a heated dispute over the terms and conditions of the grant which Northwest says could seriously delay the project.

Both decisions imply the state's belated admission that the two-year controversy over the location of the gas conditioning plant has finally been resolved in favor of Northwest's stated preference for the Prudhoe Bay site.

Northwest's selection of a North Slope location for the conditioning plant has been heavily criticized by local government officials in Fairbanks and elsewhere who wanted the facility located in the Interior in order to give the economy there a much needed boost.

Apart from the stimulus which the construction and operation of the $4 billion facility would have provided, it was also seen as a prerequisite to the development of an in-state petrochemical industry based on feedstocks produced from the natural gas liquids, which in turn would be extracted from the raw gas stream.

Among other things, it was expected that a conditioning plant located in the Interior would have made the gas liquids available for value-added processing there, and help to launch a multi-million dollar petrochemical industry within the state.

Critics have blamed Northwest's decision to build the conditioning plant at Prudhoe Bay on the state's early failure to insist on a pipeline design which would have made it possible to transport the gas liquids to a gas conditioning plant located in the Interior.

While the state has long argued that the decision could still be reversed, these two developments — The D&E Board's selection of the "Selexol" process, and the state's conceptual agreement to grant Northwest a conditioning plant site at Prudhoe Bay — clearly indicate that the decision is irreversible.

The D&E Board was established last June under an agreement setting forth a preliminary financing plan for the pipeline project which was signed by Northwest, the North Slope oil and gas producers, and the state.

One of the D&E Board's first tasks was to come up with designs for the pipeline project and the conditioning plant upon which a reliable project cost estimate could be based, so that the sponsors could proceed with arrangements to finance the project.

Rough cost estimates currently range from $25 billion to $40 billion, and it's not known whether the D&E Board has refined the estimates for the project yet.

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Gas Plant . . .

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While the D&E Board's decision in favor of the Selexol process means that the gas conditioning plant will be located on the North Slope, it does not necessarily imply that the gas liquids will not be available for in-state petrochemical development.

The conditioning plant design can be modified in a way that would permit the extraction of the gas liquids if feasibility studies currently underway indicate that a separate small diameter gas liquids pipeline to ship them to downstream processing facilities would be economical.

The Dow-Shell Group, a consortium of nine Alaska-U.S. and Japanese companies led by Dow Chemical U.S.A. and the Shell Chemical Co. undertook comprehensive studies late last year to ascertain whether in-state petrochemical production based on North Slope liquids would be feasible, in exchange for an option to purchase the state's one-eighth royalty share of gas liquids from North Slope natural gas production.

The Group, chosen by the state from amongst several competitors, has budgeted $5 million for the studies this year, and expects to complete them and submit recommendations to the state by next September.

The Dow-Shell group indicated earlier that it doesn't matter whether the D&E Board picks the Selexol process or an alternative known as the "Sulfinol" process, insofar as extraction of the gas liquids are concerned, because they have assumed from the outset that the gas conditioning plant would be located on the North Slope.

If their studies indicate that in-state petrochemical production based on gas liquids is feasible, the Dow-Shell Group and some of its members, expect to proceed with the design and construction of selected transportation, production and export marketing facilities.

The state has agreed to make its one-eighth royalty share — about 25,000 barrels per day of North Slope gas liquids — available for in-state petrochemical production. But experts say that most of the remaining seven-eighths share of the gas liquids owned by the North Slope producers would be required to justify the expense of building a separate liquids pipeline needed to transport them to downstream processing facilities.

While negotiations have been underway between the state, the producers, and the Dow-Shell group for some time, the producers have not yet indicated whether they will commit their share of the gas liquids to any of the prospective facilities being comtemplated by the Dow-Shell Group.

Lt. Gov. Terry Miller, the state's representative on both the D&E Board and the Dow-Shell Group, said Wednesday that he is very encouraged by the efforts of both.

While the question of economic feasibility is not yet answered, Miller told the All-Alaska Weekly that "I personally am becoming increasingly optimistic that the results of the studies will show that an in-state petrochemical industry based on natural gas liquids will be feasible."

Miller said he is now convinced that "there's an industry there that a couple years ago everybody was dismissing."

While the question of the location of the gas conditioning plant has finally been officially laid to rest, a new controversy has quietly erupted between the state and Northwest Chief Executive John McMillian over a site for the plant on state lands at Prudhoe Bay.

In late January State Natural Resources Commissioner Bob LeResche asked Northwest not to submit its application for a separate lease on a 2000 acre site at Prudhoe Bay under the state's general land leasing law.

LeResche wants Northwest instead to include its application for the plant site in its application for the gas pipeline right of way over state lands, in keeping with the state's contention that the conditioning plant is an integral part of the pipeline project.

But Northwest contends that the conditioning plant is a separate entity and the Federal Energy Regulatory Commission (FERC) agrees. FERC, the licensing authority for energy projects in the U.S., has issued Northwest a conditional certificate for building the pipeline which separates the conditioning plant from the rest of the project.

But the state contends that separating the plant from the pipeline project would have significant adverse impact and hopes to persuade FERC to change its position when it issues Northwest a final certificate. For that reason, the state is insisting that Northwest combine its lease application for the plant site with its application for the pipeline right of way.

LeResche has also asked Northwest to apply for a temporary lease or land use permit so that the company can proceed on site work planned for this summer.

In a strongly worded telegram on Feb. 13 to LeResche, McMillian said that Northwest "can find no legal basis for your insistence that we proceed under (the pipeline right of way) rather than (under general land leasing law).

"Neither can we find any legal basis," McMillian added, "for your plan to convert a temporary use permit into a long-term lease. You have not responded," the Northwest executive told LeResche, "to one request for a statement of legal authority to support your position."

Said McMillian: "The inevitable consequences of this refusal to permit us to proceed immediately under (general leasing law) as we are prepared to do would delay the issuance of a long term lease for the conditioning plant site until pipeline right of way negotiations are completed."

Said McMillian: "The gas conditioning facility is the pacing item for the over-all project. If you persist in your present position, you must be prepared to accept the responsibility for

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a project delay, with the resulting increased costs to U.S. consumers who utilize Alaskan gas and the postponement of the use of Alaskan gas as a substitute for imported OPEC oil."

McMillian told LeResche that "We are effectively blocked by state inaction from proceeding further," and "cannot hold the project scheduled if you hold your present course of conduct."

LeResche was traveling out of the state when McMillian dispatched his telegram so it was f rwarded to Governor Jay Hammond. In response, the Governor told McMillian that all permits and authorizations for land use within the Prudhoe Bay unit must be coordinated with the unit operators. Hammond said that the operators have been notified of Northwest's application for a lease for the conditioning plant site, and the state is awaiting their reply. Sa Hammond: "The Commissioner's temporary absence is in no way delaying actions by the state."

The Governor told McMillian that the Attorney General has advised him that there is sufficient legal basis to issue a temporary lease or special land use permit which would allow site preparation to proceed as scheduled for the 1981 season.

The Governor also told McMillian that there appears to be some confusion over who should be issued the lease or permit. "Our representatives to the D&E Board do not recall Northwest being authorized by the board to seek this lease," Hammond said.

And he asked McMillian to send the state "the relevant portions of the minutes containing such authorization."

Mary Halloran, a special assistant to LeResche, said time is growing short for Northwest to apply for the permits it needs to proceed with work on the conditioning plant site during the short summer construction season on the North Slope.

Northwest plans to purchase gravel from the state for the plant's foundation, and competitive gravel disposal procedures must be followed which will take at least 60 days to complete.

Said Halloran: "It's perfectly clear, regardless of what we do with the long-term lease that there are procedures for doing what they want to do this summer. But we have to receive their applications soon," Halloran told the All-Alaska Weekly.

"This is a bureaucracy and we have to have the paperwork," she said.

DAILY NEWS MINER - FAIRBANKS, March 5, 1981

Fairbanks union rolls are mostly filled up

So you want a job on the proposed Alaska Highway natural gas pipeline?

Well, if you don't have a skill in high demand and if you are not yet on a union list, you may be out of luck, according to local labor leaders.

Joe Thomas, business agent for Laborers Union Local 942, says that until more is known on how the pipeline will be constructed, it's too early to tell how many members will be getting gas line work.

But he said the Laborers here have about 2,600 members and 70 to 80 per cent are now unemployed.

The gas line "should put a substantial number to work," Thomas said.

To get those jobs, "you may need to be on the list early in the game," Thomas said.

He said people not on the lists now have little hope of cashing in on gas line work through the Laborers Union.

Dave Rasley, business agent for Operating Engineers Local 302, said the "experienced operating engineers should be able to get work."

Operating engineers run the heavy equipment needed for pipeline work, such as bulldozers.

He said about 2,000 operating

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engineers live in Fairbanks and about 50 per cent are unemployed.

He expects many of them to get jobs on the pipeline, but said the contractors will probably be needing some operators to do work that local people don't have the experience to do. Those people will probably be coming from Outside.

"There are special skill people that just follow pipelines," Rasley said.

Rasley said his union is now working with Tanana Chiefs Conference to train people from the villages to give them skills for the pipeline.

He said that Lower 48 residents and people not on the hiring lists now don't have a much of a chance for pipeline work through the unions. And he expects the pipeline contractors to hire local people so they "can earn the dollars in Alaska and spend the dollars in Alaska."

Dean Berg, spokesman for the Teamsters Union Local 959, said that union has about 10,300 members statewide and about 30 to 40 per cent of those in construction fields are unemployed.

The Teamsters estimate that about 3,500 of their members may get pipeline work, Berg said.

He said that for persons not on a list now "chances are pretty slim" that they will get hired for the gas line.

Thomas, Rasley, and Berg all said that Lower 48 residents are already coming to Alaska for pipeline work.

"We are getting a lot of walk-ins," Berg said. "We are getting the Ma and Pa Kettle types with the station wagon, three kids, and the dog, wanting a pipeline job."

Of course, the big unknown for even those people on the union lists now is whether the line will be built and when. Financing for the project has not been secured.

The current schedule is to complete surveys this summer and begin rebuilding the old Alyeska camps in the summer of 1982.

Currently housed at the North Star Terminals are about 300 workers from Northwest Alaskan Pipeline Company, Fluor and some contractor management personnel.

DAILY NEWS MINER - FAIRBANKS, March 5, 1981

'We're ready for gas line,' local leaders say

By BILL CRAMPTON
Staff Writer

Dave Rasley, business agent for Operating Engineers Local No. 302, says already he is getting calls from the Lower 48 from people heading for Alaska for a job on the Alaska natural gas pipeline.

"They say they've heard the pipeline is being built and they are coming to Fairbanks," Rasley said. "I tell them construction hasn't even started and they call me a liar. Then I tell them if they are coming they better bring a suitcase full of money because it's expensive to live here."

Other labor leaders also say people already are heading north to cash in on the boom from the building of another pipeline to carry energy south. But they say most of those people won't get gas line jobs.

And the prospect of another pipeline has Fairbanks talking about possible housing shortages, whether local governments are ready to provide services for an influx of population, and whether it will mean jobs for the unemployed already living here.

Based on experiences of the oil pipeline, there is no question that the gas line could mean some dramatic changes in Fairbanks.

In 1970 the population of the borough was 45,864. During the height of oil pipeline construction in 1975 and 1976, the population hit 72,000. There were housing shortages, price increases for land, food, and just about everything else, lines everywhere, traffic jams, increased crime, and other social problems.

According to the state, the proposed gas pipeline, scheduled to begin in 1982 and be completed in 1986, "will attract not only thousands of construction workers and their families but many others seeking work in peripheral activities related to the project."

Federal gas line financing under Reagan not seen as likely. Page 3.

"More than 35,000 job seekers will come to Alaska in hopes of finding project-related employment. As many as 13,171 workers are expected to be employed directly on construction," says the state Office of the Pipeline Coordinator in a memo to the Federal Energy Regulatory Commission.

The memo requests that FERC agree to allow Northwest Alaskan Pipeline Co. to include in its tariff charges $19 million to deal with social and economic impacts to Alaska.

Fairbanks can be expected to feel much of the impact. "The communities that will experience the most impact are smaller (than Anchorage) and nearer the pipeline activity and population from the pipeline can be a severe and immediate shock," says the state.

Last week Northwest released manpower projections to the borough assembly indicating that at the peak of construction in 1984 the pipeline will employ 13,000 workers, including 4,200 in the Fairbanks area.

About 22,000 people were employed at the height of construction of the oil pipeline.

Is Fairbanks ready for the gas line? Opinions differ.

"I don't see any impact," said Fairbanks City Manager Wally Droz. "We have the basic services and the good experience from the oil pipeline."

Droz said the city is prepared to deal with an influx of population and that he

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doesn't foresee a need to increase basic services such as police and fire protection.

Municipal Utilities System Manager Doyle Ruff agrees that "we are pretty confident that we will be able to accomodate an influx in population. We feel we can handle it."

Ruff said the major problem will be expanding the telephone system and that a three-year expansion plan is already on the books.

Borough Mayor John Carlson said the borough also should be in good shape to handle an increase in population. "I'd say that I don't anticipate an influx of persons having much of a problem for borough government."

He said many subdivisions are already platted with plenty of empty lots for new residents wanting to build homes. And he added that the pipeline could mean an increase in mobile home parks.

One problem created by more people

cess and privacy.

Under the bill (CSSB90) introduced by Sen. Charlie Parr, D-Fairbanks, state and local agencies would be required to release requested information immediately, unless it harms an individual's privacy or is protected by existing state laws.

Also, there would be no charge for up to 20 pages per day of information, and addition fees could be waived if it is in the public interest or if the requester is indigent.

In response to recent suits brought by newspapers against local governments, the bill would require public access to records of finalists applying for all public positions. The bill defines finalists as the top three individuals or 10 percent of the applicants, whichever is greater.

Reagan unlikely to favor gas line aid, Mathews says

By FRED PRATT
Staff Writer

Doubting politicians may be talking more about a dim future for private financing of the Alaska natural gas pipeline, but there is no political focus for that talk, Deputy Federal Inspector Mo Mathews said today.

"A Republican administration would certainly be no more in favor of financial aid to the project than the past administration," Mathews said during a visit to Fairbanks. "One of the main reasons the Carter administration chose Northwest (Alaskan Pipeline Co.) for the permit was because they said no government financial aid would be necessary.

"The Reagan administration will give Northwest every chance it can to find financing privately," he said. "If it can't, then it's a whole new ballgame and I can't begin to guess what will happen."

Mathews said his office, which is overseeing all federal permits and other government actions in the project, has kept at arms-length from Northwest's financing efforts.

"A misplaced or even accurate quote from one of us around Capitol Hill on these negotiations could hurt the project," he said.

Another thing the federal inspector's office doesn't talk a lot about is the cost estimates for the pipeline. The federal government is processing Northwest's latest cost projection, and Mathew's office does part of the evaluation of that filing.

He did say, however, that Alaskan gas should be competitive with Mexican gas and other foreign sources. With the prices fixed by long-term purchases and the pipeline tariffs

MO MATHEWS

designed to decrease each year, the price of delivered Alaskan gas should begin to drop during the first five years of the pipeline's operations, he said.

Mathews also said the office has heard no word on whether Federal Inspector John T. Rhett will be replaced in the change of administrations, but he noted that nobody is calling for his resignation.

"He hasn't been told he's leaving, and he has strong endorsements from all of Alaska's congressional delegation," Mathews said. "I think that he's tried to emphasize that this would not be the time to have the office empty, with the financing on Wall Street and the interest in Congress, and it would take three or four months to replace him."

Mathews said the "one-window" approach where his office handles all the pipeline's permits seems to be a good deal for Northwest, but it's a time-consuming chore for his people.

"It's effective, but it uses some high-power talent doing some very small things from time to time," he said. "We have to work with the agencies issuing the permits, and often seek compromises to make sure the stipulations on a permit this week match the ones issued last week."

The system has worked well, Mathews said, and it will be used again for the design review of the pipeline and the applications for notices to proceed when actual construction begins.

Legislature tackles Alaska gas pipeline

By JEAN KIZER
Associated Press Writer

Amid growing doubts about financing, the proposed natural gas pipeline will take center stage in the Legislature this week as lawmakers hear from oil and gas consultants and Northwest Alaskan Pipeline Co. officials.

Several joint hearings have been scheduled by House and Senate committees to touch on a range of pipeline-related issues, including the all-important question: Can the multibillion dollar project be built with private financing?

As cost estimates for the line continue to soar, state and industry officials are growing increasingly skeptical that the project can be built without federal loan guarantees or some other kind of aid.

"I think they're going to need everything to make it go — the companies putting in equity ... possibly state equity participation ... and they may need some kind of federal guarantee for the line," said Rep. Terry Gardiner, D-Ketchikan, co-chairman of the House-Senate Joint Gas Pipeline Committee. "The financial community has never forgotten the Alyeska line and the huge cost overruns."

Gardiner said this week's hearings are intended to "bring us up to date" on the project. Although the subject of state financial aid will be discussed, Gardiner does not foresee any action this session.

Senate President Jalmar Kerttula, D-Palmer, co-chairman of the gasline panel, agreed. Kerttula said today he thinks most Alaskans remain "skeptical" of state involvement in financing the line.

Lawmakers will hear testimony from the Legislature's long-time oil and gas consultant, Milton Lipton of the firm of Walter J. Levy and Associates of New York and two Washington D.C.-based consultants hired by the gasline committee.

Two Northwest Alaskan officials — Darrell McKay, vice president for government and regulatory affairs, and Harold Moles, vice president in charge of Alaska operations — are scheduled to appear before the committee Friday.

The existing plan approved by Congress in 1977 for building the gasline precludes federal financial assistance. It also prohibits equity investment in the project by the oil companies that control the vast natural gas reserves at Prudhoe Bay.

A recent Wall Street Journal article now making the rounds of the state capitol said cost estimates for the project have reached $35 billion to $40 billion, up from $25 billion last year. The newspaper quotes supporters of the line saying they believe it cannot be built without substantial financial assistance from the federal government.

Gardiner said the state must answer two key questions before deciding whether to help finance the project: Would state financial assistance be a good business deal for the state, and would it make a difference in helping get the beleaguered project underway.

The questions will be difficult to answer, Gardiner said, until the Reagan administration indicates what approach the new president will take toward the line. "Reagan really hasn't taken a position on it. That's going to be a key," said Gardiner.

Whatever financing package is worked out must be submitted to Congress, where some lawmakers have questioned the feasibility of the project. Rep. John Dingell, the Michigan Democrat who heads the House Energy Committee, recently asked congressional researchers to study a number of possible alternative methods of moving the gas out of Alaska.

Miller sees problems in gas line financing

By FRED PRATT
Staff Writer

Growing doubts about the Alaskan natural gas pipeline are real and have to be faced, Lt. Gov. Terry Miller said this morning.

While stressing that he still believes the pipeline will be built, Miller said there are substantial unresolved problems clouding the plans now made for the pipeline and the Reagan administration's attitude will be the key factor in how they are resolved.

"I don't see people taking serious issue with the assessments like those in last week's Wall Street Journal article," Miller said. The article he referred to said cost estimates for the project have reached $35 billion to $40 billion and many of its supporters now believe it can't be built without substantial financial assistance from the federal government.

"Many still believe, and I am one of them, that there is going to have to be some equity particiaption by the Prudhoe Bay producers in order to finance the line," Miller said.

Another problem he sees is how construction cost overruns are handled. If the federal government guarantees cost overruns, Miller feels it will have grounds to also regulate the money earned by the producers and the state of Alaska.

He also said Alaskan gas will have to compete with new gas discoveries in Alberta and Mexico, and he pointed out that the U.S. Geological Survey recently increased its estimate of U.S. gas reserves by 20 per cent.

"This gas is closer to the markets, and it raises the specter that our gas, while more abundant, will cost more after we get it to market," Miller said.

Another problem he sees in the future is lawsuits against the "rolled-in pricing" system where the costs of the more expensive Alaskan gas will be spread throughout pipeline systems buying it in such a way that some utilities may pay higher prices but may not get any Alaskan gas.

Miller is in Fairbanks to participate in a seminar on Alaska during the 1980s, to be Saturday at the University of Alaska.

In an interview with the Daily News-Miner today, he said Alaska still has 12 to 15 per cent of the U.S. domestic gas reserves, and he thinks President Reagan's talks with Canadian officials may produce a Reagan policy on tapping that resource.

He is even more optimistic about the state's work with the Dow-Shell consortium on a proposed gas liquids pipeline and petrochemical industry in the state.

Stressing that the Dow-Shell project would be separate from the gas pipeline, Miller said, "I'm convinced the project will get the green light."

He said he came away from his meeting with Secretary of Interior James Watt three weeks ago impressed by the sympathy he saw for western states and Alaska in federal land issues.

Miller thinks Alaskans should take advantage of that sympathy by getting as much state land conveyed as possible during the Reagan administration. He also thinks as many transportation corridors as can be identified now should be put through the federal approval process during the same time.

His one area of disagreement with Watt was federal offshore oil leasing on the outer continental shelf. Like most state leaders, Miller believes on-land oil provinces should be explored before offshore areas.

"At no time does the state of Alaska think we do not have a part to play in solving the energy needs of the United States," he stressed. "But I can't see why the federal government continues to ignore the promising uplands of the North Slope."

ANCHORAGE TIMES, March 16, 1981

An expert's opinion

SOMETIMES it takes a stranger to drive home a point that people on the local scene have been trying to stress, without much success and without much public acceptance.

Milton Lipton, the internationally acclaimed petroleum economist, isn't quite a stranger. He and his company, Walter J. Levy and Associates of New York, have been involved in Alaska affairs for years, serving as consultants and advisors to one legislature after the other.

Yet when he spoke here last week at a breakfast meeting of Commonwealth North, his voice and his views carried a ring of authority as an expert from afar. And when he said what many Alaskans have been saying for years, he made it sound all the more important and essential.

Alaska, he said, is coming into the driver's seat in the world's energy picture — primarily because the rising cost of fuel worldwide brings into economic parity the enormous costs of producing petroleum and natural gas in Alaska. And therein lies the danger and the opportunity.

ALASKA, Mr. Lipton insisted, must pursue with all deliberate speed the exploration and development of its energy resources. It must do so for its own good and that of the nation and the world.

But — and this was the second part of his message — this development must be achieved so that it "enhances all the other things that matter so much to Alaskans."

Alaska, he said, "is not just a state. It is land and air and water and people."

A perceptive and commanding statement, to be sure. But it is a statement — or perhaps more accurately an assessment — that has been made by Alaskans for years. The trouble is that nobody listened because of the animosity towards the idea of resource development in a state rich in natural wonders and beauties.

Certainly, in recent year, the bureaucrats and political leaders in Washington didn't listen to Alaskans who said development and protection could come side-by-side.

The environmental zealots who seek to control Alaska's destiny listened to only half the assessment. And we all know which half.

Sometimes, sad to say, Alaskans didn't even listen to each other.

NONETHELESS, many Alaskans asserted over and over again that the nation needs Alaska energy development.

These same Alaskans said repeatedly that development can come with due regard for the environment that all Alaskans love and want to preserve, protect and enhance.

And with the income that oil production brings, the state finally and at long last would have, these Alaskans insisted, the economic resources to make sure that the job of development would be done properly and that the wildlife and wilderness of the state would not be harmed.

That's what Milton Lipton said, too. And maybe those people in the rest of the country who refused to believe what Alaskans said now will believe when they hear the same comment from a recognized expert.

DAILY NEWS MINER - FAIRBANKS, March 20, 1981

Back to square one

A CONSENSUS appears to be forming among knowledgeable oil industry leaders and the nation's economists that the Alaska natural gas transportation system through Canada will never be built.

The Wall Street Journal, which declared in 1977 that the line would never be built, reiterated the view this week, citing updated figures on costs and market developments.

It showed the situation has worsened in the past four years. The conclusion was that the pipeline must be forgotten as a bad dream.

But that doesn't mean that the Prudhoe Bay natural gas, which the pipeline was intended to deliver to markets, is to be forgotten. That huge reservoir of energy still has value and will be useful.

ONE ALTERNATIVE to the costly pipeline — which the Journal said is now around $40 billion — would be the proposal that was left by the wayside when the Canada route was selected. It was the plan to move the gas to a tidewater port in Alaska where it could be liquefied, loaded into tankers and delivered to the national markets.

Some high officials in the oil industry have indicated they believe that route would be a feasible suggestion now that the Canadian route is at a stalemate.

It would provide an all-American route to the national markets, eliminating the international complications of passing through Canada. It should be less costly because tankers already exist for the sea-going portion of the transportation system.

THERE IS A NEED for some urgency in reviving the all-American plan because tankers now considered surplus are on the way to the scrap yards. Statistics from Lloyds of London show that 50 supertankers have been idled and an additional 32 have been converted to floating storage depots. Some 82 million tons of the big ships, like prehistoric dinosaurs that became extinct when they became too big, have been hit by the recession and the cutbacks in Arab oil production.

Of even greater relevancy to the all-American route for the natural gas, a fleet of special cryogenic tankers of American ownership is idle as a result of the breakdown in arrangements to move Algerian natural gas to this nation's ports.

It can be said that tankers are a dime a dozen under today's economic conditions and that is the best time to undertake this alternative plan for getting the Alaska oil to market.

What others say

From The Fairbanks News-Miner

WE DON'T KNOW whether the capital move drive can be halted in the Senate, but we do know it's worth trying. The trouble the move would cause and the money it would cost are simply too great a burden for Alaskans.

ANCHORAGE TIMES, March 19, 1981

Bleak future for gas line

Reprinted from the Wall Street Journal

CANADA'S parliament cheered President Reagan last week when he said "we strongly favor prompt completion" of the natural gas pipeline from Alaska across Canada to the Lower 48 states. Presumably the cheers drowned out Mr. Reagan's next phrase, "based on private financing." This qualification sounds to us a lot like a confession that the pipeline won't ever be completed, promptly or otherwise.

Back in 1977, about the time the Carter administration endorsed the Alaskan Natural Gas Transportation System (ANGTS), we predicted in these columns that "the much-touted pipeline to bring gas from Alaska will never be built." Its cost, then estimated at $10 billion, translated into a gas price of $3.50 per thousand cubic feet (Mcf) at the U.S. border, when the controlled price for gas in the continental U.S. was $1.75.

We just couldn't see how anyone could lend the developers $10 billion, the biggest sum ever borrowed for a construction project, in the face of the risk that Lower-48 gas would be decontrolled, releasing enough gas at low enough prices to dry up the market for the Alaskan gas that would have to be sold to repay the loans.

SINCE that prediction, a few things have changed. The cost of the project is now estimated at $35 billion to $40 billion. This translates into a delivered price at the Chicago City gate of $15 per Mcf. This compares with an average wellhead price in the continental U.S. of about $1.55 per Mcf and delivered prices to industrial users of $2.53 per Mcf and to households of $4.20.

Meanwhile, Ronald Reagan has been elected president, has already decontrolled the price of oil and is talking about decontrolling the price of gas.

In our 1977 editorial, we did concede there was one chance that the pipeline would be built — if Congress in its wisdom "decided to soak the U.S. taxpayer" for the privilege of buying high-priced gas. Naturally, many of the pipeline's supporters are now hoping for precisely that outcome.

But Energy Secretary James Edwards told a House committee early this month that the administration wouldn't provide any financing or loan guarantees for the project. Mr. Reagan, of course, was repeating that position in his Ottawa speech.

THIS economically suicidal project was an artifact of the "Club of Rome" mentality that gripped so much of the nation in the mid-1970s. Congress thought we had a natural gas "shortage," in fact created by the low level of drilling activity induced by price controls. Meanwhile, here was Prudhoe Bay, seemingly our last chance.

So Congress outlawed the shipment of Prudhoe Bay oil and gas to its natural market in Japan, resulting in shipping the oil through the Panama Canal at ridiculous expense, and by the same logic in the ANGTS project for the gas.

Sanity is slowly returning, with growing recognition of the utility of the price mechanism in keeping us moving in an orderly fashion up the curve of next least expensive energy alternatives. A recent Natural Gas Supply Association study predicted that the U.S. reserve base could be maintained and possibly increased and production could be held steady at current levels if only price controls were removed.

Eventually someone will figure out some economic use for the Prudhoe Bay gas, and the ANGTS pipeline will be forgotten as a bad dream.

Agreement said near on gas line financing

Sponsors of the Alaska Highway natural gas pipeline say they expect to reach "conceptual" agreement by the end of the month on a plan to raise $8.2 billion for the Alaska segment of the pipeline, the New York Times reports.

John McMillian, chairman of the pipeline consortium, told the Times the money can be raised from private sources and government help will not be needed.

"We think we have a plan developed that will allow us to finance the project privately," he said. "I think we'll reach an agreement."

The pipeline, designed to ship Prudhoe Bay gas to 33 other states, has faced rapidly rising cost estimates of up to $40 billion, which have led some government and industry officials to say that it won't be built without federal loan guarantees or other aid.

But McMillian said it was idiotic to think that the Reagan administration would provide government guarantees for a project involving some of the nation's biggest companies at a time of budget cutbacks. He said he is confident, however, that a waiver can be obtained from the government allowing the oil companies to own a piece of the pipeline.

The law now precludes such an ownership interest because of antitrust considerations.

The Times quoted a New York banker as saying the key question is to what extent the oil companies will give their corporate backing to the needed debt.

Some other waivers, including one on tariffs, would also be needed, McMillian told the Times.

The pipeline consortium met Wednesday with the main North Slope oil companies—Arco, Exxon and Sohio—to discuss the oil companies' proposal that the $2.5 billion conditioning plant be included in the gas line financing plan.

McMillian disputed suggestions that the decontrol of natural gas would scuttle the project. He said that would pose a risk only if "old" gas as well as new gas were freed of price restraint.

The newspaper quoted an expert as saying that prospect is possible, but unlikely.

Meanwhile, the Federal Energy Regulatory Commission disputed the consortium's $8.2 billion estimate for the pipeline. That estimate includes $900 million for contingencies.

FERC proposed instead that a more accurate cost estimate would be $6.6 billlion, including $700 million for contingencies.

ANCHORAGE DAILY NEWS, March 30, 1981

Gas line hiring plan is delayed

By PAT O'BRIEN
Daily News reporter

Efforts to set affirmative action guidelines for the proposed Alaska natural gas pipeline project will be delayed at least six more weeks, according to the director of the Office of Federal Inspector's equal opportunity and minority business enterprise office.

But John Alexander said the final plan — now seven months late — is being crafted to ensure that equitable numbers of minorities and women from Alaska will be employed during the line's construction phase.

In an interview, Alexander declined to give specifics on hiring and subcontracting quota percentages because negotiations are continuing between the inspector's office and Northwest Alaskan Pipeline Company, which will build the line.

About 13,000 persons will be employed during the line's peak construction period in 1984.

Of that number, only four percent will be working directly for Northwest, Alexander said, with the rest employed by independent contractors.

The key to implementing a successful affirmative action plan will be a requirement that all contractors and subcontractors hire an acceptable percentage of women and minority-group members.

Hiring priorities, like most everything else connected with the gas line, remain somewhat speculative at this point because the project's backers still need an estimated $25 billion to $40 billion in financing for the line.

If financing is secured, the gas line will run from Prudhoe Bay to the Yukon border in Alaska, paralelling the trans-Alaska pipline much of the way. The line will travel through Canada alongside the Alaska Highway.

John Alexander

After crossing back into the U.S., it will split, with one half going to California and the other to the Midwest.

Affirmative action plans for the eastern and western legs were approved recently.

But determining the right hiring and subcontracting mixes for Alaska has been more difficult than for the other two segments, Alexander said.

Workforce predictions for this state are harder to measure than for other areas, he said, due to the transient nature of Alaska's population.

The task also has been complicated by the federal government's commitment to give special consideration to training and employing Alaska Native workers, Alexander said.

Alexander, who served as commissioner of Alaska's Department of Labor during construction of the trans-Alaska pipeline, said the federal government will be trying to avoid some of the problems that occurred then.

According to Alexander, employees involved in oil pipeline construction were not provided with an adequate training program and, consequently, few learned skills they could use during the later stages of the project.

An integral part of the affirmative action plan for the gas line, Alexander said, will be a training program for potential gas pipeline workers that will leave them with marketable skills after the construction phase is over.

The federal inspector's office plans to work with Northwest and the unions to develop training plans, possibly within the framework of apprenticeships, to teach workers the necessary crafts, Alexander said.

The project will require workers with a wide range of abilities, including laborers, operating engineers, pipefitters, welders and and carpenters.

Alexander said Northwest so far has more than met federal affirmative action requirements.

Edwin Kuhn, Northwest's director of governmental affairs, said 22.7 percent of the contracts it awarded last year went to minority-owned firms. He said about four percent of the contract — amounting to $2.8 million — were let to businesses owned by women.

ANCHORAGE DAILY NEWS, March 28, 1981

Only state financing can save the natural gas pipeline

arlon tussing

A recent Wall Street Journal editorial repeated the newspaper's longstanding view that the Alaska gas pipeline is an over-priced, "economically-suicidal artifact of the Club of Rome mentality." Fortunately, the "Journal" concluded, President Reagan's opposition to government financing assures that the pipeline "will be forgotten as a bad dream."

As the Journal pointed out, the pipeline indeed is in serious trouble. But it is far from dead.

The project's overall credibility is lower than ever before because of rising estimates of its cost — which the Journal pegged at $35 billion to $40 billion. There also is growing skepticism over whether Alaska gas could be sold in any case, in the face of an improved Lower 48 supply picture. Early deregulation, which some Reagan administration officials are now advocating, would make the project's prospects even worse, by further increasing Lower-48 supplies at the same time as it further reduced gas demand.

Meanwhile, Northwest Energy Company and the gas producers are at an impasse over how the pipeline is to be organized and financed. Three and one-half years after the President and Congress chose the Alaska Highway route and Northwest as the leader for the Alaska gas project, its ownership structure and financial strategy remain unsettled, and nobody has yet proposed a financing scheme that is acceptable to both the sponsors and the producers, and consistent with present U.S. laws governing Alaska gas.

But, despite the problems, the Alaska gas project's basic economics are still very good.

There is good reason to question the Journal's capital cost estimate for the project. Any plausible figure of this size has to include the cost of artificial water injection and new well completions in the Prudhoe Bay field, both of which will be needed soon even if the gas is not sold. The figure in the editorial surely includes the cost of the two pipeline segments that are already being built to carry Canadian gas.

Finally, the Journal's estimate is probably stated in Canadian dollars (each worth only 83 U.S. cents), or at best a mixture of U.S. and Canadian dollars.

There is no evidence from any public record, however, that the additional facilities that are specifically needed to produce and move Prudhoe Bay gas to the Lower 48 will cost more than $20 to $22 billion in 1981 U.S. dollars. Even this figure is suspiciously high, because of the Energy Department's curious invention, an "incentive rate of return" that gives the pipeline sponsors a powerful incentive to keep actual construction costs within their final budget estimate, but an even more powerful incentive to inflate that budget estimate.

Pipeline shipments from Prudhoe Bay and nearby fields will average at least 1 trillion cubic feet of gas, or 1 quadrillion btu of gas energy, over a period of at least 25 years. If the pipeline were an unregulated private carrier owned by the North Slope gas producers rather than a public utility, the producers and the state could make a profit by selling Alaska gas to industrial consumers and gas utilities at the other end of the pipeline for as little as $3.00 per million btu, escalated annually at the rate of general inflation.

This is a very competitive price; substitute energy in the form of $35-per-barrel imported oil has a cost of about $6.50 per million btu.

Traditional public-utility ratemaking methods almost guarantee that Alaska gas will be unmarketable, however. The regulated price at the wellhead, together with the regulated rate-base and rate of return on the various pipeline segments all add up to a Lower-48 price of $8 to $11 in 1985 — somewhat less than the Journal's estimate of $15, but high enough to price Alaska gas out of industrial markets. The fact that gas prices would fall during the project's later years will not help the utilities market overpriced Alaska gas during the system's crucial first five years of service.

Thus, one of the pipeline's basic problems is the fact the federal government and the sponsors decided to license and operate it as a conventional public utility, when it is a different kind of venture altogether — essentially a 6,000-mile extension of the Prudhoe Bay field. But there is another reason why the pipeline can not be financed under present law, no matter how good its economics seem to be.

The 1977 presidential decision approving the project specifically forbids (1) any equity or management participating by the North Slope gas producers (Arco, Exxon, and Sohio), the only private parties financially strong enough to carry much of the project debt, and (2) any gas-consumer backstopping of the debt through pre-completion surcharges or "all-events" tariffs, as well as (3) government loan guarantees.

Each of these restrictions seemed to have a worthy purpose at the time, and Northwest Energy Company, amazingly, lobbied for each of them. Their joint effect, however, is to prevent any combination of private or governmental parties from financing the Alaska system.

In light of all these problems, only the state can now save the project. The pipeline can not be financed and built without big changes in its organization, strategy, and legal framework. Neither the sponsors nor the gas producers even seem capable of thinking about the change in direction, and the Reagan administration's policy will undoubtedly be a hands-off one. The initiative for change must therefore come from someone who has a large stake in the fate of the project, and who can supply or guarantee a large share of the project's capital, but who is not compromised or immobilized by previous financial, contractual, or political commitments. Only the state of Alaska clearly meets this test.

Thus far, decision-makers and opinion leaders in Alaska have not treated the project as any responsibility of the state; they have either taken the pipeline for granted or have been indifferent to it. Official state policy has consisted mainly of self-protective reactions to moves by project sponsors or federal agencies, and concern for side-issues like location of the gas conditioning plant or availability of gas liquids for petrochemical development.

It is remarkable how few elected or appointed officials in Alaska have ever publicly considered what the state might do on its own initiative in order to advance the project, or how the state might benefit from investing in pipeline equity. In my view, the legislature's fears of political blackmail by Northwest or Washington have never been realistic; and irresistable pressures would come, if at all, from people within Alaska who are desperate for pipeline contracts or jobs, rather than from the federal administration or Congress.

Alaska's leaders must start thinking and talking more about the opportunities for state investments in North Slope gas development and less about their dangers. For example, they ought to explore actively the option of a state loan to the pipeline sponsors, convertible to equity on completion of the pipeline, followed by distribution of pipeline stock to Alaska's residents the way the government of British Columbia passed out shares in its formerly government-owned corporations.

The state has much to lose if the Northwest project is abandoned, especially if there is nothing realistic to take its place. In addition to the profit the state might earn on any direct investment in the pipeline, the benefits to Alaska include many billions of dollars in royalty, severance tax and corporate income tax revenues, both on Prudhoe Bay natural gas and on gas from other nearby reservoirs that will be shipped through the pipeline. An established or assured gas transportation system would also increase industry interest in future North Slope and Beaufort Sea lease sales.

The total construction effort in Alaska related to the gas pipeline, including additional field development, the conditioning plant, and the pipeline itself now appears to be almost as big as the Trans-Alaska Pipeline. This impact on the state's fiscal position and private economy will be several times greater than the total benefits anticipated from the proposed Valdez refinery, the Dow-Shell project, and Susitna Dam together. The flow of North Slope gas through Interior Alaska will also open opportunities for its use as residential, commercial, transportation, agricultural, industrial, and electric-utility fuel in Alaska.

□ Arlon R. Tussing is professor of economics at the University of Alaska and president of ARTA, Inc., Seattle. As chief economist of the U.S. Senate Energy Committee in 1975-76, he originated the concept of an Alaska Highway gas pipeline that was approved by the U.S. and Canadian governments in 1977.

train hauls to Los Angeles are being studied. As a defensive move, Pillsbury is rumored to be considering an expansion of its Los Angeles mill. Similarly, Peavey Co. announced plans on Feb. 24 for a new mill in Phoenix—presumably to thwart Bay State Milling Co. from moving in on Peavey's dominant market share there through its recent acquisition and planned expansion of Hayden Flour Mills in nearby Tempe.

All this new capacity-building virtually seals the doom of old mills in the upper Midwest, because demand is growing far too slowly to utilize it all. Domestic flour consumption, at 120 lb. per capita last year, has been rising only one lb. per year. Export demand has been propped up mainly by foreign-aid flour sales and the temporary inablility of the Russians to buy enough wheat abroad. Concludes one flour industry veteran: "Anyone expanding their milling capacity is taking a big gamble." ■

RESOURCES

Alaska's gas pipeline: Will it end in limbo?

The long-standing plan to finance the most expensive construction project in U. S. history may be going down the drain. Sponsors of the 4,800-mi. Alaska natural gas pipeline, who had resolutely opposed even partial ownership of the pipeline by the oil companies and who hoped the second Carter Administration would provide loan guarantees for its construction, are now doing an abrupt about-face. Rather than fighting the oil companies' participation, they are now joining them to lobby the Reagan Administration to permit the gas producers to own a large chunk of the project.

Their new stance, if accepted by the Administration and ratified by Congress, would break a stalemate that is threatening to sidetrack the project, vital to tapping more than 26 trillion cu. ft. of gas from Alaska and huge quantities from Canada's Arctic reserves. "The way things are," concedes John G. McMillian, chairman of Northwest Alaska Pipeline Co., operating partner for a consortium of 11 U. S. and Canadian companies sponsoring the project, "it's probably the only way it's going to get built." Yet he realizes the Reagan Administration will be reluctant to provide any kind of substantial help. "I can't ask for loan guarantees for Exxon while they're cutting food stamps," he says.

For most of the last year, the three major Prudhoe Bay producers—Exxon, Standard Oil of Ohio, and Atlantic Richfield—had balked at being denied equity while being asked to provide up to 40% of the debt financing for the project. The pipeline's cost is estimated by McMillian at $21 billion in 1980 dollars but could be as high as $40 billion. The oil companies were prohibited from co-ownership in the 1977 law approving construction of the pipeline, which reflected a concern by Congress and the Carter Administration that the companies should not control the gas from wellhead to consumer.

Major doubts. But even with the expected Reagan approval for oil company ownership—which Congress could veto—major doubts remain about both the pipeline's huge price tag and the ability to sell gas at prices that could be as much as double the selling price for gas produced in 1986 from the lower 48 U. S. states.

"The pipeline will never be built without federal loan guarantees," contends one leading financial analyst associated with the project. Other analysts, pointing to the huge project cost increases in recent years, question whether the three oil companies would provide the capital needed without taking control of the project from McMillian. "There is definitely a limit to what we can afford," acknowledges Edward M. Benson, vice-chairman of ARCO. "But we just want equity equal to our debt, not control of anything."

Selling the gas, Benson admits, "could be kind of tough at first because of the price." But the pipeline is expected to carry gas for 30 years, and the oil companies believe that the high-priced Alaskan gas will compete with decontrolled domestic U. S. gas.

McMillian plans to have a definitive estimate of the project's cost in April. Preliminary figures show the 1980 cost of a gas processing plant to have jumped from $2.8 billion to $4 billion, and, says ARCO's Benson, the oil producers expect financial markets will demand guarantees, either through equity participation or from the government.

Costs peril the project. New oil-company financing may not suffice to save it

Too much control? "The Carter Administration had a phobia about oil companies having control of the project," says Benson. "The Reagan Administration doesn't have the same problem, and we expect their support." Even with that help, however, the project will need further favors from the new Administration. McMillian may need White House help to forestall Federal Energy Regulatory Commission efforts to cut back the rate of return on the project the consortium has proposed.

Even so, the prospects of selling the 26 trillion cu. ft. of gas is proving a strong incentive to the oil producers. And, with pressure from Canadians who want to bring their huge MacKenzie region reserves to market, the project is not likely to perish easily. "It's got a lot of problems," says Paul D. Phillips, Sohio's senior vice-president of finance. "But I don't believe it's dead." ■

LAW

A court affirms patent holders' rights

In a ruling important to companies whose exploitation of patents gives them market dominance, a U. S. court of appeals has found that Xerox Corp.'s acquisition of basic copier patents in 1956 did not violate the antitrust laws as SCM Corp. charged in a suit filed in 1973. The judges said lawful acquisition of a patent entitles the company to hold it, without obligation to license it to others, for the 17-year period allowed under patent law. "To impose antitrust liability upon Xerox would severely trample upon incentives provided by our patent laws and thus undermine the patent system," the court said.

After the longest federal jury trial in history, a Hartford (Conn.) jury found in 1978 that through an agreement with Battelle Memorial Institute, a nonprofit research and marketing organization in Columbus, Ohio, with rights to xerography patents, Xerox had restrained trade and tended to create a monopoly in violation of the Sherman and Clayton Acts. SCM was injured, the jury said, in the amount of $37.1 million. (Damages are automatically trebled to $111.3 million.)

No violation. SCM claimed that Xerox's refusal to license the patents was unlawful, but U. S. District Judge Jon O. Newman, who tried the case, disagreed. In 1979, ruling on a post-trial Xerox motion, he threw out the damage verdict on the grounds that antitrust laws do not permit a monetary award under the circumstances of the case. The three-judge appellate panel has now unanimously declared that Xerox could not have violated the laws because it lawfully acquired the patents when no market existed for either plain-paper copiers or plain-and-coated-paper copiers.

The jury had said that Xerox could have foreseen that there would one day be such markets and that Xerox would dominate them. But that evidence, the court ruled, is legally insufficient to constitute restraint of trade, lessening of competition, or creation of a monopoly.

"There should be no surprise that the

Next 3 months seen crucial for gas line

DERMOT COLE
Staff Writer

Orange trucks have replaced yellow trucks. Northwest Alaskan Pipeline Co. was the first to get a telephone number with the new "451" prefix. At its headquarters in the North Star Terminals, upwards of 200 people may be employed this year.

Advance men for the Alaska Highway gas pipeline are visible in Fairbanks, but [redacted] is [redacted]

Even that timetable could fall apart though, if a financing plan to pay for the [redacted] isn't put together soon by the oil companies, Wall Street investors and Northwest, according to [redacted].

In an interview at his office in the Tanana Valley Clinic Building, where the school district sign on the door says "Gifted/Talented Coordinator," Behlke said [redacted].

The [redacted], is

CHARLES BEHLKE

may weigh 1,000 to 1,200 tons.

They can't be purchased off the shelf and must be ordered far in

JUNEAU EMPIRE, April 9, 1981

Federal study recommends continued gasline support

WASHINGTON (AP) — A federal study of the massive Alaska natural gas pipeline project expected to be issued next week is reported to take issue with some features of cost estimates and technical design.

But the study, an interim report on the U.S.-Canada project by the U.S. Federal Energy Regulatory Commission, recommends continued government support for the plan to pipe gas from northern Alaska through Canada into the United States.

Officials of the regulatory commission, whose authorization is required before the privately financed project can proceed in Alaska, said the interim report is being completed for likely publication next week.

They declined direct comment on a version of the study published in The Wall Street Journal, but indicated it was based on a preliminary draft that preceded a hearing on financial and technical aspects of the project two weeks ago in Tulsa, Okla.

The Tulsa hearing was the last in a series that began last fall. The commission is studying design and financial details because the costs will determine the scale of charges the sponsoring companies will be able to charge customers in the Midwest and California.

The Wall Street Journal said the draft study suggests that Northwest Alaskan Pipeline Co., the main sponsor, overestimated costs on the Alaska segment that would tend to raise gas selling rates. The effect would be to increase profits for the sponsor, said the report.

The study also is said to raise questions about some proposed design plans on the Alaska segment, suggesting that there are differences over such matters as the best way to protect the environment and deal with problems of getting the line through a mountain range.

ANCHORAGE TIMES, April 8, 1981

Gas line financing pact 'imminent'

Associated Press

Salt Lake City — An agreement is imminent with Alaska gas producers on the financing of the Alaska Highway natural gas pipeline, says the president of Northwest Alaskan Pipeline Co.

John McMillan said the deal should be completed within 60 days and then sent to major New York financial houses.

Northwest Alaskan heads an 11-company consortium that is sponsoring the Alaska segment of the pipeline, scheduled for completion in 1985-86 at an estimated cost of up to $21 billion.

McMillan told a Canada-U.S. conference on oil and gas production the big three gas producers on the Alaskan North Slope — Exxon, Atlantic Richfield and Standard Oil of Ohio — have made a "substantial offer to help finance the project."

Financing of the expensive Alaska portion of the line is the biggest remaining obstacle in what has been touted as the largest private enterprise venture in history.

The pipeline will run through Canada and certain prebuild portions of the line in Alberta, British Columbia and the continental United States are almost complete.

But while negotiations with the producers continue, McMillan says there are some issues related to financing that must still be resolved with the U.S. government.

Perhaps the most significant is the cost estimate for the Alaska segment of the project, which is being disputed by the U.S. Federal Energy Regulatory Commission.

Northwest Alaskan and its partners have estimated the cost at $8.2 billion in 1980 dollars. The commission figures it will cost $6.7 billion.

A gas processing plant will also have to be built, costing $2.5 billion in 1980 dollars.

The pipeline sponsors have been promised an incentive rate of return of 17.5 percent, but this is on the commission-approved estimate.

The sponsors will also be able to write off their costs against other U.S. income and this tax investment credit represents an additional 10 percent in after-tax return.

If the line were to cost $1.5 billion more than the commission official estimate, McMillan says the rate of return could be eroded to just 12 percent.

"This is an undesirable rate of return and we would not go with it," said McMillan.

McMillan says he is still hoping for a November 1985 start-up date, although he concedes that the target date could slip into 1986.

DAILY NEWS MINER-FAIRBANKS, April 9, 1981

Local gas line chi

Editorial Opinion and Comment of
FAIRBANKS
Daily News-Miner

By DERMOT COLE
Staff Writer

The future of the Alaska Highway natural gas pipeline hinges on the outcome of the financial wheeling and dealing designed to raise the billions needed for the Alaska segment of the project.

But the local field office of Northwest Alaskan Pipeline Co. has no day-to-day involvement with the negotiations on the fate of the pipeline being conducted by the major North Slope oil companies and Northwest Chairman John McMillian.

"The functions here are administering of the contracts and construction field activities and monitoring the performance of these pre-construction activities, scheduling, planning, cost control," said Harold Moles, vice president of operations for Northwest in Fairbanks.

At a blue building in the North Star Terminals, which the company has leased along with a five-acre storage yard cleared of almost everything but a coat of snow, some 200 workers are engaged in managing the continuing field tests for the design and route of the gas line.

People who walk in the door are greeted with a sign saying "All visitors must sign in and out with the receptionist," and approved guests are given plastic visitor badges with instructions on the back to mail them to Salt Lake City if lost.

A total of 550 people are now involved in the planning effort in Alaska, working for Northwest, Fluor, Michael-Baker, Gulf Interstate and various contractors in the field.

Early construction of the Western leg segment began in the Lower 48 and Canada late last year, but construction in Alaska is at least two years away, according to Northwest's current schedule.

Before coming to Fairbanks last fall, Moles was responsible for the operations and maintenance of Northwest's 3,000-mile pipeline system from the Canadian border to San Juan, N.M.

He has worked with Northwest Pipeline and its predecessor companies for 24 years.

He said he believes that an agreement on financing should be forthcoming in the next 60 days which will clear the way for the project to proceed.

"We feel very confident that it will be built and ultimately built on our current schedule," Moles said.

"We'd like to get ahead with the planning, get the engineering design and get the construction started and the pipeline operational. People on the project are dedicated to that and everyone's anxious to get down to the actual construction phase," he said.

Northwest Alaskan Pipeline Co. is the operating partner for the consortium of 11 companies planning to build the 745-mile-long Alaska segment.

The pipeline will be divided into six sections under six contractors with an estimated peak employment of 13,000 workers in 1984. The current plans say there will be more than 1,000 employees at the North Star Terminals at that time, and 1,200 contractor personnel at Fort Wainwright.

But unless the consortium finds the money to pay for the pipeline, those plans will not become any closer to reality.

The chief activity this year is route surveying. Pipeline centerline surveys will be done on 293 miles of proposed alignment, while other survey work will be for proposed compressor and meter st... ar... and is to be resumed after breakup.

Over the past six years, more than 2,600 boreholes have been drilled in Alaska and 1,400 more will be dug this year.

The frost heave testing program—crucial if the buried gas pipeline is to stay safely buried in cold soils—continues this year, as does work on a variety of environmental studies.

Asked about how the conflicting cost estimates for the pipeline will be reconciled, Moles said, "That's an area that I'm not familiar with."

An official of the Federal Energy Regulatory Commission recently issued a draft report proposing an official cost of more than $1 billion below the company's projected $8.2 billion price tag.

The official cost estimate is critical because the formula to be used to determine pipeline profits works in a way that Northwest stands to make the most money by building the project for less than the official certificated price.

Meanwhile, Moles said that when the pipeline gets under way, Fairbanks will be better prepared for it than it was for the trans-Alaska oil pipeline.

"Fairbanks is in much better shape than they were at the start of the oil pipeline. You have the shopping centers, you have the municipal power plant which has been expanded.

"All of these other areas that were affected so heavily before, they're pretty well covered now. I certainly don't think the impact will be nearly as great as it was during the early days of the TAPS line," he said.

He said the company has tried to hire locally for its pre-construction activities and expects that policy to continue.

"As the project grows there's a lot of qualified people here that worked on the other project that may presently be unemployed or may be working on other jobs, that I'm sure will be back in the union halls trying to get jobs on the

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Others may change their votes, too, as it becomes apparent that continued support for the capital move means projects and programs in their districts will have to go begging for money.

Still others, those who preach loudly that our state government already is too large, too oppressive, too

DAILY NEWS MINER-FAIRBANKS, April 9, 1981

Study says gas line costs too high

By NANCY SHUTE
States News Service

WASHINGTON—A federal study of the Alaska natural gas pipeline project expected to be issued next week is reported to take issue with some features of cost estimates and technical design.

But the study, an interim report by the U.S. Federal Energy Regulatory Commission, recommends continued government support for the project.

The draft report on design and cost estimates is fueling new controversy over the future success of the massive project. According to an article in today's Wall Street Journal, the report criticizes the project sponsors' cost estimates as too high and questions assumptions made about the Alaska leg's technical design.

But staffers for the federal agencies that oversee the project say that the draft report is incomplete, and that it was misinterpreted by the Journal.

"There are serious mischaracterizations in the article," said Joyce Morrison, of the Federal Inspector's Office. "I wouldn't put too much stock in it."

Staffers at the Federal Energy Regulatory Commission, the agency with authority to grant federal approval for the gas pipeline, also characterized the newspaper's analysis as misleading, and said the final report will not paint the dire picture suggested.

Completion of the technical and cost estimate report, scheduled to be released April 16, is running behind schedule, and an interim report is to be issued Friday by FERC pipeline coordinator John Adger and Richard Berman, audit director for the Federal Inspector's Office, explaining why the final version is delayed.

According to FERC staffers, project sponsors requested an opportunity to file additional information for the report at a technical conference held in Tulsa in late March, and the inclusion of that information will delay completion of the final report until May.

The Tulsa hearing was the last in a series that began last fall. The commission is studying design and financial details because the costs will determine the scale of charges the sponsoring companies will be able to charge customers in the Midwest and California.

The Journal article says the draft report challenges the $10.4 billion cost estimate presented by the project sponsors as $2 billion too high. Inflated cost estimates could increase the sponsors' return on the project if it is completed, forcing higher payback by future gas users, the article said.

The story also says the federal watchdogs disagree with the sponsors over technical criteria for preventing rupture of the sections of the 800-mile pipeline that pass through permafrost.

But, it concludes, "the report urges continued government support for the project."

Several weeks ago, the report, which was prepared by Williams Brothers Engineering Co. of Tulsa and was not released to the public, was circulated privately to those involved in analyzing the pipeline's technical design.

"Most of the people who received the report have had just the opposite reaction (from that of the Journal article)," Morrison said. "It shows the company is not being extravagant, that they're being very conservative in their estimates."

Both the Federal Inspector's office and FERC are considering some sort of formal response to the article, according to Morrison.

Spokesmen for Northwest Alaskan Pipeline Co., principal sponsors for the project, were not available for comment Thursday.

ALL ALASKA WEEKLY, April 10,1981

Cost of Tunnel Alternative Still Under Study

By JOE La ROCCA

JUNEAU — A series of technical conferences conducted over the past seven months by federal officials has led to a recommendation to the Federal Energy Regulatory Commission (FERC) that a project cost estimate submitted by the sponsors of the Alaska segment of the proposed Alaska Highway gas pipeline be reduced by more than $1.3 billion, from $8.2 billion to $6.9 billion. The recommendation was contained in a draft report issued last week by John Adger, FERC's Alaskan delegate, also head of the federal Alaska Gas Pipeline Office; and Richard Berman, director of the Office of Audit and Cost Analysis in the Office of the Federal Inspector (OFI) for the Alaska Natural Gas Transportation System.

The report and recommendation were based jointly on the technical conferences held at Irvine, Calif., Tulsa, Okla. and Washington, D.C. between last September and March, and on a comprehensive evaluation of the project sponsor's cost estimates assigned by Adger and Berman to the Williams Brothers Engineering Co. of Tulsa.

The sponsor's $8.2 billion estimate, known as the Certification Cost Estimate (CCE), was formally filed with FERC last July by Northwest Alaskan Gas Pipeline Co. as part of its request for a final certificate authorizing Northwest to proceed with construction of the 750-mile Alaska section of the 4,800-mile gas pipeline project.

The Certification Cost Estimate is the key element of a mechanism known as the Incentive Rate of Return (IROR) designed to encourage the project sponsors to keep construction costs as low as possible, and avoid the enormous cost escalations experienced during the construction of the trans Alaska oil pipeline in the mid-1970's.

The Incentive Rate of Return mechanism was prescribed in former President Jimmy Carter's 1977 Decision and Report to Congress selecting Northwest to build a gas transportation system to move Alaska's North Slope natural gas through Canada to U.S. markets. His decision was ratified by Congress, giving it the force of law.

Under the IROR mechanism, the Certification Cost Estimate is the basis for setting what is known as the "Centerpoint" (CP) cost which will determine what rate of return the sponsors will be allowed to earn on their investment in the pipeline project.

If — when the pipeline is completed — actual construction costs fall below the Centerpoint, Northwest would be allowed a proportionately higher rate of return; but if they rise above the Centerpoint, the rate of return would be correspondingly lower.

It's now up to FERC, during the final phase of the certification proceedings upcoming, to decide whether to accept Northwest's proposed $8.2 billion Certification Cost Estimate as the basis for the Centerpoint cost and the allowable rate of return; the $6.9 billion estimate recommended by the technical group and Williams Brothers; (the Adger Report) or establish its own. (It should be noted that neither the Northwest nor the Adger Report figure includes financing charges of $926 million and $742 million, respectively.)

This does not necessarily mean that whichever figure FERC picks for the Certification Cost Estimate is expected to be the final project cost, since there are still a number of design questions, both major and minor, whose cost implications are not yet known, some of which, when resolved, could increase or reduce the final cost figures.

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Residential Fire

A residential fire was reported at 1 Mile, Plack Road. The fire involved a mobile home, owned by Raymond and Barbara Castellaw, unoccupied at the time of the incident. No injuries were reported.

Structure Fire

A structure fire, of unknown origin, occurred at .6 Mile, Old Nenana Highway. The structure was totally consumed by fire before being brought under control by the Ester Volunteer Fire Department. The owner of the structure is not known at this time.

Theft

Charles Ward, 19, of the University of Alaska, Fairbanks, was placed under citizen's arrest

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ANCHORAGE DAILY NEWS, April 11, 1981

Gas supplies should last through century

By JON MATTHEWS
Daily News reporter

JUNEAU — Th[redacted]

[redacted] the study — done for the legislature by Juneau consultant Gregg Erickson — cautions, "There is plenty of gas, even under very conservative assumptions, but a substantial rethinking of the state's role is necessary if it is to be made available for Railbelt power needs on a timely and economical basis."

The 56-page report was done for the House Power Alternatives Committee to, among other things, to assist legislators in considering the proposed Susitna hydroelectric project.

The report says gas could run short in the Railbelt if there are large-scale exports of Cook Inlet gas and the proposed Alaska natural gas pipeline is abandoned.

But Erickson estimates that the combination of a start-up of the proposed PacAlaska gas exporting project and failure of the gas pipeline is a one-in-10 shot.

"The odds of PacAlaska being constructed within the next few years have become increasingly slim," the study said. "Nevertheless, the project could continue to cast a shadow on Railbelt gas availability for many years."

The PacAlaska project has been supported by the state, Erickson said.

Erickson said the prices of natural gas and electricity in the southern Railbelt have been among the lowest in the world's developed countries in recent years.

"Gas rates in Anchorage are below those in every major city in the U.S. ... electricity costs are the third-lowest and in all probability will soon be the lowest (in the U.S.)," the study said.

"Barring unforeseen developments in technology or government regulation, thse remarkably low relative prices can be expected to continue over the coming two decades."

The Cook Inlet area's low energy prices have resulted from a combination of abundant natural resources and long distance from major energy markets, the study said.

"The construction of the PacAlaska project, or some other scheme designed to use large quantities of Cook Inlet gas, is the only major threat to continued availablity of reasonably priced gas in the Cook Inlet area," Erickson said.

"So far, the state has actually supported the PacAlaska proposal, looking ahead perhaps to the economic activity and resource revenues it will create."

The consultant said the state could take several steps to discourage the project, including possible state purchase of substantial Cook Inlet gas reserves.

Erickson said other investigators have studied the potential of using natural gas as an alternative to the proposed hydroelectric dams on the Upper Susitna River.

"All have concluded that natural gas is not a 'realistic alternative' for 'equivalent power supplies.' I agree completely.

"The Susitna project will presumably produce power for centuries, whereas the life of Alaska's known gas resources ... are measured in decades."

But the consultant said that whether or not lawmakers want to see the giant dams built, "the first real issue of concern is whether there is likely to be sufficient natural gas physically available to meet Railbelt power needs between now and 1995 or 2000.

"To this question my answer is an only slightly qualified 'yes,' he said.

Even if the decision to build Susitna is made by next year, "long delays on contruction projects of Susitna's magnitude are certainly possible."

But the study cautioned that in the face of potentially low-cost gas in the coming years, sale of possibly higher-priced Susitna power to Railbelt utilities could be difficult or impossible.

Erickson said that with "full state funding of this project (Susitna) now a possibility, if not a likelihood, the question needs to be carefully examined."

"If the Susitna project is financed by a more or less conventional use of capital markets, this won't be a problem: the bond purchasers will insist that the region's utilities commit to take the power," the study said.

Finally, Erickson said, "The uncoordinated and decentralized system of power planning and development that has served the Railbelt remarkably well over the years is probably not suited to the needs of the next 20 years."

Whether or not the Susitna project is built, the role of the state in power planning and development is bound to increase, the study said.

"...It is clear that the utilities will find themselves increasingly involved with the state government, and visa versa."

DAILY NEWS MINER - FAIRBANKS, April 11, 1981

Inlet gas said sufficient to meet Railbelt needs

By DAVID RAMSEUR
Staff Writer

JUNEAU—Cook Inlet contains enough natural gas to produce electricity to supply the needs of Anchorage and the Railbelt including Fairbanks probably through the end of the century.

But federal policies restricting use of gas or demands that could push the price beyond competition with other electricity sources may hamper the use of that gas.

Those are the conclusions of a just-released report on natural gas and electric power by state consultant Gregg Erickson. The 41-page report was prepared for the Legislature for use in determining the feasibility of a gas-based electric production system.

Some state and industry officials have suggested relying on gas to generate electricity for the Railbelt and even sending it to Fairbanks for use there.

Some of those officials say gas could be used instead of building the Susitna hydroelectric project to produce cheap power for Alaska's most populated areas.

The report draws no conclusions of its own about gas as a replacement for Susitna. Rather, Erickson endorses the conclusions of others.

"Other investigators have reviewed the potential of natural gas as an alternative to Susitna," he writes. "All have concluded that natural gas is not a 'realistic alternative' for 'equivalent power supplies.' I agree completely."

Erickson says there is plently of gas in Cook Inlet to produce the area's electricity through at least 1995 and probably the year 2000.

Given a high demand for electric power in Anchorage, the existence of the Anchorage-Fairbanks intertie power line and no new hydro project construction, the demands on Cook Inlet gas would only be 42 per cent of the proven reserves, he said.

Most of the electricity currently consumed in Anchorage in generated from gas but Fairbanks electricity is coal-generated.

Despite the availability of gas, "The question of whether the power producers and gas utilities would be able to purchase it is another matter," Erickson said.

Barriers to using that gas might be escalating prices that would put the gas out of reach, or contracts under which the gas would be commited to certain companies, according to the study.

The natural gas market, says Erickson, is filled with long-term contracts. About 60 per cent of Cook Inlet reserves fall under those type contracts. But producers still try to get "the best deal possible" when they sale their gas.

"How good a deal that is depends on several factors, the most important of which are the number of potential purchasers that want the gas, and how badly they want it," Erickson writes.

The study concludes that the "uncoordinated and decentralized system of power planning and development that has served the Railbelt remarkably well over the years is probably not suited to the needs of the next 20 years."

Erickson says there will probably be an increased role in state government and that the state and utilities should plan for that new relationship.

Gas line accord expected in 60 days, McMillian says

The Associated Press

SALT LAKE CITY — An agreement is imminent with Alaska gas producers on the financing of the Alaska Highway natural gas pipeline, says the president of Northwest Alaskan Pipeline Co.

John McMillian said the deal should be completed within 60 days and then sent to major New York financial houses.

Northwest Alaskan heads an 11-company consortium that is sponsoring the Alaska segment of the pipeline, scheduled for completion in 1985-86 at an estimated cost of up to $21 billion.

McMillian told a Canada-U.S. conference on oil and gas production the big three gas producers on the Alaskan North Slope — Exxon, Atlantic Richfield and Standard Oil of Ohio — have made a "substantial offer to help finance the project."

Financing of the expensive Alaska portion of the line is the biggest remaining obstacle in what has been touted as the largest private enterprise venture in history.

The pipeline will run through Canada and certain prebuild portions of the line in Alberta, British Columbia and the continental United States are almost complete.

But while negotiations with the producers continue, McMillian says there are some issues related to financing that must still be resolved with the U.S. government.

Perhaps the most significant is the cost estimate for the Alaska segment of the project, which is being disputed by the U.S. Federal Energy Regulatory Commission.

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A gas processing plant also will have to be built, costing $2.5 billion in 1980 dollars.

The pipeline sponsors have been promised an incentive rate of return of 17.5 percent, but this is on the commission-approved estimate.

The sponsors also will be able to write off their costs against other U.S. income and this tax investment credit represents an additional 10 percent in after-tax return.

JUNEAU EMPIRE, April 14, 1981

Newspaper criticized

Gasline report debated

By NANCY SHUTE
Empire Washington Bureau

WASHINGTON -- A government report on design and cost estimates for the Alaska natural gas pipeline (ANGTS) is fueling new controversy over the future success of the massive project.

According to an article the Wall Street Journal, the report criticizes the project sponsors' cost estimates as too high and questions assumptions about the Alaska leg's technical design.

"There are serious mischaracterizations in the article," Joyce Morrison, a spokeswoman for the Office of the Federal Inspection fo the pipeline, said Thursday. "I wouldn't put too much stock in it."

Staff at the Federal Energy Regulatory Commission (FERC), the agency with authority to grant federal approval for the gas pipeline, also characterized the newspaper's analysis as misleading and said the final report will not paint a dire picture.

Completion of the technical and cost estimate report scheduled for release April 16 is running behind schedule, and an interim report will be issued by FERC pipeline coordinator John Alger and Richard Berman, audit director for the Federal Inspector's office, explaining why the final version is delayed.

According to FERC officials, project sponsors reqested an opportunity to file additional information for the report at a technical conference held in Tulsa, Okla., in late March, and the inclusion of that information will delay completion of the final report until May.

The Journal article says the draft report challenges the $10.4 billion cost estimate presented by the project sponsors as $2 billion too high. Inflated cost estimates could increase the sponsors' return on the project if it is completed by forcing higher paybacks by future gas users, the article said.

The story also says the federal watchdogs disagree with the sponsors' over technical criteria for preventing rupture of the sections of the 800-mile pipeline that pass through permafrost.

"But," the article concludes, "the report urges continued government support for the project."

Several weeks ago, the report, which was prepared by Williams Brothers Engineering Co. of Tulsa and was not released publicly, was privately circulated to people involved in analyzing the pipeline's technical design.

"Most of the people who received the report have had just the opposite reaction (from that of the Journal article)," Morrison said. "It shows the company is not being extravagant, that they are being very conservative in their estimates."

Both the federal inspector's office and FERC are considering some sort of formal response to the article, according to Morrison.

Today's disagreement is the latest in continuing disputes over the viability of the pipeline. Private financing for $25 billion project was to have been arranged this spring in order to complete the pipeline by 1985. Proponents of the line believe the Journal has been unduly critical of the project, particularly of chances for financing.

There has also been friction between FERC and pipeline sponsors over who is responsible for bureaucratic delays that have held up final aproval of the pipeline.

DAILY NEWS MINER - FAIRBANKS, April 13, 1981

Panel to vote on funding for study on line alternative

By DAVID RAMSEUR
News-Miner Bureau

JUNEAU—A special House panel on natural gas, reflecting a Legislature growing wary of the proposed gas pipeline, is expected to approve funding Tuesday for a study to look into alternatives to the pipeline.

The $300,000 study proposed in legislation by Rep. Hugh Malone, D-Kenai, would look into other areas of transporting the gas to market as well as the possibilities of processing the gas instate.

The study is necessary, say backers, in case the pipeline is not built.

"There's enough nervousness (about the proposed pipeline) to feel we should be doing a backstop," said Rep. Brian Rogers, D-Fairbanks, a member of the committee.

The proposal was introduced late last month after a resolution introduced by Malone ran into trouble with other lawmakers who said it was too negative. The resolution said the cost of the proposed pipeline is now estimated at between $25 billion to 40 billion and that few alternatives have been studied.

It also outlined a grim market for the gas in light of recent discoveries in the Lower 48 and Mexico, and requested "a report concerning alternative methods of transporting Prudhoe Bay natural gas to markets, including the comparative benefits and costs of an all-Alaskan pipeline route, conversion to liquefied natural gas and development of methanol . . ."

The resolution was viewed by some committee members as too skeptical. Some said the resolution could hurt the delicate negotiations currently under way to try to find financing for the pipeline.

"The rest of the committee is not as negative about the project as Malone," Rogers said.

But Malone, considered one of the Legislature's key figures in oil and gas issues, said he's not against the pipeline but is just trying to be realistic.

"Things don't always happen as we expect them to and when they don't, we should have another financing plan," he said. "If a multi-billion dollar project can be derailed by an appropriation of several hundred thousand dollars, then it wasn't a very solid project anyway."

Other issues expected to be included in a study are: the effect on U.S.-Canadian relations, potential for export of gas prodcuts, and the feasibility of new technology.

The Legislature last month concluded a week's worth of hearings on the proposed pipeline and received mixed reports from a variety of experts. Although few lawmakers are saying they don't think the line will be built, many are getting more skeptical.

Sen. Charlie Parr, D-Fairbanks, a member of a joint gas pipeline committee, said he didn't think the line would be constructed until U.S. Sen. Ted Stevens told the Legislature last month that such a failure would hurt relations with Canada.

He said he now thinks it will be constructed, but does not know when.

ANCHORAGE DAILY NEWS, April 14, 1981

Official confident ga

By PAT O'BRIEN
Daily News reporter

Despite predictions that the proposed Alaska natural gas line can't be financed from private sources, the chief federal regulator for the pipeline said Monday he is not convinced the project is in jeopardy.

"My personal feeling is quite good" that the line's complex and expensive financing problems can be solved, said John Rhett, the federal inspector for the project.

Rhett said he believes the backers of the project will overcome the financial impasse stalling the project within six weeks.

"The negotiations are going on, and I believe they will reach fruition," he said.

The Office of Federal Inspector is involved in all phases of pipeline regulation, Rhett said, from managing environmental considerations to approving affirmative action plans.

Rhett said his office is unique because all the other agencies which would normally have regulatory powers in the pipeline work have relegated them to his agency.

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Official: gas line financing coming

by Ellis E. Conklin
Times Writer

The chief federal regulator for the Alaska natural gas pipeline predicted Monday that a financing agreement — the project's biggest obstacle — will be reached between producers and gas companies within the next month or six weeks.

John Rhett, the federal inspector for the $30 billion to $40 billion project, said the line's complex financial problems can and will be worked out.

"It's a very complicated matter and (achieving) a consensus is tough to do, but my personal feeling is quite good," Rhett said in an interview.

If and when the financial entanglements are straightened out, Rhett said the next hurdle is to go "to Wall Street to get the necessary debt money."

Rhett, whose office is involved in all phases of pipeline regulation, said the Reagan administration wants to steer clear of becoming a party in the financing negotiations "until a deal is reached."

"We don't want to get involved in the financial arrangement yet," Rhett said. He indicated the main reason for Reagan's hands-off policy is the president's desire to see the line completely financed with private capital.

Over the past two months there have been warnings that deregulation of natural gas prices — a goal of Reagan's — would quash chances for Northwest Alaskan Pipeline Co. to get financing for the project.

Rhett said he wasn't sure what effect deregulation might have. "That's out of my ballpark. But when we talk about deregulation, I don't think anyone knows what it is or what it will do."

Construction on the pipeline's western leg began several weeks ago while work on the eastern section of the line will begin in three weeks, Rhett reported.

The eastern section will run more than 1,100 miles, making it the largest pipeline in the country. The full pipeline will span nearly 4,800 miles.

Asked whether he thought there would ever be a natural gas pipeline in Alaska in light of all the problems, Rhett laughed heartily and replied: "You know, I think so. You just can't leave 26 trillion cubic feet of natural gas (at Prudhoe Bay) untouched."

Gas line funding in doubt, economist says

By PAT O'BRIEN
Daily News reporter

Discounting reports that a financing package is near on the proposed Alaska natural gas pipeline, economist Arlon Tussing said Tuesday the state's political and business communities have been remiss in aiding the project.

Tussing also predicted that some type of state financial help will be necessary to save the gas line. He also said the state must take a more active stance in promoting the pipeline here and in Washington, D.C.

A University of Alaska professor of economics and frequent state government consultant, Tussing's remarks were directed to a gathering of military comptrollers at Fort Richardson.

Tussing disagreed with claims by Northwest Alaskan Pipeline Co. Chairman John McMillian that financial support for the gas line should be completed within 60 days.

Rather, he said the gas line probably will never be built unless the state becomes an investor and major changes are made in federal rules regulating the gas line's operation and financing structures.

He said it also may be necessary for the state to forego some early revenue from gas passing through the line in order to make the first couple of years more profitable to the line's builders.

If the royalty and severance taxes were lowered to zero for even a year, Tussing said, it would significantly strengthen the line's financial situation.

But ultimate solutions lie in Washington, he said.

Congress and former President Carter are both partly to blame for the pipeline's problems, Tussing said.

In authorizing the pipeline in 1977, Congress banned any equity ownership of the project by the North Slope gas producers — Atlantic Richfield, Exxon and Sohio.

Tussing said those companies were the only private sources financially able to carry much of the project's debt.

Congress included the prohibition because it feared the producers would hold too much power if they owned the gas and the gas line. Congress feared that companies discovering new sources of gas would not be allowed to ship it through the line.

Adding to the problems in Washington is that Alaska's decision makers have taken the project for granted, he said.

"Alaskans and the state government should begin to take some responsibility for the project because the project's overall economics are still very good," Tussing said.

State royalty and severance payments over the life of the Prudhoe-Bay gas field alone would amount to more than $16 billion, Tussing said.

"It will in some ways be more beneficial than the oil revenues," he said, because movement of gas through the pipeline would be at a constant level.

"As a matter of fact, we can look forward to increased production of gas from the Beaufort Sea," Tussing said, referring to estimates which project far more natural gas lies under that area than crude oil.

In contrast, oil production and revenues will be declining by the late 1980s, he said.

He said some critics of the pipeline are not coming to its aid because they would have liked to see other means of moving North Slope natural gas to the Lower 48.

NORTHWEST ALASKAN PIPELINE COMPANY

Alaskan Newsline

Vol. 4, No. 3 April 15, 1981

HIGHLIGHTS

PRESIDENT REAGAN URGES PROMPT COMPLETION OF ANGTS. . . NEGOTIATIONS CONTINUE ON FINANCING. . . AFFIRMATIVE ACTION GOALS APPROVED FOR WESTERN LEG. . . NWA OFFICIALS BRIEF LEGISLATORS. . . FOOTHILLS WILL BUILD YUKON TEST FACILITY. . . NORTHWEST ALASKA FILES EPA APPLICATION FOR CONDITIONING PLANT AIR QUALITY PERMIT.

REAGAN AND DOE REAFFIRM SUPPORT FOR PIPELINE COMPLETION: During his visit to Canada March 11, President Ronald Reagan told members of the Canadian Parliament he strongly favors prompt completion of the Alaskan Natural Gas Transportation System. "Our governments have already discussed one of the largest joint private projects ever undertaken by two nations. We strongly favor prompt completion of this project based on private financing," the President said.

In an exchange of letters prior to the President's visit, Department of Energy Secretary James Edwards and Senator H.A. Olson, Minister Responsible for the Canadian Northern Pipeline Agency, restated their support for ANGTS completion. Edwards' letter stated, in part: "I would like to take this opportunity to state again that the United States Government is firmly committed to the completion of the ANGTS in conformity with agreements between our countries. We expect the United State sponsors and producers will soon reach an agreement on a tentative financing plan. This agreement will be a major step toward arranging private financing and obtaining final regulatory approvals for construction of the Alaskan segment."

Senator Olson's response states, in part: "With construction under way on the southern sections of the pipeline in both Canada and the United States, we in Canada are confident that the entire line will be completed in a timely manner."

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NEGOTIATIONS CONTINUE ON FINANCING: Negotiations with the North Slope gas producers -- principally Atlantic Richfield Company, Exxon Corporation and Sohio Alaska Petroleum Company -- with respect to development of a financing plan for the Alaskan segment of ANGTS are progressing in an encouraging fashion.

(more)

The producer group is in agreement that the ANGTS is the right physical concept for delivering North Slope Alaskan gas to major markets in the continental U.S. The producers also approved the organizational structure established by Northwest Alaskan and its ability to effectively manage the project. Further, both producers and pipelines are convinced that there is sufficient equity available in the combined group to support the Alaskan pipeline system.

It is expected that a definitive financing plan will be presented in the near future.

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NWA OFFICIALS BRIEF ALASKA LEGISLATORS: Several Alaska legislators were briefed on the status of project activities at a recent meeting of the Alaska Legislature's Joint Natural Gas Pipeline Committee in Juneau.

Darrell MacKay, vice-president of Regulatory & Governmental Affairs for Northwest, and Harold Moles, Northwest's vice-president, Operations in Alaska, gave presentations and answered questions on progress of the project and Alaska activities.

MacKay summarized major milestones reached during 1980 and outlined primary project objectives for 1981. Among them: development of a financing plan (see above), and receipt of a final certificate from the Federal Energy Regulatory Commission (FERC).

The financing plan, MacKay said, is being devised without reliance on possible participation by the State of Alaska, although the plan would permit the State's participation if it so desires.

Moles told those assembled that as of mid-March, there were approximately 550 persons working on the project in Alaska: 51 Northwest Alaskan, 86 Fluor and 413 contractor personnel. He went on to say that more than 81 percent of these have been local Alaska hires. Alaska employment on the gasline is expected to peak at more than 700 this year and approximately 250 of these would be located in Fairbanks with the remaining in field locations along the pipeline route, Moles said.

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OFI APPROVES WESTERN LEG AFFIRMATIVE ACTION GOALS: The Office of the Federal Inspector (OFI) has approved Affirmative Action goals proposed by Pacific Gas Transmission Company for construction of its 592-mile segment of the western leg of the Alaska Natural Gas Transportation System.

The approved plan contains goals for minority employment of 5.9 percent and 3.8 percent for females, of the approximately 463 jobs projected for contractors and subcontractors. The goal for minority business participation is 10 percent, and for female businesses, one percent of contractable opportunities.

The dollar goals contained in the plan are $2.8 million for minority firms and $.3 million for female businesses.

(more)

The first portion of the western leg is being built to carry Canadian gas to southern California prior to the building of the Alaskan segment. The western leg is scheduled for completion in late 1981 at a cost of about $166 million.

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FOOTHILLS TO BUILD YUKON TEST FACILITY: Foothills Pipe Lines (South Yukon Ltd.) is preparing for construction of a facility to test pipeline construction methods and equipment to determine their suitability in permafrost areas.

The field-test program will be conducted northwest of Whitehorse in the Quill Creek area. Preparations for facility operation involve the establishment of a 120-man camp and the installation of 3,000 feet of 48-inch project specification pipe.

Engineering, construction and environmental experts will monitor the tests both during and after construction. Data collection will continue for several years to allow for sufficient summer and winter recordings.

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GAS PLANT SITE LEASE APPLICATION FILED: On March 18, Northwest Alaskan filed an application with the State of Alaska for a site lease for the gas conditioning plant. The application had been withheld since January at the request of the state to review other ways of handling the matter. On March 13, Gov. Jay S. Hammond suggested that the filing be made with the admonition that the state may request several conditions as part of the issuance of the lease.

An acceptable lease must be available by June 1981 in order to commence preparatory work on the site and maintain the present project completion schedule. The conditioning plant is the pacing item for the overall project.

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GAS CONDITIONING PLANT PERMIT SOUGHT: Northwest Alaskan Pipeline Company has applied for an air quality permit for the proposed gas conditioning plant to be built in Alaska. The application was filed with the Environmental Protection Agency's Seattle Office with a preliminary determination expected by late June. Work on the design of the conditioning plant is progressing on schedule with the Ralph M. Parsons Co. assigning about 225 people to the project.

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PARSONS LOOKS AT COAST ASSEMBLY SITES: Ralph M. Parsons Co., contractor for design and engineering of the gas conditioning plant for the Alaska Natural Gas Transportation System, is currently evaluating several west-coast ports for use as assembly areas.

At least two port facilities will be needed to assemble and transport by barge sections of the conditioning plant. The sections or modules, some expected to be taller than a 10-story building, will be sealed in cacoon-like coverings for the trip to Prudhoe Bay.

Parsons' personnel have been meeting with various port authorities and discussing man-power and construction facility requirements.

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(more)

ALASKA IMPACT PLANNING SURVEYS UNDER WAY: Northwest's Manpower and Impact Planning Department is conducting a housing survey in the Fairbanks area to help determine what the availability of housing will be for project personnel.

In addition, Northwest is surveying gasline project management personnel in lower 48 states who may be relocated to Alaska to determine their housing needs and preferences. The survey also includes Office of the Federal Inspector personnel. One of the company's concerns in planning for the gasline is that the housing shortage which occured in Fairbanks during the oil pipeline not be repeated.

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FEMALE HIRE REPORT: Edwin (Al) Kuhn, Northwest Alaskan's director of Government Affairs, testified before the Alaska Commission on the status of women, on March 20 in Fairbanks. He stated that "24 percent of Northwest Alaskan's current work force in Alaska, including contract personnel, are women. This includes 22 percent women in the Officials and Managers category." Kuhn also said Northwest Alaskan had so far identified 174 "Female Business Enterprise (FBE)" firms, that have expressed an interest in contracting with Northwest Alaskan, including 57 in Alaska. Northwest Alaska's FBE contracting goal for 1981 was stated to be $4 million.

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ANCHORAGE DAILY NEWS, April 23, 1981

Finances may force gas line postponement

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Delays in working out a financial plan may soon force the first postponement of the Alaska natural gas pipeline, the federal official overseeing the multi-billion-dollar project said Tuesday.

In testimony before a Senate Appropriations subcommittee, federal inspector Jack Rhett said the viability of the current schedule is now being questioned. Sponsors of the Alaska portion of the pipeline are now considering a new timetable, he said.

With the clock ticking closer to next year's scheduled start of the Alaska leg of the 4,800-mile system, several questions about its financing are still unresolved. The most immediate problem, Rhett said, is an agreement on who is going to pay for a gas conditioning plant at Prudhoe Bay associated with the project.

The plant is expect to cost about $2 billion.

"If the gas plant is not solved in the next few months," Rhett said, "the project will probably slip a year."

The present timetable calls for completion of engineering and design work for the 741-mile Alaska segment of the pipeline in late 1982, beginning pipeline installation in 1983 and completing the project by late 1985. But that completion date may now be pushed back to late 1986.

Rhett said the pipeline sponsors and North Slope producers appear closer to agreement and may even be able to "go to Wall Street" with their financial plans in 30 to 60 more days.

In the meantime, however, progress on the gas processing plant — a project legally separate from the pipeline but one now expected to be tied into its financing — has been held up. Gas plant sponsors had wanted to begin procuring materials and construction equipment this summer, Rhett said, but without the financial picture resolved their schedule may also be postponed.

"The gas conditioning plant is the critical schedule determinant," he said, "particularly since the sponsors must be able to make major commitments for their equipment and materials by mid-1981."

Rhett was asked to appear before the committee to answer questions about the federal appropriation for his office, which serves as the federal overseer of the pipeline. The Carter administation had recommended $36.5 million for the job in fiscal 1982, providing for 223 fulltime employees. The Reagan administration proposes the same budget.

The Office of the Federal Inspector is responsible for coordinating eight federal agencies involved in the pipeline, which will cross 10 states. Currently, OFI has 130 employees working primarily in Washington. By [illegible] of the year, Rhett said, [illegible] office's manpower will be divided between six field offices with 16 percent of the crew destined for Alaska.

Despite its difficulties, Rhett painted an otherwise optimistic picture for the project's future.

"The fact that almost one-third of the system will soon be under construction," he said, "illustrates that the project is moving forward."

Rhett said the Canadian and Lower 48 portions of the system are proceeding on schedule. Construction on the western leg began in Idaho earlier this year, and a construction start for the eastern leg is expected to get under way in North Dakota in two weeks.

The Department of the Interior in December issued a right-of-way grant for the Alaska leg of the pipeline — one of the major federal regulatory obstacles.

The cost of the pipeline — touted as the most expensive privately financed project in history — had been projected at $8 billion. Industry sources now say inflation could carry its final pricetag as high as $34 billion, raising skepticism in some quarters that the line will ever be built.

Rhett said Tuesday the financial package emerging now will probably award the Prudhoe Bay oil and gas producers an equity share in the pipeline.

"If so, additional congressional action will be necessary," he said. "An agreement could be accomplished through an expedited waiver provision of the Alaska Natural Gas Transportation Act, Rhett said.

ANCHORAGE TIMES, April 16, 1981

Gas line study said to point out problems

Associated Press

Washington — A federal study of the Alaska natural gas pipeline project expected to be released this week is reported to take issue with some features of cost estimates and technical design.

But the study, an interim report on the U.S.-Canada project by the U.S. Federal Energy Regulatory Commission, recommends continued government support for the plan to pipe gas from northern Alaska through Canada into the continental United States.

Officials of the regulatory commission, whose authorization is required before the privately financed project can proceed in Alaska, said the interim report is being completed for likely publication next week.

They declined direct comment on a version of the study published in The Wall Street Journal but indicated it was based on a preliminary draft that preceded a hearing on financial and technical aspects of the project two weeks ago in Tulsa, Okla.

The Tulsa hearing was the last in a series that began last fall. The commission is studying design and financial details because the costs will determine the scale of rates the sponsoring companies will be able to charge customers in the Midwest and California.

The Wall Street Journal said the draft study suggests that Northwest Alaskan Pipeline Co., the main sponsor, overestimated costs on the Alaska segment that would tend to raise gas selling rates. The effect would be to increase profits for the sponsor, said the report.

The study also is said to raise questions about some proposed design plans on the Alaska segment, suggesting that there are differences over such matters as the best way to protect the environment and deal with problems of getting the line through a mountain range.

State financing of line good for Alaska—Rhett

By DERMOT COLE
Staff Writer

State investment in the gas pipeline is a good idea, but it's not critical to the project, federal gas line inspector Jack Rhett said here Tuesday.

"I have never changed my opinion," said the retired Army Corps of Engineers colonel. "I think from the state's viewpoint it'd be ideal for them to finance it.

An economist says the state should aid in gas line financing. Page 3.

"But I don't think that's make or break on the project. It's a good investment in Alaska and Alaska's future."

In an interview at the inspector's Fairbanks office in the Tanana Valley Clinic building, where clocks show local time and Washington time, Rhett reviewed the status of the 4,800-mile project.

The 1976 legislation creating the Office of the Federal Inspector said one man should be appointed to assure that the project is built in a timely manner without excessive cost overruns and with minimal damage to the environment.

Seated close to an Alaska map marked with flags along the pipeline route, the man assigned to that task said the future of the project is now "in the hands of the gas companies and the oil companies."

Their private negotiations, which Northwest Alaskan Pipeline Co. Chairman John McMillian has said will be complete in one or two months, will tell a lot about the gas line's future construction schedule and its managment. Northwest is the consortium selected to build the project.

"The thing that we've been driving for for a year and a half is finally getting ready to occur, that's where the financing is. That's the critical path," said Rhett, who has supervised major civil and military construction projects for 35 years.

JACK RHETT

He said that when the major North Slope oil companies and the 11 natural gas companies in Northwest's consortium emerge from their private meetings with an agreement, the plan will go to the Wall Street investors who will be asked to loan money to build the pipeline.

According to Northwest's original plan, 25 per cent of the money is to be an equity investment, which is comparable to a down payment, while 75 per cent is going to be borrowed.

"The equity money I think is in good shape. The question has been the debt money, where the debt money is going to come from," he said.

(See RHETT, page 8)

RHETT . . .

(Continued from page 1)

"The key to being able to do this is to have a flow of money when you need it, to order your equipment, to buy your equipment, to order your pipe, to buy the camps from Alyeska, refurbish them.

"In all of those, we're talking big, big chunks of money. And people are just not in general willing to put it up unless they have some assurance that they're going to get it back," he said.

"Without the financing and the financing coming in quickly, then you can't order the equipment, so you start to delay the project. Probably the best example of this now is the gas conditioning plant."

Northwest has said that orders must be placed for the $4 billion conditioning plant this summer or the project will be delayed another year.

There is disagreement about how much it will take to build the Alaska segment of the pipeline, but unlike the oil pipeline, the prospective pipeline builders are being accused of overestimating their costs.

Northwest has said the Alaska segment will cost $8.2 billion, while federal regulatory officials recently issued a draft report saying the cost will be more like $6.9 billion.

The $1.3 billion difference is important because of a mechanism called the incentive rate of return, a procedure designed to prevent a replay of the cost overruns experienced on the oil pipeline. Under its rules, the pipeline builders will make the most money if they complete the pipeline for less than the official government cost estimate.

Engineering estimates are normally too low, Rhett said. In this case, the process is reversed.

"The company wants to come in with an estimate that is high enough that they can undershoot it," he said. "If they go over this approved estimated price, their rate of return is lower. If they go under it, the rate of return is increased. There's a five or six per cent spread there."

The pipeline inspector said it will be another two months before the final cost report is out and until it is released his only involvement with it will be on an administrative level.

On another subject, Rhett said Congress will be asked to allow the oil companies to own a portion of the pipeline project.

ANCHORAGE TIMES, April 22, 1981

Gas line finance trouble could mean year's delay

by Betty Mills
Times Washington Bureau

Washington — If the North Slope producers and project sponsors do not agree on a financing package within three months, the Alaska gas pipline will be delayed a full year, the federal official overseeing the project told a Senate subcommittee Tuesday.

Instead of the scheduled completion date of the 1985-86 heating season, the pipeline would not be fully operating until the fall of 1986, said gas line inspector John Rhett.

The warning came during testimony before the Senate Interior Appropriations Subcommittee on the proposed $37 million budget for fiscal year 1982 for the office of the federal inspector.

Negotiations have been proceeding for several months between the producers and the sponsors in an attempt to reach agreement on a financing plan. No details have been revealed.

Rhett said the completion of a financing plan and a design for a plant to condition the Prudhoe Bay gas are the two factors that could cause the schedule for the project to slip.

Rhett said that the long period of

(See FINANCING, page A-3)

Financing . . .

(Continued from page A-1)

time required to procure equipment for the conditioning plant means that the sponsors must begin that acquisition this summer to meet the scheduled completion date.

"The next few months are critical to the project," he said. "But the fact that almost one-third of the system will soon be under construction illustrates that the project is moving forward."

Johl G. McMillian, chief executive officer of Northwest Alaska Pipeline, predicted recently that his consortium and the producers will reach agreement on a financing package within 60 days. Then they will take the plan to Wall Street investors to secure the financing.

Although details of the negotiations have not been released, it is expected that the plan will call for equity participation in the project by the North Slope producers. This will call for new legislation, which is expected to be offered shortly, to amend the Alaska Natural Gas Transportation Act that approved the Northwest pipeline proposal.

In addition, the Canadians are seeking assurances from the U.S. government that they can begin recovering their costs as soon as the Canadian segment is complete. The gas transportation act appears to preclude any payments before the gas deliveries begin. An amendment on this point is also expected.

Rhett said that neither Congress nor the executive branch of the federal government "will touch the project until the financing is wrapped up. The agreements have to be there."

In response to questions from subcommittee Chairman James McClure, R-Idaho, Rhett said his office is trying to recruit as many employees as possible from Alaska. Rhett added that Northwest is conducting a survey of housing availability in the Fairbanks area in an attempt to provide quarters for the newly hired employes.

Rhett noted that the western leg of the project in Canada will be completed this fall, and construction on the eastern leg is scheduled to begin in early May. A major stumbling block to the eastern leg was removed earlier this month when a U.S. District Court decision blocked an attempt by the Public Service Commission of North Dakota to alter the route through that state.

As federal inspector, Rhett is responsible for coordinating all federal activities related to construction of the pipeline, including the granting of all permits.

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RECEIVED

MAY 0 4 1981

MSG 81-00015043 PRTY 1 05/01/81 12:17:22 ORIG: LL00 IN= 0005 OUT= 0021
FROM: SOLDOTNA INFO TO: JUNEAU INFO
TARGET: LJH2 SUBJ: P.O.M. PAGE 0001

TO: REP.MALONE, SEN.DANKWORTH, SEN.BENNETT, REP. COTTEN, SEN. KERTTULA,
REP. GARDINER, AND MEMBERS OF THE GAS PIPELINE COMMITTEE Rogers, Vaeker, Halford, Ha
Randolph, Sen. Eckoff, Parr, Colletta, Ray, Fahrenkamp & Sackett
FROM: JERRY MC CUTCHEON
BOX 1682
SEWARD, AK. 99664

MESSAGE: ERICKSON'S REPORT TO THE LEGISLATIVE AFFAIRS AGENCY ON NATURAL GAS AND ELECTRICAL ALTERNATIVES FOR THE RAILBELT. ERICKSONS HAS GROSSLY UNDER-ESTIMATED THE COST OF THE DELIVERED GAS, PAGES 31-32-33. LOOKING AT THE FACTS. A $25 BILLION GASLINE AND THE MAXIMUM INPUT INTO THE GASLINE OF 2 BCFD "BILLION CUBIC FT. PER DAY" WHICH WOULD INCLUDE SHIPPING ALL THE POSSIBLE GAS LIQUIDS AND ALASKA ROYALTY GAS TO THE SOUTH 48. WITH A 17.5% RATE OF RETURN THE COST IS $6.66 PER MCF. IF THE GASLINE COST IS $40 BILLION THEN THE 17.5% IS $10.65 PER MCF. THAT DOES NOT INCLUDE THE WELLHEAD PRICE OF THE GAS, OPERATION & MAINTENCE COST, PAYING BACK THE COST OF THE GASLINE, & NO PROVISION FOR TAXES ALASKA OR FEDERAL, NOR CANADIAN PROVINCIAL OR FEDERAL NOTHING BUT JUST SPREADING THE 17.5% OVER THE GAS VOLUME.

TO BE CONTINUED.....

MSG 81-00015050 PRTY 1 05/01/81 12:25:55 ORIG: LL00 IN= 0006 OUT= 0023
FROM: SOLDOTNA INFO. TO: JUNEAU INFO.
TARGET: LJH2 SUBJ: P.O.M. PAGE 0001

TO: REP.MALONE, SEN.DANKWORTH, SEN.BENNETT, REP.COTTEN, SEN.KERTTULA
REP.GARDINER, AND MEMBERS OF THE GAS PIPELINE COMMITTEES.
FROM: JERRY MC CUTCHEON
BOX 1682
SEWARD, AK. 99664

MESSAGE CONTINUED...USING ZINDER ENERGY REPORTS "SCENARIO 1 CONDITIONING AND EXTRACTION PLANTS LOCATED AT PRUDHOE BAY; SEPARATE N.G.L. PIPELINE FROM PRUDHOE BAY TO TIDEWATER; PETRO-CHEMICAL COMPLEX AT TIDEWATER", AND A $25 BILLION GASLINE, 17.5% IS $9.86; WITH A $40 BILLION GASLINE IT IS $15.78 THIS IS WHY MC MILLIAN HAS FOUGHT ALASKAN OVERTAKING OUT THE GAS LIGUIDS OR ALASKA ROYALTY GAS. WHEN GONGRESS FINALLY UNDERSTANDS WHAT THE CHARGES ARE GOING TO BE FOR ALASKA'S GAS MC MILLIAN'S GASLINE WILL DIE. SHOULDN'T ALASKA GET ON WITH THE STUDY OF THE ALTERNATIVES TO MC MILLIANS GASLINE NOW. HASN'T ALASKA LOST TOO MANY YEARS ALREADY.

Gas line officials: major hurdles remain

Associated Press

Washington — A reported deal between the U.S. sponsor of the Alaskan Natural Gas Pipeline and producers who own the gas still faces major hurdles before legislators and financiers approve it, officials caution.

In a letter to government officials in Canada and the United States last week, Northwest Energy Co. Chairman John McMillian said he has reached agreement with three major oil companies that own the gas permitting them 30 percent ownership of the pipeline.

The companies are Atlantic Richfield Co., Exxon Corp. and Standard Oil Co. of Ohio.

Northwest, which together with Calgary-based Foothills Pipe Lines (Yukon) Ltd. conceived the idea for a pipeline to bring Alaskan gas south through Canada to the lower 48 states, has been seeking the oil giants' backing for the massive debt that must be undertaken to finance the line.

Estimated construction costs of $12 billion in 1977 when the project was announced have now risen to more than $30 billion, Northwest concedes. The company must convince lenders to finance about 75 percent of the total.

Before McMillian's letter, a House energy subcommittee staffer said there is a question whether 1977 legislation authorizing the pipeline may be amended to permit equity participation by the oil companies that own the Alaskan gas.

That legislation prohibited oil company equity participation in the pipeline because of concern their financial clout might give them too much control over the project.

"If an agreement that requires legislative changes has been reached, McMillian is going to have to convince the president first," the energy subcommittee official said.

In an apparent opening effort to convince Reagan, Northwest Energy sent a letter last week to Energy Secretary James Edwards containing specifics about the proposal for permitting the oil companies to take an ownership position in the pipeline.

According to the Wall Street Journal, meetings on financing already have started between the oil companies, lending institutions and the rest of the 11-company consortium sponsoring the pipeline.

A Senate energy committee official indicated Tuesday he anticipates little committee objection to oil-company ownership in the pipeline if there is no chance the companies would gain a controlling interest.

But the official noted that since it takes 60 legislative days to act on such a request, Reagan would have to propose the change to Congress within the next couple of weeks if there is to be action during the current session.

Southern portions of the pipeline that run through Canada before splitting into eastern and western legs that carry gas to U.S. markets in the West and Midwest are already being buit at an estimted cost of about $7.5 billion.

By contrast, the Alaskan segment that is to connect to the rest of the line, eventually carrying Prudhoe Bay gas from Alaska to the Lower 48, will cost an estimated $27.5 billion, after allowing for inflation, because of construction problems.

That puts the total cost estimate at about $35 billion, which makes the pipeline one of the most costly civil engineering projects ever attempted with private financing.

Objections to FERC report snag gas line

By DAVID RAMSEUR
News-Miner Bureau

JUNEAU—A dispute between the builders of the proposed Alaska natural gas pipeline and the federal government over a regulatory report has delayed the project another several months, according to the Legislature's Washington, D.C.-based pipeline consultant.

That delay, based on Northwest Alaskan Pipeline Co.'s objections to a Federal Energy Regulatory Commission report, could have a "ripple effect" throughout the project, said attorney Joe Chomski in a nine-page memorandum to the Legislature's joint pipeline committee.

"At the very least, the FERC regulatory process has been set back three or four months, carrying with it a generalized ripple effect through the scheduling of the entire project," Chomski said.

Those delays, and problems on the part of Northwest in reaching a financing agreement, make it "more difficult to acquire congressional approval this year for any necessary changes to the statutory framework under which the Alaska gas pipeline is administered," he said.

Congress must approve legislation in several areas such as tariffs and the right of the states to regulate the pipeline before the project gets well under way. Some of that legislation is expected to be introduced this summer.

But unless those measures are acted on soon by Congress, that will mean even more delays for the pipeline project, Chomski said.

"If the process has not begun by June or early July, it will be difficult to achieve enactment this year, although not impossible," he said.

Chomski's update to the Legislature comes on the heels of rumors about a financing plan for the project running into rough sailing.

Lt. Gov. Terry Miller, for example, recently returned from a meeting in Salt Lake City during which financing was discussed informally. Miller said he was pessimistic about a financing plan being assembled.

Some legislators, most notably Rep. Hugh Malone, D-Kenai, have been skeptical about a pipeline financing plan coming together, and U.S. Sen. Frank Murkowski recently suggested the state give more serious consideration to Alaska participation in the plan.

Financing problems in addition to the dispute between Northwest and FERC officials cast a longer shadow on the prospects of the pipeline being built.

The dispute centers on a FERC report on gas pipeline costs and the rate of return Northwest would get on the project.

The report concludes Northwest will spend $6.8 billion to build the Alaska segment of the line but the company has estimated it will cost $8.2 billion. Other estimates put the pipeline construction cost at well over $10 billion and up to $40 billion for the entire project from Prudhoe Bay to the Lower 48.

The FERC report was issued in March but according to Chomski, has been withdrawn to include objections by Northwest. It is expected to be reissued later this summer.

Other points of dispute include related costs to building the pipeline that Northwest wants to add to the total construction cost. For example, Northwest has requested $54 million to cover right-of-way monitoring by federal agencies, $22 million for state monitoring and $204 million for socioeconomic payments to Alaska.

Gas line financing discussed

by Lyn Whitley
Times Writer

The state should help finance the Alaska Highway natural gas pipeline.

The state should not help finance the Alaska Highway natural gas pipeline.

Take your pick.

Those are the two conflicting views expressed to more than 200 people Monday at the Anchorage Chamber of Commerce about the gas line.

University of Alaska economist Arlon Tussing supported state involvement in financing the line while Anchorage insurance salesman and former state legislator Tom Fink opposed it.

Their remarks came as the sponsor of the gas line, Northwest Energy Co., is trying to secure financing for the $30 billion, 4800-mile line.

Work on the financing agreement comes after the three major oil companies that own the Prudhoe Bay natural gas have reached an agreement with Northwest giving them 30 percent ownership in the pipeline. That equity ownership must still be approved by Congress.

Tussing told chamber members if the project gets off the ground, the state should plan on participating its the financing.

But Fink said the best way to speed up plans for the gas line is for the state to keep its money and its financial backing out of the plans.

"The state can expect to participate if this (pipeline) is to get off the ground," Tussing said. "Alaska's political and business leadership ought to think of ways the state could move this forward."

He suggested the state and the oil companies use their natural gas reserves as equity in the project. The returns from the pipeline could be added to the royalty payments the state receives now from oil.

"The state wouldn't be injured if it didn't get a return on its investment for 10 years," Tussing said.

Fink said construction on the Alaskan segement of the line hasn't already started because of government involvment.

"He (Tussing) wants more government involvment and I want less," Fink said.

"We ought to offer the attitude that we'll cooperate, but it's not a good investment for the state to put money into the line."

He said the state would be "in way over our heads" if it invested in the pipeline as a means to help finance the project.

"I wouldn't buy bonds from Northwest Pipeline. I wouldn't take that risk, and I don't think the government should take that risk. I don't believe the money market will buy debt securities to finance the pipeline."

Fink said the gas from Prudhoe Bay will get to the market when delivery is economical. And until then, "with the Legislature and the governor we have, I can't think of anything the state can do to help."

He said he still favors an all-Alaskan line, but Tussing said that idea won't be revived because it would cost too much money.

JUNEAU EMPIRE, June 1, 1981

Aid, no money vowed for gasline

WASHINGTON (AP) — The Reagan administration is willing to "cooperate in any way we can" to aid construction of the Alaska natural gas pipeline short of pledging federal money for the project, says Energy Secretary James Edwards.

Edwards said Thursday the administration supported changes needed to allow the gas producers to own part of the line and would request waivers from Congress to allow this to happen before June 11.

Edwards' comments to reporters came before a meeting with Sen. Ted Stevens, RAlaska.

Stevens said after the meeting that he had also discussed the current $30 billion cost estimate for the pipeline. The latest prediction compares with $12 billion estimated in 1977. It has raised concern that the pipeline is now too expensive to attract the needed bank loans.

Stevens said he advised Edwards that "in my opinion the cost estimates for the project announced earlier this week are the highest probable costs. I believe the actual costs will be less than the estimated total."

Stevens said Edwards had assured him that the administraton would "move expeditiously" on a package of waivers needed to the 1977 law under which the pipeline would be built. In addition to allowing the oil companies to own part of the line, the waivers would also add construction of a gas conditioning plant to the package and speed up the timetable for getting necessary government permits.

Earlier this week, Alaska Northwest Natural Gas Transportation Co., the consortium building the project, announced that the three major owners of the gas, Exxon Corp., Standard Oil Co. of Ohio and Atlantic Richfield Co., had agreed to provide $9 billion for 30 percent ownership of the line.

ANCHORAGE DAILY NEWS June 6, 1981

Gas may not flow till 1986

The Associated Press

FAIRBANKS — The target date for start-up of the Alaska Highway natural gas pipeline has apparently been delayed another year from November 1985 to "sometime in 1986," says a spokesman for the project's sponsoring consortium.

"We have not quite given up on November 1985, but 1986 looks more realistic," said Harold Moles, vice president of Northwest Alaskan Pipeline Co.

The original start-up target date was 1983. Most of the delay has been caused by regulatory hold-ups in the United States.

But Moles said Northwest Alaskan has received an "enthusiastic" response from the major U.S. banks to its financing proposals for the massive $30-billion Alaskan segment of the line.

Northwest Alaskan has presented its plan to four major banks in New York — Chase Manhattan, Citicorp, Bank of America and Morgan Guaranty — and their initial response was "favorable," Moles told a group of Canadian senators touring the Arctic.

Consortium officials are meeting this week with major U.S. insurance companies.

Peter Cook, U.S. government deputy inspector for the pipeline, said it will likely take a large number of banks and insurance companies from across the United States to put up the $15 billion in debt financing that Northwest Alaskan is seeking.

Gas line target date pushed back again

Associated Press

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Peter Cook, U.S. government deputy inspector for the pipeline, said it will likely take a large number of banks and insurance companies from across the United States to put up the $15 billion in debt financing Northwest Alaskan is seeking.

But Cook is optimistic that financing can be obtained by year-end.

The comments from Moles and Cook were good news to the 14 Canadian senators, members of the Senate northern pipeline committee. They had heard earlier from Bob LeResche, state natural resources commissioner, that he had "serious doubts" the financing proposals would be accepted.

Cook agreed there are several legislative issues that will have to be dealt with, many of which have not even been addressed in the present financing proposals, including tariffs, cost estimates and rate base.

But Cook said Northwest Alaskan is preparing a comprehensive legislative package which he expects to be put before the U.S. administration and Congress in the next two weeks.

Under the United State's expedited proceedings rules for the pipeline, decisions on any bills, amendments and waivers should be reached by Congress no later than Oct. 1.

The federal energy regulatory commission should receive by late July a report on the project's cost estimate.

New laws, money still needed for gas line

By GEORGE BRYSON
Daily News reporter

WASHINGTON — With a new pricetag marked up to $22 billion-plus, the Alaska Natural Gas Pipeline begs the question: can the project still be built?

Members of Alaska's congressional delegation believe it can.

But they say two things are still needed at this point — the money to pay for it and laws to make the new pipeline financing plan legal.

The search for the money, Sen. Frank Murkowski predicts, probably will have to extend around the world.

"It's going to go way beyond Wall Street," he said. "The financial requirements for this are going to come from the world money market."

Sen. Ted Stevens agrees. With the cost of the Alaska leg of the transcontinental gas line now variously pegged between $22 billion and $30 billion — more than double earlier estimates — private indus[...] U.S. is going to need hel[...]

"The amount of m[...] volved exceeds the li[...] of the financial instit[...] the country. They h[...] limits," Stevens said, [...] know they must go

See Back Page, [...]

New laws needed for line

Continued from Page A-1

throughout the world.

"But there is that kind of money available," he said.

To encourage it in their direction, the pipeline's primary sponsors recently devised a financing plan that attempts to satisfy Wall Street's most conservative lenders. The sponsors — a partnership of 12 pipeline companies — also have asked President Reagan and Congress to help make several basic changes in laws that control the project in order to permit their financing plan.

The changes would allow three North Slope oil companies to pay a share of the project cost in return for a 30 percent ownership share of the Alaska portion of the line and a gas conditioning plant in Prudhoe Bay. Ownership in the line for the producers — Sohio, Exxon and ARCO — was declared illegal, on antitrust grounds, during the Carter administration.

The Reagan administration, however, already has approved the plan. The president is expected to sign a series of waivers overturning Carter's executive order and deliver them to Congress just before, or shortly after, the July 4. Congress will then have 60 legislative days to pass the waivers.

The success of that effort is critical. If Congress balks on the waivers this year, a full construction season for the pipeline will be lost and its costs could soar.

The waivers are expected to move without difficulty through the Republican-controlled Senate, but they could face trouble in the Democratic controlled House. Rep. Don Young is both cautious and optimistic.

"There's going to be a lot of rhetoric," Young said, "but it will pass."

Others, including the Capitol Hill editor of a major oil-industry newsletter and congressional aides close to the pipeline issue, aren't so sure. They agree with Young that the equity waiver for the oil producers will survive Congress. But they say a second waiver — one that would allow the pipeline companies to increase the price of their gas to consumers in the Lower 48 as each segment of the pipeline is constructed, even though gas isn't flowing — will meet stiff opposition.

Supporters of the so-called billing commencement date say it would actually decrease the cost of gas to the consumer in the long run — since the pipeline companies wouldn't have to borrow expensive money to pay the interest on their debt, thus increasing the ultimate cost of the project.

The oil editor put it bluntly: "It's not going to sail through the House at all," he said. "It's going to hit the fan. That's what's going to happen. Because guys like Dingell aren't going to go for it."

Rep. John Dingell, D-Mich., the chairman of the powerful House Energy and Commerce Committee, emerges as a central figure in the Alaska pipeline story this summer. In the past, he has been a stout opponent of pipeline equity for oil producers.

He also is staunchly opposed to the suggestion that government assist in financing the project.

But how he will react to the most recent requests by the pipeline sponsors isn't clear. Publicly, Dingell isn't saying. Privately, he has told his aides that he will reserve judgment until he sees the final draft of the president's waivers, which will eventually have to move through his committee.

In the meantime, Alaska's all-GOP congressional delegation has been beating a path to his door. Both Stevens and Murkowski met with Dingell on Wednesday and Young plans a one-on-one session with the Michigan Democrat next week.

Young predicted Wednesday that Dingell's opposition — and that of other pipeline critics — will end at the lecturn.

"Those who object to waivers," Young said, "will talk a lot about it; they'll slow it down. There'll be hearings; there'll be discussions. But the end result is . . . they'll be passed."

Gas line financing plan calls for equity

By NANCY SHUTE
States News Service

WASHINGTON—Gas producers and sponsors for the Alaska gas pipeline today agreed to present a financing proposal to Wall Street financial institutions that would give the North Slope oil companies a 30 per cent equity share in the project.

In a letter to Secretary of Energy James Edwards, Northwest Alaskan Pipeline Co. President John McMillian said that sponsor Northwest had arrived at a "basis with the major gas producers in the Prudhoe Bay field—Arco, Exxon, and Sohio—for discussing the financing of the project with the financial community."

McMillian said the new plan would be presented to "certain major potential medium- and long-term lenders among the commercial banks and insurance companies" in the next few weeks.

The necessity of financial backing from the major producers has been the focus of intense speculation, with financial analysts saying the pipeline would never be funded without financial guarantees from the producers.

Alaska Sen. Frank Murkowski praised the proposal, but said "the financial community will say 'What you propose to do is prohibited by law.'"

Allowing producers to have a share in the project's equity will require changes in the executive order authorizing the pipeline project, and because that order was approved by Congress, any changes in it will also require approval by Congress.

"That will have to take place simultaneously with consideration of the plan by the financing community," Murkowski said.

Alaska Sen. Ted Stevens said a proposal allowing the oil companies to own a portion of the gas line will be presented to President Reagan next week.

Murkowski predicted that the financial community will question the impact of possible natural gas price deregulation on gas line financing.

"It will be a major problem, but not one that can't be overcome," Murkowski observed.

Murkowski discussed the proposal this afternoon with Edwards.

McMillian's letter to Edwards was accompanied by a May 19 letter to Exxon, Sohio, and Arco that outlines the 30-70 equity split.

The letter says for purposes of financing, the cost of the pipeline will be $22 billion. The cost of the gas conditioning plant will be $6 billion, substantially higher than the cost estimates previously released.

The letter says the gas conditioning plant will be funded as part of the pipeline system, a proposal which Northwest originally objected to which was demanded by the oil companies and requested by the state.

As a group, the transmission companies' equity will not exceed $5.25 billion, and the producers will provide equity in an amount not to exceed $2.25 billion.

Alaskan Northwest will own 70 per cent of the pipeline and conditioning plant, and the oil companies will own 30 per cent.

Northwest spokesman Joe Vallelly said the company did not want to comment on the proposal until negotiations with potential financers were completed.

"We welcome it," said Mark Lortie, spokesman for the Canadian embassy in Washington. The Canadian government is waiting for further information on the plan, he added. Canadian officials ahave publicly expressed concern over the United State's delay in obtaining financing for the 740-mile Alaska stretch of the pipeline.

Senators confirm gas line pa

by Betty Mills
Times Washington Bureau

Washington — Alaska's two U.S. senators confirmed today that producers and sponsors for the proposed Alaska natural gas pipeline have reached a financing agreement and are now searching for financial support on Wall Street.

"I am confident this project is going to go," said GOP Sen. Ted Stevens, who left today for a meeting with Canadian members of Parliament that will include discussions on the gas line.

"We now have a firm fixed position from the producers and the natural gas industries of this country."

Alaska Republican Frank Murkowski said he is "very enthusiastic to learn they have made a deal." He said the next move is up to the Reagan administration to request the waivers of law required to put the financing agreement into place.

The Anchorage Times reported Tuesday that gas producing companies and sponsors of the proposed pipeline reached an agreement calling for a 30-70 percent split in ownership.

The first presentation of the package to the financing community, made Thursday to First City Bank, "went extremely well," according to a knowledgeable source.

The process of gaining financial commitments from Wall Street for the project, estimated to cost in excess of $30 billion, is expected to take months.

The agreement, outlined in a letter Tuesday from Northwest Alaskan Pipeline Company Chairman John G. McMillian to the oil company executives, calls for the sponsors to own 70 percent of the pipeline and the conditioning plant, with the producers owning 30 per cent.

For purposes of financing, the cost of the pipeline is estimated at $21 billion, with the price of the conditioning plant estimated at $6 billion. A pre-committed cost overrun pool of $3 billion will also be formed.

Equity commitments to the so-called "completion assurance pool" will be made on the same 70-30 ratio.

The investment limits on all the participating companies are defined from the outset. As a group, the transmission companies will provide equity in an amount not to exceed $5.25 billion. As a group, the North Slope producers — Exxon, Sohio, and Arco — will provide equity in an amount not to exceed $2.25 billion, and will be further responsible for arranging for an amount of debt not to exceed $8.75 billion.

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The request for waiver
gas pipeline authorization
pected to be made soon,
next week, by the producer
project sponsors.

Murkowski talked with
Secretary James Edward
who pledged "a willingness
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Producers, builders settle on gas line plan

By GEORGE BRYSON
Daily News reporter

WASHINGTON — An agreement reached this week between three North Slope oil companies and the primary sponsors of the Alaska Natural Gas Pipeline System could finally open the door to financing for the $27 billion project.

In the pact, the Alaskan Northwest Natural Gas Transportation Co. — the 11-company partnership selected by President Carter to construct and operate the Alaska segment of the system — agrees to allow the gas producers a 30 percent ownership of both the gas line and a North Slope gas conditioning plant.

In return, the producers — Exxon, Sohio and Arco — agree to provide a proportionate share of the project's up-front expenses and contribute to a joint "completion assurance pool" designed to attract the necessary investment from Wall Street.

As drawn, however, the Alaska Natural Gas Pipeline Act prohibits gas producers from sharing ownership in the pipeline. To overcome that obstacle, the Alaska congressional delegation Friday asked President Reagan to send Congress a resolution that would amend the law.

"If the president will act as soon as possible on the resolution," Sen. Frank Murkowski said Friday, "then Sen. (Ted) Stevens, Congressman (Don) Young and I will push for the earliest possible vote on the resolution so all legislative roadblocks can be cleared."

Murkowski said he spoke with Energy Secretary James Edwards Friday as a first step.

In a letter Tuesday to top officials at the three oil firms, Northwest Alaskan Pipeline Co. Chairman John McMillian announced that the producers' ownership plan has been accepted.

"The Alaskan Northwest partners are now prepared to utilize your suggested approach," McMillian wrote, "as the basis for the discussion of a financing plan for the pipeline and plant with the financial community." He added that an initial presentation to Wall Street lending institutions and investment advisors would be made shortly.

McMillian sent a copy of his letter to Energy Secretary James Edwards, with a notice that the pipeline sponsors now have begun actively to seek financing for the project.

In Salt Lake City, a spokesman for Northwest expressed surprise that the McMillian letter had been obtained by the press, together with the terms of the agreement. "We think it would be inappropriate to comment on the details at this time," said company spokesman Joe Vallely.

But he added that Northwest hopes the Reagan administration will favor partial ownership in the gas line by the oil producers. The Justice Department in the Carter administration ruled that the arrangement would give Arco, Sohio and Exxon an illegal interest in the gas system — controlling both production and transportation.

"With this arrangement," Vallely said, "we're showing that 30 percent interest (for the oil companies) is not controlling interest."

Stevens, departing Washington early Friday on a flight to Nova Scotia, said the agreement makes him confident the project can be financed.

After attending the U.S.-Canada Interparliamentary Conference this weekend, Stevens had planned to spend next week's Senate recess in Alaska. Instead, he said, he will return to Washington to work on a congressional waiver for the pipeline.

"I think there'll be developments next week that will show that the Alaska Natural Gas Pipeline system is picking up momentum," he said.

Murkowski echoed that sentiment: "The progress toward a financing agreement is great news for Alaska," the freshman senator said. "We want to get this (presidential) resolution through so perhaps the preliminary construction can start in 1982."

Laying of the 740-mile Alaska portion of the pipeline is scheduled to begin in 1984, with completion and operation now planned for 1987. The entire 4,800-mile length of the system will carry natural gas from Prudhoe Bay to Fairbanks, turn east paralleling the general course of the Alaska Highway to Dawson Creek, Canada, continue south through Alberta and split into eastern and western legs just north of Calgary. The western leg will culminate in San Francisco and the eastern leg will end south of Chicago.

Company officials estimate up to 13,000 jobs will be created in Alaska.

In his letter to the three North Slope producers, McMillian outlined the following conditions to which both sides had agreed:

• "For purposes of financing," he said, "the 'as spent' cost of the pipeline will be $21 billion and the (gas conditioning) plant will be $6 billion. In addition, a pre-committed completion assurance pool of $3 billion will be formed.

• "The debt-equity ratio for all capital investment will be (calculated on a ratio of) 75-25;

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

DAILY NEWS MINER - FAIRBANKS, May 23, 1981

Northwest Pipeline survey documents tight housing market here

Housing in Fairbanks is scarce and growing more expensive, confirms the most recent quarterly housing survey by Northwest Alaska Pipeline Co.

The Current Housing Trends report for April shows a 42 per cent drop in real estate for sale since September, and the median asking price rose 23 per cent during the same time. Of 1,178 apartment units in the survey, there were only three vacancies in April where there were 65 vacancies in February.

The figures are from surveys made by the Manpower and Impact Planning Department in Fairbanks, headed by Sue Fison. They include single-family homes, duplexes and condominiums, as well as 20 major apartment complexes.

Northwest's studies are aimed at the company's planning needs, and do not include housing that it unlikely to attract employees for the Alaskan natural gas pipeline. It covers all homes for sale at more than $50,000 and the larger apartment complexes built or renovated during the last 15 years.

The information comes from surveys of realtors and apartment managers.

Fison speculated that tight lending markets may mean little construction to offset housing shortages in the future. "Some apartment units on the drawing boards have become condos because of that," she said.

Availability of single-family homes on the real estate market dropped 33 per cent since September, according to the report. Condominiums for sale dropped from 41 to 11 and duplexes dropped from 40 to 24.

The median asking price of homes, condominiums and duplexes was $76,550 in September and $97,000 in April, the study said. Single-family homes went for a median of $97,000, up 23 per cent since September.

The average monthly rent for a one-bedroom furnished apartment in Fairbanks was $431 in April and the rent had increased 5 per cent since February.

Some apartment complexes have waiting lists for apartments, the report said, and all said they expect to be full this summer with very low tenant turnover. Many indicated they planned further rent increases this summer.

The apartment survey was aimed at units built since 1965, and so does not include Fairview Manor's 272 units.

Two-bedroom houses were cheaper in the Fairbanks urban area but larger homes were more expensive in the urban area than in North Pole or other suburban regions. The most expensive housing is sold in the foothills north of town.

The median lot sizes of homes for sale was 10,625 square feet in the urban area, 11, 454 square feet for the suburban region, 93,524 square feet (2.1 acres) for the foothills and 43,560 square feet (1 acre) for North Pole.

More than 70 per cent of the homes for sale [illegible] been built since 1970.

ANCHORAGE DAILY NEWS April 24, 1981

Miller questions gas line funding

By TOM ATKINSON
Daily News correspondent

KENAI -- Prospects are dim for an agreement on how to finance construction of a natural gas pipeline from the North Slope, Lt. Gov. Terry Miller said here Wednesday.

"Frankly the issue is in doubt . . . (and) time is running out," Miller told the Kenai and Soldotna Chambers of Commerce. The possibility of cost overruns and future deregulation divide the North Slope producers and pipeline sponsors, he said.

Miller did not rule out the possibility of an 11th hour breakthrough. But he said it also is possible that negotiations will break down entirely, leaving the financing decisions to the Secretary of Energy.

The state is not a participant in the financial discussions.

Also at issue is whether the natural gas is priced at the wellhead, before it enters the pipeline, or at the destination.

Miller said Alaska would profit most by maintaining a good wellhead price. "The state will not look with favor on any agreement which diminishes the wellhead value," he said.

Miller was in Salt Lake City last week for a meeting of the Gas Pipeline Engineering Board, which is nearly finished with a $500 million design of the project. A construction cost estimate is due this summer, he said.

If financing negotiations for the gasline stall, Miller says a proposed gas line to carry the liquid part of the gas may become a reality sooner.

The Dow-Shell consortium's $3 million to $5 million liquid line feasibility study is due in September, Miller said. That project would complement rather than compete with the dry line, he said.

The Dow-Shell line, routed through Fairbanks to southcentral Alaska, would supply a petrochemical industry in the state. And, said Miller, "Dow-Shell is just the tip of the iceberg."

He said Exxon owns a substantial amount of gas liquids and is quietly studying a project similar to Dow-Shell's. The public will hear more about the Exxon project when the Dow-Shell study results are published, he predicted.

The Alaska Department of Environmental Conservation concurrently is doing its own study of pipeline impacts. Miller said the state study addresses environmental questions about the gas pipelines.

That report will "accommodate a legitimate concern and at the same time move forward a beneficial industry," he said, adding that the trans-Alaska oil pipeline has laid to rest many environmental fears.

ALL ALASKA WEEKLY May 8, 1981

Perspective

News Media Misconstrue Status of Gas Pipeline

By JOE La ROCCA

JUNEAU — There has been growing speculation recently that the proposed Alaska Highway Gas Pipeline may fold because its sponsors have not been able to arrange financing for the project, currently estimated to cost anywhere from $25 billion to $40 billion.

The most recent wave of pessimism assailing the beleagured project was triggered by an article published in the Wall St. Journal about two months ago, based on information which was obsolete and grossly inaccurate. Nevertheless, other news media picked up the Journal's original report and, by systematic repetition, have given it unwarranted credibility.

The fact is that, with the recent change of administration in Washington, D.C., the prospects that the pipeline will be built are currently better than they have ever been.

The most recent reincarnation of those erroneous reports have been based on comments widely attributed to Lt. Gov. Terry Miller, which were carried by Alaska's major news media last week.

For example, an Associated Press article last week reported that Miller had returned from a meeting in Salt Lake City where the project sponsor, Northwest Alaskan Pipeline Co., has been negotiating with the three major North Slope oil and gas producers, Atlantic Richfield Co., Sohio and Exxon.

According to the report, Miller said that he is increasingly doubtful that negotiations between the sponsor and the producers over financing of the project will succeed. "It's clear that both sides are beginning to run out of patience," Miller was quoted as saying, and the state should know "by midyear" whether Northwest's proposal to build the line will proceed.

These comments, and other reports to the same effect, have been widely interpreted to mean that the pipeline may not be built because of the continuing failure of the sponsors and the producers to reach a financing agreement.

It's true, of course, that the Northwest consortium, consisting of 11 major U.S. gas transmission and pipeline companies, lacks the financial resources needed to pay for the consortium of the pipeline. It's also true that current federal law prohibits federal financing assistance in the form of loans and guarantees.

But it was not the Carter administration's prohibition against federal loans or guarantees which stalled the project. Rather, it was his refusal to permit the three major North Slope producers, who *can* finance the project, to acquire an ownership interest in the pipeline.

While it was unlikely that Carter would have lifted the prohibitions against federal loans or guarantees for the project if he had been re-elected, there's no prospect whatever that President Reagan will relax them.

However, there is a strong possibility, if not a certainty, that the more critical restriction imposed on the project by the Carter administration prohibiting the producers from holding an ownership interest in it *will be* removed by Reagan. That would not only permit the project to proceed, but expedite its construction and completion as well.

It's ironic that both the national and Alaska news media have generally interpreted the prospective failure of the financing negotiations between Northwest and the producers to mean that the pipeline project will collapse, when, in fact, it is only the failure of those negotiations which will ensure the ultimate construction of the gas pipeline.

Because that means that Northwest, unable to raise the necessary financing any other way, will be compelled to relinquish its inept sponsorship of the project, thus enabling the producers, who can finance it, to take it over and complete it.

When that happens, the takeover will be characterized as a "reorganization" which will enable Northwest and its board chairman, John McMillian, to save face by remaining part of the consortium.

But the project leadership will shift to a new partnership controlled by the producers, *after* President Reagan has prevailed upon Congress to waive the provision in current federal law prohibiting the producers from equity ownership in the pipeline project.

The lack of progress in the gas pipeline financing negotiations between Northwest and the North Slope producers is no accident. It's in the best interests of the producers for the negotiations to fail, so that Northwest and McMillian will be forced to concede control of the pipeline to the producers.

ANCHORAGE DAILY NEWS, May 5, 1981

Murkowski says he's asked Reagan to have Bush coordinate gas line

The Associated Press

JUNEAU — Sen. Frank Murkowski told state lawmakers Monday that moving ahead on the Alaska natural gas pipeline is his highest priority, and that he has asked President Reagan to appoint Vice President George Bush to coordinate the project on the federal level.

Alaska should take advantage of its energy wealth to help solve America's energy problems, and improve the state's image in the Lower 48, the freshman Republican said during an address to a joint session of the legislature.

He said that asking Bush to coordinate the pipeline progress would underline the importance of the project.

The gas line could be delayed for another year, Murkowski said, unless a federal prohibition against pipeline companies having an ownership interest in the line is removed this spring.

On a related subject, Murkowski said that despite rumblings from Washington, D.C., that the federal government is interested in nabbing a larger share of Alaska's oil money, the state probably will not lose any of its oil income.

"We can't sleep too soundly, but we can sleep," he said, adding that federal officials are not preoccupied with capturing a bigger share of Alaska's oil revenue.

Murkowski made a strong pitch for developing the gas line, and urged lawmakers to investigate the possibility of dumping state dollars into the project. "It is my opinion that the state should investigate the possibility of joining with the major owner companies as a partner in a modest ownership position."

Investing in the pipeline represents tremendous opportunity for the state, Murkowski said. "It will be the largest privately financed construction project in the U.S. history. Construction of the 745-mile Alaska segment will mean some 13,000 jobs in the state. It will assure a means of bringing to market Alaska's royalty gas."

Murkowski said it is critical the gas line be built because the country is "dangerously dependent on expensive and unreliable foreign sources of energy."

He said completion of the pipeline "will make a significant contribution toward reducing this dependence" and will provide 5 percent of America's total natural gas usage over the next 25 years.

Murkowski said "one of the most important benefits to Alaska of the pipeline project would be the dramatic demonstration of our determination to assist our country in reducing our dependence on unreliable, foreign energy sources."

One of the principal questions affecting the fate of the pipeline is uncertainty about natural gas prices, he said.

"Investors in the pipeline must assume a risk that is truly unmeasurable and will remain so until the new administration and the Congress make a decision on natural gas price deregulation."

Gasline

Thursday, July 23, 1981, The Anchorage Times

White House prepares gas line waiver package

By Betty Mills
Times Washington Bureau

Washington — The White House is expected to submit to Congress shortly a package of waivers to federal law needed to secure private financing for the Alaska Highway Natural Gas Pipeline project.

Private meetings have been held in recent weeks on Capitol Hill and at the White House to discuss the waivers sought by Northwest Alaskan Pipeline Company and the other sponsors of the project. The gas pipeline project was also discussed by President Reagan and Prime Minister Trudeau during the recent economic summit in Ottawa.

The White House had held off submitting the package to Congress until the end of the summit, several sources said, but the waivers are now expected to come to Capitol Hill shortly. Congress then will have 60 days to review the package.

The investment community is seeking assurance that the waivers will be granted before lending its financial backing to the $30 billion project. But some of the items in the proposed waiver package have already stirred criticism among some members of Congress, who worry that American consumers may shoulder an unfair burden.

In a memo to members of the House Energy Subcommittee on Fossil and Synthetic Fuels, which he chairs, Rep. Philip Sharp, D-Ind., pointed up several concerns he has with the waiver package.

Northwest Alaskan has refused to comment on the waiver package until it is submitted. But recent closed-door negotiations have led to requests for waivers which would:

— Allow gas line sponsors to bill consumers for the cost of the $30 billion project before it is completed.

— Give the North Slope producers an equity interest in the pipeline and a voting and management role in the project.

— Include the $6 billion gas conditioning plant in the project. Inclusion of the plant had been prevented by former President Jimmy Carter and the Natural Gas Act.

— Permit the Federal Energy Regulatory Commission to follow informal rule-making procedures rather than more complicated and lengthy hearings. Another waiver request would prohibit FERC from attaching terms and conditions to its final certificate.

Other regulatory waivers being sought would ensure that Northwest Alaskan is considered a natural gas company when the final authorizations are accepted, not when gas flows.

Still other waivers to the Natural Gas Act would not allow FERC to reject, suspend, alter or otherwise impair collection of charges by the transportation companies or the shippers once the original tariff is approved.

This waiver is aimed at avoiding litigation by American consumers, including such large users of gas as agricultural concerns and electric utilities.

— Allow the importation into Canada of Alaskan natural gas and the exporting of Canadian gas to the U.S. The Alaskan gas would be exported to the Yukon Territory and the imported Canadian gas would go from British Columbia to Idaho, and from Sasketchewan to Montana.

The waiver package ran into a possible snag when Energy Secretary James B. Edwards expressed strong reservations about the precommencement billing proposal during his recent trip to Alaska. Edwards said the White House does not want consumers to bear so much of the risk for the project, in case it is not completed.

But Sen. Ted Stevens, R-Alaska, said he believes the opposition to the pre-commencement billing concept rests with the White House staff, not the president himself.

"We are led to believe the president reassured Prime Minister Trudeau that his administration would support the committment made by Carter," Stevens said.

Wednesday, July 29, 1981, The Anchorage Times

Reagan promises gas line waiver talks

by Betty Mills
Times Washington Bureau

Washington — President Reagan has agreed to meet with Alaska Sens. Ted Stevens and Frank Murkowski to discuss the gas line waiver package, a series of changes in federal law which are needed to secure private financing of the 4,800-mile Alaska Highway natural gas pipeline.

The meeting was promised today by White House Counselor Edwin Meese, who said the meeting will be held either this week in Washington or out west during the August congressional recess.

Murkowski and Stevens requested the meeting following a breakdown in the negotiations between the House and the Senate on the waivers to various federal laws and regulations sought by the sponsors of the $30 billion project.

Key members of the House and Senate have been meeting in recent weeks in an attempt to work out the details of an acceptable waiver package before it was formally submitted to Congress by the president.

But the House leaders have balked at the key issue, the so-called pre-commencement billing, which would allow consumers to be charged for the project before it is completed.

"Significant portions of the risk of non-completion of the project and significant financing costs would be shifted onto those gas consumers," six House leaders on the issue wrote Murkowski. "In addition, the ability of their regulators to protect their interests would be simultaneously reduced."

A waiver package cannot succeed in the House unless further negotiations take place, they said. These meetings should include those who raise the question of whether the project remains in the national interest with the waiver package, they said.

"We believe that the surest way to doom the waiver proposals to defeat would be for us to encourage them to be sent forward by the president before the Congress at large has had the opportunity to weigh the difficult questions of whether the value to the nation of this project still makes the cost it now involves

(See GAS LINE, page A-3)

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worth paying," the congressmen said.

The letter was signed by House Energy Committee Chairman John Dingell, D-Mich.; Fossil and Synthetic Fuels Subcommittee Chairman Philip Sharp, D-Ind.; Interior Committee Chairman Morris K. Udall, D-Ariz.; and the ranking GOP members of each panel.

Stevens and Murkowski have taken the opposite tack, urging President Reagan to submit the waiver package right away.

In a letter to the president, they agreed that the original waiver proposal was too broad. But they said "new waiver language has been prepared that we believe removes the existing legal impediments to financing this project without unduly burdening the American consumer or eviscerating needed legislative and regulatory safeguards."

They added, "Unless we act in this session, the project cannot be constructed on schedule, and we will face the loss of another year of construction time. The project sponsors must make long-range procurement commitments for the gas conditioning plant in 1982.

"The commission will need time after the waiver package is approved to act on the final certificate application, the financing plan, and the partnership agreement before the sponsors will be able to proceed."

The letter was also signed by Energy Committee Chairman James McClure, R-Idaho, and ranking member Henry M. Jackson, D-Wash.

If the president decides to submit the waiver package right away, the House members pledged to "take them up in good faith and support those which give us no trouble."

The president's Cabinet Council on the Environment and Natural Resources, chaired by Interior Secretary James Watt, is scheduled to consider the gas line waiver issue Thursday.

But Murkowski conceded that the prospects for getting the package to Capitol Hill before the August recess are remote.

Anchorage Daily News Thursday, July 30, 1981

Senators call in Reagan for gas line talks

By GEORGE BRYSON
Daily News reporter

WASHINGTON — The Alaska senatorial delegation Wednesday requested — and received — White House approval for a meeting with President Reagan to discuss executive waivers necessary to finance the Alaska Natural Gas Pipeline.

Sens. Ted Stevens and Frank Murkowski made the request Wednesday in a telephone conversation with White House Counselor Edwin Meese III.

Meese assured them, Murkowski said, that a meeting would be arranged as soon as Reagan's schedule permits.

"The purpose of our meeting is to emphasize to President Reagan the importance of the Alaska Natural Gas Pipeline to our nation's energy independence and to encourage him to send a waiver package to Congress as soon as possible," Murkowski said.

The request follows an agreement on proposed changes in the law reached last week by Stevens, Murkowski and two senators with a big voice in the pipeline: James McClure, R-Idaho, and Henry Jackson, D-Wash.

In a July 24 letter to Reagan, the four senators said their agreement strikes a compromise between what financiers of the $24 billion to $30 billion line wanted and what needs to be preserved in existing law to protect the American energy consumer. It also scales down the waiver package submitted by sponsors of the pipeline.

"Our review of the original waiver package submitted to you has convinced us that it included several waivers that are much broader than necessary to achieve the desired results," the letter states. "We are not willing to support a package which would undermine the fundamental protections afforded consumers of natural gas by our existing law."

In a draft attached to the letter, however, a seven-part waiver package proposes much that pipeline sponsors had sought in their effort to attract sufficient investment in the project. Among the provisions:

• A waiver in the law allowing North Slope oil producers to finance and own a share of the pipeline as well as a share of the North Slope gas conditioning plant needed to transport the gas. The new language requires a finding by the attorney general that such ownership will not violate antitrust laws or give the producers undue control over allocation and expansion decisions.

• A waiver allowing the Alaska pipeline owners to begin billing consumers for the cost of debt service, taxes and maintenance inspections on the pipeline upon completion of the Alaska segment — even if gas is not flowing. The date of the billing commencement is due to be decided by the Federal Inspector's Office.

Pipeline sponsors had requested early billing be allowed by the completion of each of seven sub-segments of the Alaska portion of the line. The compromise allows early billing only upon completion of the total Alaska segment.

If the president approves the suggested waivers, they still must be approved by both houses of Congress this year. With that in mind, the senators urged Reagan to act on their request as soon as possible because delay could cause the cost of the project to escalate even further.

"Unless we act in this session, the project cannot be constructed on schedule, and we will face the loss of another year of construction time. The project sponsors must make long-range procurement commitments for the gas conditioning plant in 1982," their letter states.

Washington Watch | Clyde H. Farnsworth

Bringing Gas From Alaska

WASHINGTON

THE Reagan Administration is taking a pretty hard-nosed approach to the Alaska natural gas pipeline.

It has been four years since plans were established for the huge project to transport gas from the north shore of Alaska to the West Coast and Middle West, but the problem today is the same as it was in 1977: How do you raise the money?

Cost estimates for the 2,400-line range up to $22 billion, by far the largest single financing undertaking in history. The gas would be piped south through Alberta, Canada, and then onward through two legs to San Francisco and Chicago.

• • •

The issue is whether the line can be built without some form of subsidy, and on this point, the Administration has come down hard.

Bankers are saying some of the costs should be passed on to customers, which would help the pipeline consortium service its debt.

Mr. Reagan's economic advisers see this as a form of subsidy, and are worried about the inflationary implications.

Key members of the House see things the same way, and thus differ with their colleagues in the Senate, who want the project to go forward. Representatives have, in fact, warned President Reagan in writing that if construction costs were to be passed on, they would reopen the basic issue of whether the pipeline was the best way to get the Alaskan gas to the market.

In order to solve some of these financing questions, the Administration must ask Congress for waivers to the 1976 enabling legislation, including one dealing with the question of passing on costs.

Stuart Goldenberg

The Cabinet Council on Energy and Natural Resources has now put the whole case once again on the back burner, with a recent decision not to ask Congress for any waivers until the key movers in the House and Senate reach a consensus. That could take time.

The big Prudhoe Bay producers — Exxon, Arco and Sohio — are insisting on equity in the project, another concession that Congress has to approve for the pipeline to go forward.

Among those trying to work out the financing are Citibank, Bank of America, Morgan Guaranty and Chase Manhattan. Says one banker involved: "Whether it will be difficult, inordinately difficult or impossible to finance, it's still too early to say."

Another party with a major interest in the outcome is, of course, Canada, which sees the line as an outlet for the export of surplus gas from its western provinces. If the line finally should be abandoned, look for more troubles with Ottawa.

Democrats to the Fore

The Japanese auto makers have shown a nice sense of bipartisanship in their latest choice of lobbyists. They had concentrated earlier almost exclusively on Republicans. But now Nissan Motors has retained as a consultant the law firm of Charles T. Manatt, the new chairman of the Democratic National Committee. Mr. Manatt is a senior partner in the prestigious California law firm of Manatt, Phelps, Rothenberg & Tunney.

Mr. Manatt joins a group that includes such prominent Republicans as John P. Sears, who initially ran Ronald Reagan's Presidential campaign and is now a consultant for the Japan Automobile Manufacturers Association; Richard J. Whalen, author, editor and former Nixon speechwriter, taken on as counsel to Toyota, and William D. Eberle, a former United States Trade Representative, who has been advising Nissan since 1979.

Balloon War

The Commerce Department has angered two powerful Republican Senators with its recent rejection of a petition to impose countervailing duties on imports of Mexican balloons. The petitioner, the National Latex Products Company, held that balloon and playing-ball exports were being subsidized by the Mexican government.

Commerce determined that before higher duties could be set, National Latex had to show it was being injured by the imports.

Signatories of the Subsidies Code, negotiated in the Tokyo Round of trade liberalization, are entitled to an injury test, but Mexico is not a signatory, as Senator H. John Heinz 3d of Pennsylvania and Senator John C. Danforth of Missouri were rather quick to point out.

They believe that Commerce rejected the petition mainly because the Administration did not want to antagonize Mexican President José López Portillo. The Ohio company has now taken its case to the United States Court of International Trade.

Thursday, August 6, 1981, The Anchorage Times

Panel proposes gas line route change

Associated Press

Ottawa — A panel of environmental specialists has recommended the Alaska Highway gas pipeline be built over the first Whitehorse route instead of through the Ibex Valley, Environment Minister John Roberts said Wednesday.

He said the six-member panel believes environmental and other problems along the 70-mile first Whitehorse route are minimal compared to the impact the natural gas pipeline would have in the Ibex Valley.

The route recommended in the panel's report is about four miles northeast of Whitehorse. The Ibex Valley route is about seven miles south of the Yukon capital.

"The panel recommended against the Ibex route because of the potential for high environmental costs through increased access to an area of rich and diversified wildlife close to major population centers in Yukon," Roberts said.

The 100-mile Ibex Valley route was preferred by Foothills Pipe Lines (South Yukon) Ltd. which plans to build the Canadian portion of the pipeline parallel to the Alaska Highway.

The course runs through southern Yukon and northern British Columbia from Beaver Creek at the Yukon-Alaska border and the pipeline is to connect with existing pipelines in Alberta.

The pipeline will cost more than $30 billion (Canadian) to construct. It will carry Alaskan natural gas to 48 southern states and gas from the Mackenzie Delta in the Northwest Territories to southern Canada.

Gas line

Anchorage Daily News Friday, July 31, 1981

Politics, money continue to stall gas line

By JIM LANDERS
The Dallas Morning News

OTTAWA — A tangle of finance, diplomacy and domestic politics is forcing a delay in construction of the 4,800-mile Alaska natural gas pipeline that could wind up costing American consumers billions of dollars.

The pipeline, already three years behind schedule, is becoming more expensive to build by the minute. A pool of $50 billion would be required by the Canadian and United States companies involved in the project in order to guarantee its completion, and the numbers are changing so rapidly that corporate and government officials on both sides of the border are no longer willing to estimate what the final cost will be.

American natural gas consumers will ultimately bear that cost through increases in their utility bills, and they could wind up paying for gas they never receive.

These conclusions emerge from interviews with more than 20 officials in Alaska, Washington and Canada who are involved in the pipeline, which is designed to supply the United States with 5 percent of its annual natural gas supplies, an amount that could displace about 400,000 barrels a day of U.S. oil imports by 1990.

The expensive mess that threatens to delay and possibly kill the pipeline sorts out into three related problems — money, foreign affairs and domestic politics in both the United States and Canada.

The overriding difficulty is money. Bankers say they will not put up the loans to build the line without changes in U.S. law that, among other things, would allow the Canadians to be paid for their share of the work whether or not the pipeline is ever finished. The changes also would allow Exxon, Sohio and Atlantic-Richfield — the three companies that own the bulk of the Prudhoe Bay natural gas reservoir — a 30 percent stake in the line, and the right to roll into consumer utility bills the cost of a $5 billion natural gas conditioning plant at Prudhoe Bay.

The U.S. firms involved in the project asked

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the White House to approve the changes in May. Under a unique 1976 law designed to expedite construction of the line, President Reagan is expected to forward the changes to Congress, which would then have 60 days to either accept or reject the entire package. No amendments by Congress would be possible.

Some members of the Reagan administration — notably Energy Secretary James Edwards — have attempted to link the financing package's approval to progress in settling a diplomatic row between the United States and Canada concerning Canadian treatment of American energy firms. Rep. John Dingell, D-Mich., the chairman of the House energy committee, is leading a group of House Democrats angered by Canada's discrimination against U.S. oil companies in a similar effort to hold the pipeline hostage.

Canadian Prime Minister Pierre Trudeau's government, beleaguered by internal energy squabbles that are dividing the nation, has turned the diplomatic feud to its own advantage by rallying the country to its "Canadianization" plan for the oil and gas industry. The plan seeks to seize control of at least half the petroleum industry in Canada by 1990. At the moment, nearly three-fourths of the industry is controlled by foreign firms, most of them based in the United States.

During a recent visit to Alaska, Edwards said the "construction in progress" billing change sought by Canadian bankers was "a problem" to the administration's way of thinking. He characterized the Canadian government as "uncooperative" and "independent" because of its Canadianization policy and suggested that alternatives to the Alaska gas pipeline should be considered, namely shipping by liquified natural gas tankers from Alaska directly to the lower 48 states.

Canadian officials here in Ottawa expressed surprise at Edwards's remarks.

"It is an extraordinary attitude," said Mitchell Sharp, the Canadian government's commissioner for the pipeline. "It is, after all, Alaskan gas, not Canadian. And the United States was originally notified that this waiver (involving the financing change) would be necessary as early as 1976."

In Washington, administration officials have said the waiver package will be sent to Congress soon but that Reagan's budget proposals were taking precedence over all other matters requiring congressional attention.

The U.S. firms involved in the project say the White House has assured them the "construction in progress" billing change will be included in Reagan's recommendations.

John McMillian, chairman of the Alaskan Northwest Natural Gas Transportation Co. (a consortium of U.S. firms that would build the Alaskan segment of the line), said in a Washington interview that "construction in progress" billing would save American consumers $2.6 billion over the life of the pipeline because of lower costs for debt servicing. He conceded that it could mean paying for a project that is never completed, but dismissed it as a remote possibility.

"If the line wasn't finished, every company involved in it but Exxon would be broke," he said.

Pipeline

Friday, August 14, 1981, The Anchorage Times

Gas line hiring plan wins federal OK

Northwest Alaskan Pipeline Co. has won federal approval of its hiring plan for minorities and women on the 745-mile in-state segment of the proposed Alaska Highway natural gas pipeline.

The 600-page plan, required by the Department of the Interior, sets employment goals for each of the next five years.

The 1981 target figures include objectives that females comprise 13 percent of the total of officials and managers, 9 percent of professionals, 6 percent of laborers and 46 percent of clerical employees. Hiring goals for minorities through the end of this year include planned figures of 8 percent of officials and managers, 9 percent of professionals, 20 percent of clerical and 22 percent of laborers.

In addition, the 1981 goal for minority business enterprise participation is $31 million, or 15 percent of contractable opportunities, and $4 million or 2 percent for female-managed firms.

Announcement of the approval was made Thursday by John Rhett, federal inspector for the Alaska Natural Gas Transportation System, and detailed here at a press conference.

John Alexander, former Alaska state labor commissioner and now working under Rhett, has been negotiating with Northwest on the plan for several months. He said it should provide for more equitable hiring practices than were maintained during construction of the trans-Alaska pipeline.

"Hopefully we've learned from the horrible mistakes that were made and were perceived to have been made on the oil pipeline," said Alexander.

The program also specifies hiring guidelines for Alaska natives and requires on-the-job training programs for natives. The existing Interior Department regulations allow employment preference for Alaska natives living on or near land held by native corporations.

Friday, August 21, 1981, The Anchorage Times

New report estimates gas line to cost more than $8 billion

by Betty Mills
Times Washington

Washington — The construction cost of the 743-mile Alaska segment of the proposed natural gas pipeline will be at least $8.08 billion, according to a final report released today by the Federal Energy Regulatory Commission (FERC).

The report was written by John Adger, the commission's Alaskan delegate, and Richard Berman, director of the office of audit and cost analysis of the federal inspector's office for the pipeline.

The commission will accept public comments on the Adger-Berman report for 28 days, and will set a final cost estimate for the Alaska segment this fall.

The final cost estimates, called the Certification Cost Schedule Estimate in the Adger-Berman report, must be set before the commission gives the go-ahead for construction of the project.

Under the decision by former President Carter to go ahead with the project, a mechanism was set up to establish an incentive rate of return for the sponsors. This provides an incentive for controlling construction costs and overruns. The incentive rate of return will be calculated by comparing the target cost estimate with actual construction costs.

The Adger-Berman report estimates that cost overruns due to abnormal events could run as high as 20 percent on the Alaska segment. Northwest Alaskan Pipeline has requested a certification cost estimate of $8.13 billion, and a higher cost overrun pool.

The Adger-Berman report concludes that, with minor exceptions, the status of the design for the Alaska segment is advanced sufficiently to estimate the target cost of the project. Due to the technical nature of the project, the Williams Brothers Engineering Co. of Tulsa, Okla., was chosen by the federal inspector's office to conduct an independent evaluation of the cost of the Alaska segment.

Technical conferences have been held around the country for the past few months to gather additional information for the Adger-Berman report.

The report said Northwest Alaskan overstated the costs for the Alaska segment in several respects, including:

— Excessive costs in the base estimate, including oversized crews, low productivity assumptions, overstated civil materials and equipment quantities and high unit costs for materials and services.

— Errors in the base estimate, such as duplication of some operations.

Cost overruns should be limited, the Adger-Berman report said, because Northwest Alaskan can use the experience of the trans-Alaska oil pipeline construction.

"For the Alaska segment, a body of design and construction expertise is available from which to draw," Adger and Berman wrote. "These include the entities with arctic experience derived from TAPS and other arctic construction projects, primarily the TAPS owners, the North Slope producers, and agencies of the state of Alaska and the federal govenemnt."

Anchorage Daily News Tuesday, August 18, 1981

Oil world watches gas line

Failure to construct a proposed natural gas pipeline from Alaska's north slope to the Lower 48 could mean oil-exporting countries will charge the U.S. higher prices for oil, Sen. Frank Murkowski told the Anchorage Chamber of Commerce Monday.

Murkowski said the U.S. will appear impotent to develop its own resources if a pipeline cannot be built to move gas through existing transportation corridors. "If we can't develop that source of gas into our country . . . then the American ingenuity to go out and tap more remote areas would be extremely doubtful," Murkowski said.

Oil exporters would see failure to build a pipeline as a signal that the U.S. is vulnerable to further increases in the price of foreign oil, he said.

Financing is one obstacle to construction of the gas line, Murkowski said. The Alaska portion of the project, estimated at more than $30 billion, will require borrowing some foreign money, he said.

The other two portions of the project are a pipeline through Canada and a gas liquefaction plant in the contiguous U.S. Murkowski said the Canadian government is pressing the Reagan administration to proceed.

Frank Murkowski

The project is now hung up on elements of an agreement being forged between potential users and transporters of the gas, Murkowski said. The most controversial stumbling block, he said, is a waiver that would require consumers to accept the liability if any one portion of the project is not completed.

Murkowski expressed optimism that the gas line eventually would materialize.

California warns of Alaska gas sale ban

By LEO RENNERT
McClatchy News Service

WASHINGTON — California has threatened to ban the sale of Alaska natural gas within its borders if President Reagan and Congress saddle consumers with the prime risk of financing a trans-Canada pipeline that could cost up to $40 billion.

Because the Alaska natural gas deal depends on California as a major market, the project may not be able to get off the drawing boards if California refuses to go along. California consumers would buy 20 percent of gas transmitted to the Lower 48 from Prudhoe Bay.

The threat to keep the gas out of California was raised by the California Public Utilities Commission, which informed Congress that consumers in the state stand to get a raw deal.

California Gov. Jerry Brown's administration also is gearing up for an all-out lobbying battle on Capitol Hill that may have multi-billion-dollar implications for California consumers.

In a letter to the House Commerce Committee, PUC President John Bryson said a proposal by private sponsors of the proposed natural-gas pipeline to require California and other consumers to make advance payments for its construction is "unacceptable to this commission."

Before Alaska natural gas can be sold in California, the PUC must authorize its purchase by utilities doing business within the state.

Bryson said his commission stands ready to use this power if costs to California consumers threaten to reach prohibitively high levels.

Even without PUC intervention, Bryson said Alaska natural gas could price itself out of the market if the pipeline's estimated costs continue to escalate. Utilities in the state might find it cheaper to turn to oil, he said.

The natural gas pipeline through Canada is a much more ambitious and expensive undertaking than the trans-Alaska oil pipeline that has been in operation for several years.

Federal officials have encouraged exporting major quantities of natural gas from Alaska, saying it would reduce U.S. dependence on energy supplies from the Middle East and other politically volatile areas.

Private lending institutions, however, have shown reluctance to approve the necessary financing because of the huge costs and uncertainties about the long-term price and supply outlook for the Alaska gas.

The project also has been clouded by gradual deregulation of domestic natural gas, which may prompt more production in the Lower 48 and cut into the potential market for high-cost Alaska supplies.

Faced with these difficulties, the pipeline's sponsors have asked Reagan and Congress to approve a package of private financing and pay-back terms that might help break down resistance by credit institutions.

Alaska Sens. Ted Stevens and Frank Murkowski, backed by Senate Interior Committee Chairman James McClure, R-Idaho, have asked Reagan for a prompt favorable decision.

Once Reagan acts, Congress must concur within 60 days to give the financing package an official green light.

The most controversial item is a prebilling provision that would allow the pipeline project to recover costs before delivery of gas to consumers if it fails to meet the 1987 completion schedule.

In a highly skeptical analysis of the financing plan, Bryson said California just made a "very real sacrifice" in agreeing to buy Canadian gas for $7 per 1,000 cubic feet and is not happy at the prospect of paying a $15 to $20 rate for Alaska gas by 1987.

Bryson said the primary issue is who should share in the financial risk that the pipeline might not be completed.

Gas line ultimatum: build by '82

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Time may be running out on the promoters of the Alaska natural gas pipeline system.

If the inflation-ridden project is ever to be built, industry observers here say, construction must begin next year. Failing that, inflation will carry its estimated cost — which has already grown from $8 billion to $30 billion — beyond the reach of private enterprise once and for all.

For the pipeline construction to begin next summer, however, the sponsors need to secure financing this winter. They can do that, they say, but only if the federal government waives certain provisions of law in order to make the investment less risky for the bankers.

One of the proposed waivers — a provision the banks have insisted upon — has brought current pipeline negotiations in Congress to a standstill. The sponsors want to be allowed to bill American gas consumers for the cost of the pipeline as soon as construction begins, and long before natural gas ever starts to flow from the North Slope of Alaska to the Lower 48. Supported by members of Alaska's congressional delegation, the "pre-billing" waiver is firmly opposed by some

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Gas pipeline must start by '82 or project dead, officials say

Continued from Page A-1

powerful House members.

The Reagan administration, trying to tow a middle line between what the sponsors say they need and what Congress may be willing to approve, still hasn't submitted the finished waiver package to Congress. And time is running short. Congress is scheduled to adjourn in two months.

"We're dancing on the head of a pin right now," Alaska Sen. Ted Stevens conceded this week.

"We're still trying to get the president to submit the waivers. He was prepared to do it . . . then, just before the recess, the members of the House who had been working with us announced they would not support the waiver package."

Leading the House review of the pipeline is Rep. John Dingell, D-Mich., the chairman of the House Energy and Commerce Committee. Dingell firmly opposes a government subsidy of the pipeline — and says he's uncomfortable with a subsidy by consumers as well.

He's supported in that view by Edwin Rothschild, a Washington-based consumer advocate for Energy Action. Rothschild calls the waiver proposal a "complete betrayal" of the sponsors' promise of private financing of the pipeline. "It makes the Chyrsler bail-out look like chicken feed," Rothschild told Congressional Quarterly last week.

On the other side of the debate, J.N. Vallely, a spokesman for Northwest Energy Co., defended pre-billing as necessary in order to get the project under way. "The consumers are going to pay for it regardless," Vallely says, "now or later."

Before submitting the waivers to Congress, the administration had hoped to shore up a bipartisan consensus on Capitol Hill to get the package approved without a fight. That hasn't happened. Stevens and Dingell still disagree on several key elements.

Losing patience with the negotiations, Stevens has asked the White House to submit his own version of the waivers to Congress, which he hopes to get approved in spite of any opposition in the House.

Ironically, Stevens and Alaska Congressman Don Young have been assured by their old Alaska lands foe, Arizona Congressman Morris Udall, that the pipeline waivers won't die in committee on the House side once they're in hand.

"Udall may be willing to get the issue to the floor," Stevens said Thursday. "We only hope the entire House doesn't agree with Dingell."

Just how Congress would vote on Stevens' version of the waivers is still difficult to gauge. Congressional observers believe they would meet with easy passage in the Senate, and face a difficult test in the House — depending upon how firmly Dingell opposes them.

"It's hard to say how the House would vote," says the Capitol Hill editor of an oil industry newsletter. "You see, the gas pipeline isn't perceived in the same way as the (Alaska) oil pipeline was down here — as something that's necessary.

"Oil is oil, you know you need it. But people don't really have the same feeling about gas . . . A lot of congressmen don't even know anything about the pipeline."

Even if the waiver issue is eventually settled, Stevens says, there would still be no guarantee the pipeline would ever be built.

"We're still not certain we'd get the financing for the project. That's what the House members are saying: 'Get some assurances from the bankers that they'll finance the project if they get those waivers, and then we'll talk to you again.' "

Given that generally gloomy appraisal, Stevens acknowledges that it may be time to start thinking the unthinkable: What are the alternatives for marketing Alaska's natural gas if the pipeline can't be built?

"I think we need to review it about every 60 days," he said, "and see if we all agree there's still a possibility it can be financed. When we come to the point one of these days that it's not — then we're going to have to do everything we can to get another system."

Friday, September 11, 1981, The Anchorage Times

Canada official says gas project still on

Associated Press

Washington — The Reagan administration seems committed to the stalled Alaska gas pipeline if financing can be resolved, but much more delay will threaten the project, Canadian pipeline commissioner Mitchell Sharp said Thursday.

"I see no signs that they don't intend to proceed," Sharp said at a news conference after a round of meetings with senior U.S. officials. "There is no indication that I got that the project would die or anything like that."

He acknowledged there is political resistance to a key element of a proposed private financing scheme which requires legislative permission.

If the administration and Congress fail to give a legal green light within three months, "that would be very serious — I told them it would be very dangerous," Sharp said.

The plan to pipe Alaska gas to U.S. markets through Canada, authorized in general by both governments in a 1977 agreement, has run into financing snags. Estimated costs for the biggest privately backed engineering project in history have soared as high as $40 billion.

The American consortium responsible for the most costly and difficult Alaska stretch of the line is seeking legislation waiving some original restrictions on raising the money.

Sharp said most waivers appear to be acceptable to the U.S. government. But he confirmed the sticking point is a proposal to defray finance costs by billing American customers before completion of the line if there were construction delays — so-called pre-commencement billing.

Sharp said the U.S. administration accepts such a scheme for the Canadian section of the line.

But members of the House and some Reagan officials have balked at the idea for the Alaska section. Energy Secretary James Edwards has said the legislative package may not include everything sought by the pipeline builders.

Sharp said he believes a waiver package will be put to Congress "which can provide the necessary framework for financing."

Sharp estimated that completion of the big pipeline could come in 1986 or 1987 — if Congress passes necessary legislation before December. After that, a detailed financing plan would have to be worked out and approved by regulatory agencies in both countries.

Russians competing for gas line funding

By GEORGE BRYSON
Daily News reporter

WASHINGTON — Enter the Russians.

According to Sen. Ted Stevens, a new antagonist has been added to the continuing tale of the attempt to finance the $30 billion Alaska natural gas pipeline system.

It's the Soviet Union.

Stevens says the sponsors of the Alaska pipeline now appear to be competing directly with the Soviets (who are trying to build an expensive gas pipeline of their own) in a race to secure construction loans from the international banking community.

The cost of either the U.S. or Soviet projects is so great, Stevens says, that a loan to one of the nations by the world money market may pre-empt a loan to the other.

"We know the cost of the (Alaska) pipeline is beyond the resources of all the U.S. banks put together," Stevens said Friday, during a teleconference with Alaska reporters.

Consequently, the Alaska pipeline sponsors, as well as the Soviets, have no alternative but to go to the world money well for financing. "If they get there first, the financial markets we would need could already be taken," Stevens warned.

The Russian factor is just one of several eonomic forces troubling the pipeline this fall, Stevens said, during his generally sober review of the project's present circumstances.

Another is the proposed deregulation of natural gas in the U.S., which could change the arithmetic upon which the pipeline was based.

"There's a great chism developing," Stevens said, "a great battle between the producers of gas in the lower 48" over what effect deregulated gas would have on the pipeline.

Some gas producers believe the two don't mix — that the pipeline could pre-empt deregulation, or vice versa. The Reagan administration is expected to make a decision on the deregulation of gas sometime this fall.

Stevens also reported little progress on Capitol Hill, where he is attempting to convince the White House and Congress to change the law to make investments in the pipeline less risky.

Some members of the House are solidly opposed to those changes. Stevens and other members of the Alaska delegation, however, have asked the president to submit the pipeline waivers to Congress anyway — where they hope the president would be able to force the issue.

"I'm hopeful that a decision will be made in the next few days," Stevens said. "But there's still opposition in the House. They've taken a strong position ... I don't know, I think it may almost be too late."

On other issues discussed during the teleconference:

• Stevens said "carry-over funds" in the Department of the Interior will allow a Bureau of Indian Affairs welfare program for Alaska natives to receive partial funding in fiscal 1982. The BIA program, targeted for $5.7 million under the Carter budget, was eliminated in the administration's new budget.

• Fees charged against Japanese fishermen within Alaska's 200-mile limit have been earmarked to triple during the coming year;

• No new agreement with the Department of the Interior regarding the offshore oil leasing schedule for Alaska has been forged beyond the general agreement Interior Secretary James Watt and Gov. Jay Hammond reached earlier this month.

Action urged on gas line legislation

Anch Daily News 9/29/81

By GEORGE BRYSON
Daily News reporter

WASHINGTON — With time running out, congressional leaders on both sides of the aisle have asked President Reagan to take a do-or-die stand on legislation that could decide the fate of the Alaska natural gas pipeline system.

In separate letters to Reagan delivered in recent days, they have urged the president to rush a package of legal waivers to Congress which, if approved, would amend the Alaska Natural Gas Transportation Act in a way that would help to secure private financing for the $30 billion project.

If not approved, however, the waivers — which cannot be altered once they're submitted to Congress — carry the twin potential to doom the project.

In a letter sent to Reagan two weeks ago, members of Alaska's congressional delegation advised the president that delay is the greater of the two dangers.

"Failure to address these waivers this session will set the project back at least one year and could conceivably result in the dissolution of an increasingly pessimistic consortium of sponsor firms," their letter states. It was signed by Alaska Sens. Ted Stevens and Frank Murkowski, as well as Sens. Henry Jackson, D-Wash., and James McClure, R-Idaho.

More recent letters to the president signed by committee leaders in the House — copies of which have been obtained by The Daily News — echo the same sense of urgency.

"We urge the administration to act as quickly as possible to prevent inflationary damage (to the project) that will result from delay," say Democratic Reps. Morris Udall of Arizona, John Dingell of Michigan, and Phillip Sharp of Indiana, in a letter to Reagan dated Sep. 23.

However, while the congressional leaders agree that the president should act soon, they disagree sharply on how he should act — which presents a dilemma for the White House.

The president had hoped to reach a congressional concensus on a waiver package before submitting it to Congress.

He hasn't received one. Members in the House, letters

See Back Page, ACTION

Action urged on legislation to aid proposed gas line

Continued from Page A-1

to the president show, are particularly opposed to a requested waiver that would allow the pipeline sponsors to bill American gas consumers for the cost of the project as it's being built.

Two key GOP congressmen — Reps. James Broyhill, R-N.C., and Clarence Brown, R-Ohio. — told Reagan last week that they object to the waiver on the grounds that it transfers the financial risk of the pipeline to the shoulders of the consumer.

"We are unalterably and unequivocably opposed to any waiver requests which would transfer the risk of non-completion to the consumer," their later states.

Stevens and Murkowski, however, told Reagan they "strongly endorse" the pre-billing waiver, among six other changes they've proposed in the pipeline law.

Failure to advance the pipeline project, they say, could result in "a pervasive lack of confidence by industry in the resolve of our government to support needed transporation systems from arctic and frontier areas.

"For instance," they add, "there would be little point in continuing to explore the other parts of the North Slope, the National Petroleum Reserve-Alaska or the Beaufort Sea."

They conclude their letter with a request to meet with the president to discuss his decision. So far, delegation members say, the meeting with the White House hasn't been called.

According to congressional reports, the Cabinet Council on Energy and Natural Resources, chaired by Interior Secretary James Watt, is expected to discuss the pipeline waiver issue this week. It will then forward a recommendation to the president.

Gas line waiver decision close, Katz asserts

By SHEILA TOOMEY Anch Daily News
Daily News reporter 10/4/81

The Reagan administration is close to deciding on a waiver package that may make financing of the Alaska natural gas pipeline a reality, according to Commissioner of Natural Resources John Katz.

In a speech to the State Chamber of Commerce in Anchorage Saturday, Katz called waivers of federal law demanded by bankers in return for investment in the long-debated project the key financing issue.

John Katz

Pipeline sponsors are trying to get White House and congressional approval of a waiver package that would allow them to start billing gas consumers for the cost of the pipeline as soon as construction begins, instead of after gas starts to flow through the line.

Several powerful Congressional leaders have said they oppose the pre-billing plan.

Potential gasline backers also want a law waived that prohibits North Slope oil producers from owning shares in the proposed pipeline.

If Northwest Alaskan Pipeline fails to put a financing package together, it likely will be several years before a successor can pick up the pieces and try again, Katz said. The commitment to Northwest, a consortium of 11 companies that has been trying to put a gas line deal together for several years, is a strong element of state policy and "literally the only game being played," he said.

In addition, Katz said the state Department of Natural Resources will move 100,000 acres of state land into private hands this year, even though the law requiring them to do so was repealed by the legislature.

In preparation for future land disposal, Katz said his staff is preparing a report outlining several policies options for settlement west of the Alaska Range.

The only uncontrolled natural resource area, according to Katz, is agricultural. He said the state's agricultural policies are bureaucratic and inconsistent.

The Agricultural Action Council directs most state involvement in agriculture, independent of Katz' department.

The new commissioner reminded his audience that Alaska development such as the gas line and petrochemical industry largely depends on out-of-state influences, including international oil prices and the actions of the 535 senators and representatives in Congress.

In a speech to the same audience later in the day, Lt. Gov. Terry Miller lamented that "there has not been a single, major economic development project started (in Alaska) in the last decade."

Miller urged that state money be used to promote economic diversification with an emphasis on projects in four key areas — transportation, communication, education and hydroelectrification.

Investments in bridges, docks, ports, schools and hydro projects "don't compete with the private economy," he said, "they complement it."

Miller, a candidate for the Republican gubernatorial nomination next year, stepped in at the last moment after Washington state Gov. John Spellman withdrew as keynote speaker for the state chamber's 22nd annual convention.

Anch. Times 10/6/81

Gas line waivers to go to Congress

by **Betty Mills**
Times Washington Bureau

Washington — After months of delay, the White House is ready to send to Congress a package of waivers to federal law that the sponsors of the Alaska gas line say they need to obtain financing for the $30 billion project.

The gas line waiver package was expected to be sent to Capitol Hill last Tuesday but was delayed, members of the Alaska congressional delegation were informed by White House officials.

A White House spokeswoman said the gas line issue would be discussed by the Cabinet Council on Natural Resources this aftarnoon, but refused to elaborate.

Since last summer, Alaska Sens. Ted Stevens and Frank Murkowski have been urging the White House to submit the waiver package, warning that Congress must approve it this session or the sponsors will lose another year of construction time.

But key leaders on the issue in the House, including House Energy Committee Chairman John Dingell, D-Mich., have protested the waiver package, saying further negotiations were necessary.

Dingell and his colleagues object primarily to the key issue of precommencement billing, whereby U.S. consumers would be charged for the project before it is completed. Members of the Alaska delegation said the gas line waiver package will be submitted substantially as they requested.

"They want to get it out on the table and discuss it," said Sen. Frank Murkowski, R-Alaska. "This is largely due to the pressure from the senators. The House opposition is still there, and cannot be disregarded."

Murkowski, himself a former banker, said he accepts the conditions set by the investment community. "They put up the money, they dictate the conditions — that's their right," the senator said. He said there is very little chance the investors will change their requirement for precommencement billing, thus giving the House members "an all or nothing proposition. It's either this or kill the pipeline."

Sen. Ted Stevens, R-Alaska, said the White House "is very supportive of the project. The real problem is whether we're right about the impact of the waivers as far as the consumers of the U.S. are concerned. I think they misunderstand what the waivers will do."

The Alaska senators had sought a meeting with President Reagan on the issue, but Stevens said Friday the session was only necessary if the White House planned to oppose them on the waiver package.

"I told (Presidential Counselor Ed) Meese it was not necessary unless there was some indication they were going to oppose us," Stevens said.

In a recent memo from Danny J. Boggs, a White House staff aide, to the Cabinet Council, he outlined the options available as the following:

— Submit the waiver package sought by the Senate and the pipeline supporters, which involves consumer risk-bearing for all parts of the pipeline and which would engender serious House opposition.

— Decline to submit waivers for any consumer risk-bearing, which would forthrightly fill the pipeline, and would be considered by the Canadians as breaching an obligation made by the Canadian government.

— Submit waivers only to allow consumer risk-bearing on the Canadian portion of the line. This would almost certainly kill the pipeline, but would be viewed by the Canadians as satisfying our commitment to them. It would, however, give the appearance of treating Canadian pipeline investors better than Americans.

Tha President apparently has decided to go with the first option, despite the House opposition.

Key elements of the waiver package sought by the sponsors include:

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

— Inclusion of the gas conditioning plant in the project, thus adding to its total cost.

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

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

Wall Street 10/7/81

Reagan Drafts Alaska Gas Pipeline Plan Giving Legal, Financial Help to Investors

By ANDY PASZTOR
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—President Reagan wants to give the stalled Alaska natural-gas pipeline a new lease on life by asking Congress to agree to a controversial package of legal and financial assurances sought by its supporters.

The seven-point plan that Mr. Reagan is expected to submit to Congress would make it possible for sponsors of the $35 billion project to line up financing by passing on substantial construction costs to consumers before the entire 4,800-mile pipeline is completed.

The President also wants lawmakers to allow the project's major oil company investors to own as much as a 30% stake in the line, which would link Alaska's rich Prudhoe Bay natural-gas fields with western Canada and major U.S. markets. Pipeline companies would own the rest of the project.

The proposals, unless they are rejected by lawmakers in the next two months, would ease or eliminate many of the constraints previously imposed on the project's backers by the government. But the plan is certain to attract considerable political opposition, and its fate may well be determined by how strongly the White House decides to lobby for votes.

The White House didn't announce the proposal, but congressional offices received calls from administration officials yesterday confirming that the long-awaited package formally would be sent to Capitol Hill in the next few days. Northwest Energy Co. is the leading U.S. sponsor of the project, which also would include Atlantic Richfield Co., Exxon Corp. and Standard Oil Co. (Ohio).

The administration's strategy—developed after months of internal debate and haggling with congressional leaders—also calls for a variety of regulatory waivers that would save the oil companies billions of dollars in investment costs. And the package would make consumers, in effect, bear the financial burden if the entire project isn't completed.

If Congress rejects the proposal, sponsors of the pipeline say they won't be able to assemble the necessary financing to build the longest and most expensive segment of the project, in Alaska. Construction already has begun on all of the other segments.

Specifically, the White House agreed that the project's backers may be entitled to start collecting revenue from gas users before they start marketing any of the Alaskan gas. And the oil companies may be able to pass on to consumers as much as $4 billion to build a gas-treatment plant in Alaska that currently can't be included in the pipeline's rate base.

The Federal Energy Regulatory Commission will have the final say in establishing the specific conditions and the rates that can be charged for the gas, but it isn't expected to oppose the thrust of the President's proposals.

Nevertheless, congressional and administration officials predict substantial bipartisan opposition to some of the elements of the plan. They say the debate will pit the White House against a variety of consumer groups, state officials and even some Republican congressional leaders who strongly oppose the proposal.

Two weeks ago, for instance, two senior Republicans on the House Energy Committee told President Reagan they were "unalterably" opposed to part of the package because it would "transfer the risk of noncompletion to the consumer." As reported, Energy Secretary James Edwards earlier this year also said the administration would have a difficult time supporting a package that asks "consumers to shoulder so much of the financial risk."

Now, however, the White House appears to have decided that the financing questions are less significant than the need to start tapping Alaska's substantial natural-gas reserves. The Canadian government also has been pushing hard to get the Reagan administration to support the project and thereby ensure that Canadian investors will recoup their investment.

Hearings likely to decide fate of gas line

By GEORGE BRYSON
Daily News reporter

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

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

Also appearing on opening day will be John McMillian, the flamboyant chairman of the 12-partner pipeline consortium, Alaskan Northwest Natural Gas Transportation Co.

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

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

One such proposed change, the so-called pre-billing waiver, would allow the pipeline companies to begin billing gas consumers for the cost of the project as construction is proceeding and well before natural gas from Alaska's North Slope ever begins to flow to the Lower 48.

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

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

The hearing preparations were set in motion Thursday after President Reagan formally submitted his waiver package to Congress, which appeared in the form earlier reports had predicted. In addition to the pre-billing waiver, other major White House recommendations for changes in the pipeline law include:

- A waiver to allow North Slope oil and gas producers — principally Exxon, Atlantic Richfield and Sohio — to own a 30 percent share of the pipeline system.
- A waiver to permit the producers' $4 billion North Slope gas conditioning plant to be considered part of the cost of the pipeline system.

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

He added that the waivers are designed to "clear away governmental obstacles to proceeding with private financing of this important project."

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

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

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

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

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

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

Anch Times
10/15/8

Gas pipeline waivers go to Senate, House

by Betty Mills
Times Washington Bureau

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

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

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

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

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

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

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

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

In his brief message to Congress, Reagan said the Alaska gas line "is important not only in terms of its contribution to the energy security of North America. It is also a symbol of U.S.-Canadian ability to work together cooperatively in the energy area for the benefit of both countries and peoples." Reagan noted that the Alaska Highway route for the line was chosen by President Carter and approved by Congress in 1977.

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

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

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

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

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

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

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU
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NEWS RELEASE

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HAMMOND TO TESTIFY IN FAVOR OF GASLINE WAIVER/FINANCING PACKAGE
10-16-81
#170

FOR IMMEDIATE RELEASE

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

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

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

MORE

He said it is vital for the nation to find a means to get the 26 trillion cubic feet of natural gas from the North Slope to market. He said that gas could replace thousands of barrels of imported oil daily helping America in its effort to become energy independent.

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

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Anch Daily News 10/20/81

Gas line waivers are central issue

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

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

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

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

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

Push begins for gas line waiver package

Anch Daily News 10/22/81

By GEORGE BRYSON
Daily News reporter

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

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

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

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

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

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

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

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

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

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

In response, John McMillian, executive officer of Alaskan Northwest Pipeline Company, the primary U.S. sponsor, said the Alaska pipeline still represents "the best energy buy you can make today."

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

See Back Page, PUSH

Push begins for gas line waiver package

Continued from Page A-1

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

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

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

The waivers are intended to answer the conditions for financing set forth by the oversea bankers, he said.

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

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

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

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

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

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

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

Gas line funding may go to voters

Anch Daily News 10/24/81

By GEORGE BRYSON
Daily News reporter

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

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

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

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

He said the proposed pipeline route was the only plan for transporting North Slope gas to the Lower 48 that was endorsed by environmental groups. And it would more than pay its own way if Alaska receives the same 17½ percent return on a pipeline loan the banks have been offered, he said.

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

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

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

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

The Anchorage Times Friday, October 23, 1981

City / State

- Entertainment
- Tell it to Bud

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Gas line sponsors may need more financing

by Betty Mills
Times Washington Bureau

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

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

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

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

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

But at least one of the North Slope producers nixed the idea of putting up any more money than already promised.

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

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

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

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

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

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

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

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

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

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

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

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

Anch Times 10/24/81

Stevens: state should aid gas line

by Sean Hanlon
Times Writer

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

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

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

Investment by the oil industry is a key element of a plan to get construction of the pipeline under way, and the possibility of state participation has been suggested. President Reagan has proposed waivers of limitations which prohibit the oil industry from investing directly in the project.

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

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

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

This waiver, if approved by Congress, would result in a hike in the cost of natural gas-generated electricity because it would allow investors in the pipeline to bill consumers in advance for construction costs of the project, estimated to be as high as $43 billion.

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

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

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

Stevens also addressed another issue of concern to investors in Alaskan resources — the export of the state's oil to foreign countries. The bill authorizing construction of the trans-Alaska pipeline prohibits export of North Slope oil.

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

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

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

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

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

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

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

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

(See STEVENS, page A-3)

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

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

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

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

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

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

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

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

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

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

Stevens

(Continued from page A-1)

vote in the event of a tie in the Senate.

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

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

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

Subs proposed for natural gas arctic transport

Anch Daily News

10/28/81

By THOMAS W. LIPPMAN
The Washington Post

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

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

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

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

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

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

No federal funding for gas pipeline

Anch Times 10/27/81

by Betty Mills
Times Washington Bureau

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

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

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

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

Edwards was questioned closely by several subcommittee members about the waiver package, which allows consumers in the Lower 48 states to be billed before the gas starts to flow. Both houses of Congress must approve the waivers within 60 days for them to take effect.

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

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

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

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

(See GAS, page A-3)

Gas

(Continued from page A-1)

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

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

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

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

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

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

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

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

Is gas a pipe n for Alas

By GEORGE BRYSON
Daily News reporter

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

They would pipe it to the Lower 48 States.

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

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

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

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

It sounded good.

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

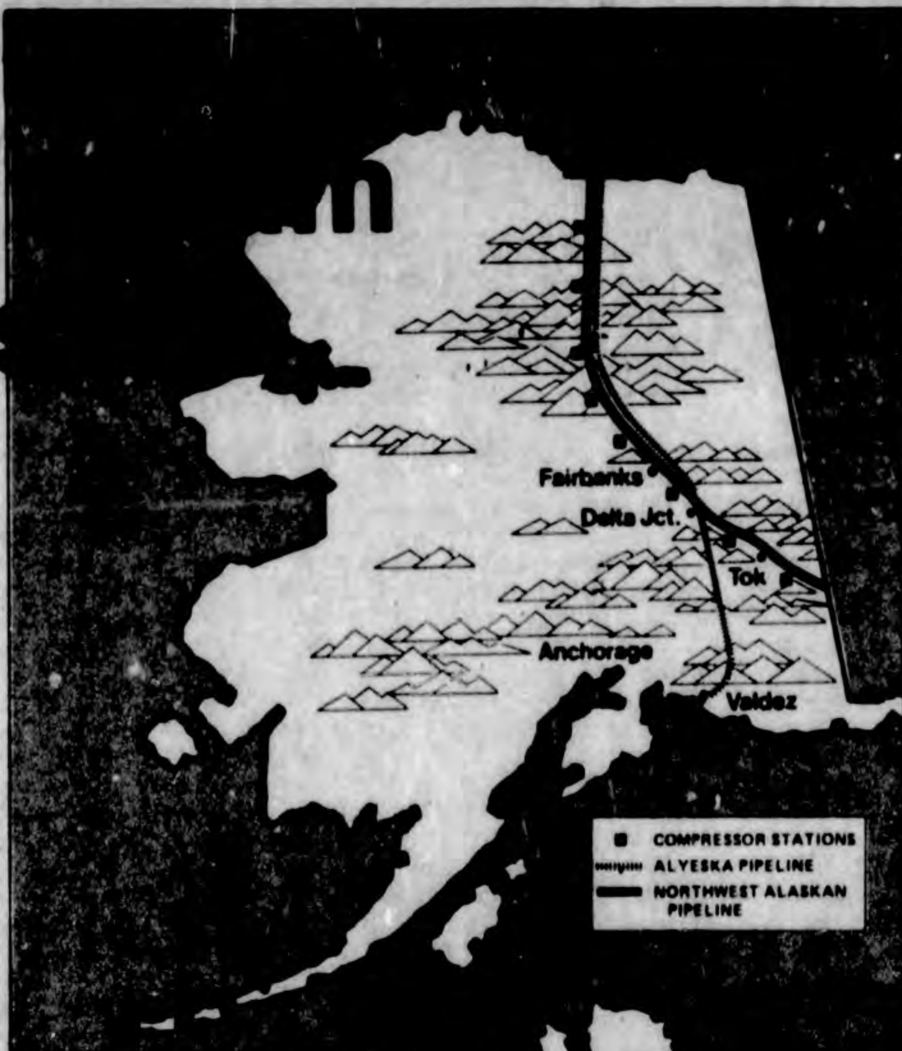
Soon afterwards, the Alcan project was licensed by the Federal Energy Regulatory Commission and set to go. The sponsors were permitted to begin their design and planning and secure their financing.

That was December, 1977.

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

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

See Page E-3, GAS LINE



LENGTH:

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

ROUTE:

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

Pipeline Chronology

1968 — Reserves of oil and gas discovered in Prudhoe Bay are estimated to contain 9.6 billion barrels of crude oil and over 26 trillion cubic feet of gas.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUGUST, 1980 — Construction begins on Canadian western leg.

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

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

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

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

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

Senate committee OKs gas line waiver package

Anch Times 11/10/81

by Betty Mills
Times Washington Bureau

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

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

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

The waivers were submitted by President Reagan on Oct. 15. Both houses of Congress must approve them without amendment by Dec. 18 for them to take effect. The waivers allow the North Slope producers to hold an equity interest in the project, include the gas conditioning plant in the total cost of the project and permit consumers to be billed before gas starts to flow.

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

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

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

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

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

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

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

(See PIPELINE, page A-3)

(Continued from page A-1)

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

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

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

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

Gas line waivers package wins crucial victory

Daily News 11/13/81

By GEORGE BRYSON
Daily News reporter

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

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

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

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

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

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

"The information that came out of those hearings just bowled me over," Seiberling said. He added that his home state will be saddled with paying higher rates for Alaska gas than anywhere else in America.

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

"Now here we are with the gun pointed at our head and we're being told it'll upset our relations with Canada unless we rubberstamp these waivers," Seiberling complained.

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

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

See Back Page, HOUSE

House panel approves gas line waivers

Continued from Page A-1

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

Throwing his key support to the president's waivers was Indiana Congressman Phil Sharp, chairman of the House Subcommittee on Fossil and Synthetic Fuels.

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

The testimony from 63 witnesses during recent congressional hearings also convinced him the risk the waivers pose for consumers are "small compared to the potential benefits to them" if the project is completed, Sharp said.

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

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

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

STATE OF ALASKA

OFFICE OF THE GOVERNOR
JUNEAU

JAY S. HAMMOND
GOVERNOR

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

FOR IMMEDIATE RELEASE

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

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

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

MORE

Add 1-1-1-1

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

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

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

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

MORE

Add 2-2-2-2

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

-30-

Anch Times 11/25/81

Group urges look at all-Alaska line

by Mary Pat Murphy
Times Writer

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

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

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

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

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

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

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

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

While Presidents Carter and Reagan have been committed to private financing of the line, the report said, "many observers believe that the pipeline sponsors will require the participation of the state of Alaska in financing the line, as well as federal loan guarantees or direct federal subsidies."

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

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

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

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

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

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

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

Gas line waivers get 2 more OKs

Anc Times 11/19/81

by Betty Mills
Times Washington Bureau

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

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

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

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

Metzenbaum said, "This is cruel, unfair, inequitable, unjust and the result of sheer, unadulterated greed. This is one of the rawest deals ever . . . The big winners are Arco, Exxon and Sohio. They will get a 70 percent interest rate of return in the first year of production, while the consumers get zip.

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

With John G. McMillian, chair-

(See PIPELINE, page A-3)

Pipeline

(Continued from page A-1)

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

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

Stevens said the North Slope of Alaska "represents the highest potential discovery area for oil and natural gas on the North American continent." Further exploration of those vast resources will be delayed if the gas pipeline is not built, he said.

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

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

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

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

Meanwhile, a Ralph Nader-sponsored consumer group charged today that the pipeline sponsors have contributed nearly $83,000 since January to members of Congress.

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

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

In response to the Congress Watch report, Stevens said:

"Those contributions would have been made in any event." He added that he did not know if his campaign committee had received any money from the pipeline sponsors.

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

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

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

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

The Alaska Pipeline Lives

12/1/81 Wall Street

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

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

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

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

The Alaska Gas Pipeline, then, is a pricey, dicey project. Moreover, it cannot by law enjoy any federal financing and there's little likelihood—or so we hope—that Congress will change its mind about that. It's no wonder the project has been moving with, well, glacial speed. Things did pick up last spring, though, when the 11 pipeline sponsors agreed to give the three major Alaska oil companies—who own the gas—up to 30% equity investment in the project. Critically, the agreement provides for the oil companies to contribute several billion dollars to a cost overrun pool, a couple of billion dollars in equity and about four times that in borrowed funds. Undoubtedly, the big buck participation by the oil companies will be reassuring to potential lenders.

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

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

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

House clears gas line package

THE ANCHORAGE

by Betty Mills
Times Washington Bureau

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

The House voted 229-188 for the version of the gas line waivers adopted by the Senate last month. This followed 24 hours of parliamentary wrangling that threatened the waiver package and the entire project.

The House had approved the waiver package Wednesday by a 233-173 vote. But opponents used an unusual parliamentary tactic to force a reconsideration today. Despite heavy overnight lobbying, consumer groups failed to reverse the outcome.

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

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

An extraordinary parliamentary snag developed after the House voted for the waiver package Wednesday. The measure was identical to the Senate-passed waiver package except for the number of the bill.

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

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

The basic options were to:

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

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

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

Consumer advocate Ralph Nader, who attended the Rules Committee meeting, said his consumer groups would work overnight to contact members. "It's a race betwee[n] a surge in public opinion and the oi[l] companies' money bags," he said.

Meanwhile, Metzenbaum an[d] Rep. Richard Ottinger, D-N.Y., chal[-] lenged the Rules Committee actio[n] in bring the matter before the Hous[e] again, terming it "patently illegal."

Metzenbaum and Ottinger sai[d] they "have no doubt that court litiga[-] tion will result as a challenge to th[e] House action."

The grounds for the suit would b[e] the original law approving th[e] Alaska gas pipeline project, whic[h] stated that it is not in order to co[n-] sider another waiver package withi[n] 60 days of a vote on the first one.

(See PACKAGE, page A-3)

Package

(Continued from page A-1)

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

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

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

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

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

Rep. Don Young, R-Alaska, reminded Corcoran that the pipeline law allowed only one hour of debate on the waiver package. And several times, he rose to protest comments from other members about the lack of state participation in the project.

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

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

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

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

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

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

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

Reagan signs gas line legislation

Anch Times 12/15/81

Associated Press

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

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

Sen. Howard Metzenbaum, D-Ohio, a leading opponent, has said he will challenge the package in court, contending that the House vote approving the package violated the special federal law governing the Alaska pipeline decision.

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

Private investors have been unwilling to put up the money to build the line without greater assurance they'll get their investment back. The package gives them that assurance by shifting much of the risk to consumers, a provision that drew the opposition of Ralph Nader and other consumer interests.

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

Supporters say the small risk to consumers is worthwhile since it is the only way to tap the vast natural gas reserves on Alaska's North Slope. Proven reserves total 26 trillion cubic feet — about 13 percent of known U.S. supplies — and geologists say another 100 trillion cubic feet may be awaiting discovery.

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

Approximately 70 percent of the gas transported through the line will go to the Midwest, the East and the South and about 30 percent to the West.

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

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