

SENATE & HOUSE JOINT  
JOURNAL SUPPLEMENT

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May 4, 1981

Monday

No. 4

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ADDRESS OF U. S. SENATOR FRANK H. MURKOWSKI

TO ALASKA LEGISLATURE

MAY 4, 1981

JUNEAU, ALASKA

My basic topic for discussion today will be Alaska's opportunity to help America solve its energy problems, and, in so doing, to enhance the State's own well-being. Specifically, I want to share with you my thoughts on the Alaska Natural Gas Pipeline and the disposition of Alaska's excess royalty oil, if any, to meet our nations' national security needs through the Strategic Petroleum Reserve.

Before speaking about energy, I must say a word about what's going on in Washington. Clearly, President Reagan has made every effort to fulfill campaign promises of putting the brakes on government spending and turning our economy around by unharnessing private enterprise. These goals, I truly believe, can be met without hurting the truly needy or damaging our natural environment.

The central thrust of President Reagan's program is to revitalize our basic economic and financial system. Inflation threatens not only the jobs and well-being of all Americans, but also our monetary system. This nation is paying nearly \$100 billion per year to service a national debt created by the continued habit of government spending beyond its means. Without a halt to deficit spending and stimulation of savings and investment by tax cuts, the American economic system, as we have known it, faces disaster. The Congress is supporting President Reagan's program. The Senate has recently passed a reconciliation budget resolution cutting \$36.4 billion from the 1982 Federal budget and cutting some \$125 billion by 1984, by which we should, hopefully, attain a balanced budget.

Reducing Federal budget authority can be achieved without dismantling the "social safety net" essential to our nation's truly needy. Even with anticipated cuts, "social safety net" programs will continue to get a 35 percent slice of the Federal budget -- considerably higher than the 25 percent budgeted in 1962 during the Kennedy Administration. "Social safety net" programs such as Social Security and Veterans benefits will increase to a 41 percent share by 1984.

In the last election, the people of our nation let it be known that they favored candidates who advocated more local control of government programs. In response, President Reagan has offered the Block Grant concept in which Washington gives the States funds to be distributed at their discretion. I believe this to be a sound approach -- one which will make government programs more responsive to people's real needs. The major objection to Block Grants seems to be coming from administrators of programs who have always had the insulation of the Federal government between themselves and the recipients of the program. These administrators are now reluctant to stand the heat of the decision-making process in prioritising programs.

Unlike former years, today in Washington there are few sympathetic to Alaska's problems because of our newly perceived energy wealth. As a member of the Senate, I am almost daily confronted with "Alaska's image problem". Many feel that Alaska's prosperity has developed at the expense of other states. That is one reason I have advocated the concept that Alaska use its energy wealth for the benefit of the nation, as well as our State.

I would first like to commend the State legislative and the State executive branches for developing a value-added concept for Alaska's resources. I'm speaking specifically of current programs for in-State processing of royalty oil and gas liquids.

As many of you know, I spent 20 years as a banker attempting to finance worthwhile Alaskan projects and as Commissioner of Economic Development trying to induce outside investment into Alaska. It is from this perspective, tempered by my recent, brief exposure to national corporate and governmental thinking, from which I speak.

We all recognize that to require in-State processing of our resources is relatively unique within the United States. Private entities have for years done this overseas, most notably in the Middle East and other lesser developed countries. But rarely has it been attempted under the American flag, and especially with government -- such as the State of Alaska -- as a partner. We are developing a new concept -- the private sector makes a reasonable return on its investment and the State receives the benefit of further economic activity within the State, and an expanded tax base, in addition to a fair-market price for its resources.

On the surface it appears that such ventures fly in the face of traditional financing and corporate planning standards. For instance, conventional wisdom tells us that such projects are built near the marketplace, rather than proximate to the resource. Another piece of conventional wisdom, especially reinforced by the significant cost overruns of the Trans-Alaska pipeline, is that it is much more

expensive to build and operate in Alaska, making many such proposed projects uneconomical. Nevertheless, I commend you legislators for the creativity and wisdom you have shown and urge you to continue to encourage in-State processing of our resources. The long-term benefits to our State and its people from such projects are too enormous to be measured.

It is, therefore, critical for the country and the State of Alaska to complete the Alaska Natural Gas Pipeline Project.

Our country still lives under the Damoclean Sword of OPEC. Today, the United States imports 38 percent of its petroleum -- much of it from the precarious Middle-East. Thirty percent of this imported oil is shipped through the Straits of Hormuz -- an extremely vulnerable body of water as dramatized by the Iran-Iraq conflict. The sad fact is that -- nearly a decade after the 1973 oil embargo -- the United States still remains dangerously dependent on expensive and unreliable foreign sources of energy, in spite of our national commitment to achieve energy independence.

Completion of the Gas Pipeline Project will make a significant contribution toward reducing this dependence. It will provide five percent of America's total natural gas usage. Over the next 25 years or so, the pipeline is expected to transport about 26 trillion cubic feet of natural gas. Responsible parties have estimated that over ten times this amount of Alaska gas can be made available through exploration and development over the next 20 years. The opportunity to displace foreign oil by natural gas from Alaska via the pipeline should be viewed as a matter of the highest priority by the United States and I intend to con-

tinue to press this point of view in the Senate.

For Alaska, the pipeline represents tremendous opportunity. It will be the largest, privately-financed construction project in 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. It should also provide a cheaper source of energy for our citizens living in major communities along the pipeline corridor similar to benefits Anchorage residents have enjoyed for many years. Certainly, it is the general consensus of most Alaskans that it is in the State's best interest to have the gas pipeline built -- and as soon as possible.

Along with the gas pipeline, we hope that the gas liquids projects under study will develop. If they do, it is likely that a gas liquids line to tide-water would be constructed along with plants to convert various gas liquids into ethylene and propylene derivatives.

And, 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.

Despite these benefits of the pipeline project -- both to the nation and to Alaska -- it is no secret that the gas pipeline project has its problems. You have had your own experts from Milton Lipton to Don Dickey tell you that.

One of the principal questions affecting the ultimate fate of the pipeline is the uncertainty about natural gas pricing policy. 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. How is it possible to determine the marketability of Alaska natural gas in the lower-48 when the future pricing structure for natural gas is unknown?

The Reagan Administration and the Congress will soon be facing up to the issues of natural gas deregulation. It is my best guess that ultimately we will see deregulation but only of "new gas", not "old gas". Whatever the decision, it most certainly will have a profound impact on the Alaska Gas Pipeline Project.

The marketability of Alaska's natural gas might also be affected by increased gas production in the lower-48. Deep gas is being discovered in abundance in the Gulf Coast and there appears to be a growing concern that this new source could offer an alternative supply source at ultimately a lower cost to the consumer than Alaska gas. I have talked to the President of one small independent drilling company who indicated to me that his company was bringing in one well per/day average, and selling gas on long-term contracts over \$7 per mcf.

In the midst of this uncertainty, the pipeline company and the gas producers are attempting to reach an agreement for a new financing plan for the pipeline. They have been in discussion for some time without success as yet. Certainly any such agreement will include an equity participation on the part of the producers. And yet, such participation was explicitly prohibited by the Executive Decision promulgated by President Carter and approved by Congress.

A waiver of this prohibition will have to be submitted by the President for Congressional approval pursuant to the 1976 Alaska Natural Gas Transportation Act. This Act permits the waiver of existing law in order to permit expeditious construction and completion of the transportation system. A Joint Resolution approving the President's waiver proposal must be introduced in Congress. The Act sets forth a sixty-day time frame during which Congress must pass the Resolution of Approval. Although there are provisions for expeditious consideration of the Resolution, the scheduled adjournment of Congress in October obviously leaves little time for the necessary legislative action. In fact, it most probably means that the Presidential recommendation and the introduction of the Approval Resolution must occur prior to the Memorial Day recess or the project will be delayed another year.

I want to emphasize that there is no reason for the President or the Congress to initiate this waiver procedure until there is a financing agreement between the pipeline company and the producers -- and we need such an agreement soon. This is a challenge which I believe the gas producers and the pipeline consortium must accept -- and meet.

Despite the uncertainties of natural gas pricing, questions about gas supply and demand in the lower-48, and the legislative requirements, Americans -- especially Alaskans -- expect these companies to push forward toward an equitable agreement. The investment commitment required of them is large -- but so are the stakes for our country and our State and so are the possible returns to the investor-owner companies.

The completion of the Alaska Gas Pipeline Project is of importance not only to Alaska and the United States, but also

Canada. In fact, the Canadians view its completion as a fulfillment of a good faith commitment on the part of the United States.

The Canadian National Energy Board, despite widespread press criticism, decided to approve the construction of the "pre-built" part of the pipeline -- to transport Alberta gas to California -- before final arrangements have been made for the construction of the Alaska segment of the pipeline. Many Canadians opposed this decision -- suspecting that we sought the early export of Alberta gas to the United States through the "pre-built" section of the project with no real intention of completing the entire project.

During his visit to Ottawa in March of this year, President Reagan reiterated the pledge of President Carter to complete the project based on private financing. Both the Government of Premier Trudeau and the Canadian people expect the United States to honor this pledge. If we do not, future cooperation between the United States and Canada on energy issues will be adversely affected and our entire relationship with Canada will certainly be soured for many years to come.

It has been suggested from time to time that the State should get involved in the financing of the pipeline project. We have all tried to measure the risk and the opportunity. 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. It should be a good business investment -- perhaps better than the gold the State's already invested in. In addition to the State's return on its royalty gas, it would provide the State with a return from the pro-

portional pipeline ownership, since the State will have to pay the going tariff to get its gas to market. And when it comes to a good prospect for return on investment, one needs only look at the financial performance of the gas producer companies, SOHIO, ARCO, and EXXON. It would seem that we could be as comfortable being a partner with the owner companies in this project as owning common shares of their stock.

In the meantime, portions of the project are moving ahead. The 351 miles of the Western leg are under construction. I was privileged to participate in the dedication of this portion of the pipeline held in Spokane on February 8 of this year. Tomorrow in Aberdeen, South Dakota, the groundbreaking dedication will take place on the 1131-mile section Eastern leg.

We should perhaps reflect on the fact that this project is not limited solely to the efforts and resources of Northwest Pipeline Corporation but is being built by Alaska Natural Gas Transportation System -- a consortium of 15 of our nation's largest and best managed gas transmission companies.

At present, this consortium is the only game in town. We do not see El Paso or Arctic Gas resurrecting their proposals and presenting them to State and Federal officials.

The consortium has already expended \$270 million on the project and the pipeline producers -- EXXON, ARCO, and SOHIO -- have expended \$90 million. Some 530 Alaskans are now or soon to be employed. I think it is gratifying to note that virtually every construction contract so far has gone to an Alaskan contractor.

What I do not want to see happen is for Alaska to lose out. If the gas liquids proposals prove uneconomical and

the pipeline financing is not resolved shortly, we could conceivably find ourselves in a position where we have lost both. In a year or two, none of us want to see our State holding a handful of feathers because the necessary decisions were not made on a timely basis.

I do not have all the answers to the gas pipeline dilemma by any means, but I'm convinced that the gas line is in the best interest of Alaska and in the best interest of America. In the next several months, I intend to do all that I can to move this project ahead -- it is a matter of highest priority for me.

In meetings I have already held with government and industry officials, I have emphasized the importance of an early financing agreement, the high priority placed on the project by our Canadian neighbors, and the great importance of the project to Alaska. Prior to leaving Washington, I directed a letter to President Reagan, also signed by my colleague, Senator Stevens, asking that he designate a high-level official to coordinate the pipeline progress in the national interest. This action would underline the importance of the project in reducing our dependence on OPEC oil and demonstrate to our Canadian neighbors that we give the project a very high priority.

Alaska has another special opportunity to participate in helping with the country's energy security.

The Senate Energy Committee, of which I am a member, has been holding hearings over the last several weeks on the Strategic Petroleum Reserve. The President's original budget had provided for \$3.8 billion to fill the Reserve at a rate of

300,000 barrels per day which ultimately would provide our nation with approximately a 90-day Reserve. This Reserve capability is in our national interest. It would keep our economy fueled and protect our national security in the event of a blockade on the Straits of Hormuz. It has always had strong bi-partisan support in the Congress. Because of the severe limitations on the budget, the Senate Budget Committee decided to develop an off-budget means for financing the Reserve. Ideas presented at the hearings include a special 1 1/2 cents per gallon tax, requiring the producer companies to maintain extra inventories by granting special tax credits, and private financing through the sale of commodity type certificates. Frankly, none of these proposals appear promising.

One idea which has also been discussed and is promising is the possibility of Alaska placing a portion of its royalty oil -- not needed for in-state use -- into SPR. This suggestion has received considerable support in the Energy Committee. Secretary of Energy Edwards has already contacted Governor Hammond and meetings have been held by Secretary Edwards, Commissioner LeResche, John Katz, the Governor's Washington Representative, and Mr. Harry Jones, Director of SPR.

The idea of Alaska placing a portion of its royalty oil into SPR has many attractive features. However, it should only be committed after making sure that Alaska's resident refiners and those who would anticipate establishing new refineries first be assured of adequate supplies of crude. Any sale would be of a short-term nature, leaving the State to do what it wishes with its royalty oil once the Reserve

were filled.

The State does not require all the cash now being produced by the sale of its royalty oil. The Reserve can provide the State with a hedge against inflation. Assuming a favorable agreement could be negotiated with the Federal Government, it would put Alaska in a very favorable light nationally, in offering to assist our nation in providing for national security. The future sale of oil to SPR would appear to be in the State's best interests and I would urge your support of this concept.

Mr. Speaker, my first few months in the United States Senate have been filled with challenge and excitement. The challenge of representing our great State in the world's greatest deliberative body -- the excitement of being part of an effort to renew the vitality of our country. I am grateful, indeed, for this opportunity with our senior Senator, Senator Stevens, and Congressman Young, to serve our State and our country.

I look forward over the months ahead to working closely with members of this body and other representatives of the State in developing sensible public policy for our State. I welcome your suggestions and your opinions.

Finally, I appreciate this opportunity to share with you some of my thoughts about our State and about our nation.